

CITY OF OVILLA, TEXAS

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2016

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ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2016

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YELDELL, WILSON, WOOD & REEVE, P.C

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA
Glenda Valek, CPA | Caitlyn Keller, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Ovilla, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ovilla, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ovilla, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and net pension liability information on pages 4-12 and 53-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ovilla, Texas' basic financial statements. The combining and individual fund financial statements and schedules, the component unit financial statements and the supplementary financial data are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor and Members of the City Council
City of Ovilla, Texas
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The combining and individual fund financial statements and schedules, the component unit financial statements and the supplementary financial data are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules, the component unit financial statements and the supplementary financial data are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Ennis, Texas
December 19, 2016

CITY OF OVILLA, TEXAS

105 South Cockrell Hill Road · Ovilla, Texas 75154 · (972) 617-7262 · FAX (972) 515-3221

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Ovilla, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$2,105,679 (*net position*). Of this amount, \$2,562,829 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$372,125.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,930,498, a decrease of \$425,239 in comparison with the prior year. Approximately 85% of this amount (\$1,645,901) is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,645,901, or approximately 49% of the total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets, cultural and recreational, and solid waste. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation and a legally separate municipal development district for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, which are considered to be major funds. Data from the other three governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic governmental fund financial statements can be found on pages 15-18 of this report.

Proprietary Funds. The City maintains one type of proprietary fund. The *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprises fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer fund, which is considered to be major fund of the City.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Fiduciary Funds. The City maintains one fiduciary fund. The *fiduciary fund* is used to account for resources held for the benefit of parties outside the government. The *fiduciary fund* is not reflected in the government-wide financial statement because the resources of this fund are not available to support the City's own programs. The accounting used for the *fiduciary fund* is much like that used for the proprietary fund.

The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-51 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparison and progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found on pages 52-55 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, debt service fund, and water and sewer fund are presented immediately following the required supplementary information on budget and pensions. Combining and individual fund statements and schedules can be found on pages 56-62 of this report.

In addition, this report presents fund financial statements in connection with the Ovilla 4B Economic Development Corporation and Ovilla Municipal Development District. The individual fund financial statements can be found on pages 63-65 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,105,679, at the close of the most recent fiscal year.

CITY OF OVILLA'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,216,948	\$ 2,629,299	\$ 1,200,177	\$ 1,318,778	\$ 3,417,125	\$ 3,948,077
Capital assets	2,081,997	1,447,912	2,562,951	2,626,811	4,644,948	4,074,723
Total assets	<u>4,298,945</u>	<u>4,077,211</u>	<u>3,763,128</u>	<u>3,945,589</u>	<u>8,062,073</u>	<u>8,022,800</u>
 Total deferred outflows of resources	 191,022	 76,083	 63,730	 28,168	 254,752	 104,251
 Long term liabilities	 4,623,347	 4,793,036	 1,141,568	 1,178,823	 5,764,915	 5,971,859
Other liabilities	287,682	281,668	135,659	139,970	423,341	421,638
Total liabilities	<u>4,911,029</u>	<u>5,074,704</u>	<u>1,277,227</u>	<u>1,318,793</u>	<u>6,188,256</u>	<u>6,393,497</u>
 Total deferred inflows of resources	 17,218	 -	 5,672	 -	 22,890	 -
 Net position:						
Net investment in capital assets	(2,372,799)	(3,314,672)	1,606,268	1,594,590	(766,531)	(1,720,082)
Restricted	182,955	161,199	126,426	96,195	309,381	257,394
Unrestricted	1,751,564	2,232,063	811,265	964,179	2,562,829	3,196,242
Total net position (deficit)	<u>\$ (438,280)</u>	<u>\$ (921,410)</u>	<u>\$ 2,543,959</u>	<u>\$ 2,654,964</u>	<u>\$ 2,105,679</u>	<u>\$ 1,733,554</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation.

By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (14.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,562,829 is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

The City's net investment in capital assets increased as a result of scheduled principal payments and capital asset additions exceeding the current year's depreciation.

The City's overall net position increased \$372,125 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF OVILLA'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 784,138	\$ 667,138	\$ 1,148,713	\$ 1,309,207	\$ 1,932,851	\$ 1,976,345
Operating grants and contributions	13,975	7,624	-	-	13,975	7,624
Capital grants and contributions	14,719	117,699	260,779	148,496	275,498	266,195
General revenues:						
Property taxes	1,960,938	1,761,585	-	-	1,960,938	1,761,585
Sales taxes	235,233	221,241	-	-	235,233	221,241
Franchise taxes	161,460	159,972	-	-	161,460	159,972
Investment earnings	9,335	7,290	3,266	3,465	12,601	10,755
Gain (Loss) on sale of capital assets	(70,012)	71,294	-	-	(70,012)	71,294
Miscellaneous	168,320	123,538	-	-	168,320	123,538
Total revenues	3,278,106	3,137,381	1,412,758	1,461,168	4,690,864	4,598,549
Expenses:						
General government	492,836	419,232	-	-	492,836	419,232
Public safety	1,706,956	1,526,255	-	-	1,706,956	1,526,255
Streets	267,482	177,466	-	-	267,482	177,466
Cultural and recreational	48,856	29,213	-	-	48,856	29,213
Solid waste	196,469	198,260	-	-	196,469	198,260
Interest on long-term debt	156,435	162,321	-	-	156,435	162,321
Water and sewer	-	-	1,449,705	1,349,321	1,449,705	1,349,321
Total expenses	2,869,034	2,512,747	1,449,705	1,349,321	4,318,739	3,862,068
Increase (decrease) in net position before transfers	409,072	624,634	(36,947)	111,847	372,125	736,481
Transfers	74,058	120,327	(74,058)	(120,327)	-	-
Change in net position	483,130	744,961	(111,005)	(8,480)	372,125	736,481
Net position - beginning, as restated	(921,410)	(1,666,371)	2,654,964	2,663,444	1,733,554	997,073
Net position - ending	\$ (438,280)	\$ (921,410)	\$ 2,543,959	\$ 2,654,964	\$ 2,105,679	\$ 1,733,554

Certain reclassifications have been made to the prior year data to conform with the current year presentation and reflect adjustments to prior year data.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$483,130 from the prior fiscal year for an ending balance of \$(438,283). Revenues benefitted from a modest increase in charges for services (\$117,000) and property taxes (\$199,353). General government expenses increased during the year due to repairs (\$73,604). Total expenses related to public safety increased \$180,701 in comparison with prior year. Street expenses increased by \$90,016 due to road repairs.

Business-type Activities. For the City's business-type activities, the current fiscal year resulted in a net decrease in net position to an ending balance of \$2,543,959. The total decrease in net position for business-type activities (water and sewer operations) was \$111,005 from the prior fiscal year. Charges for services decreased 12% (\$160,494) due to less usage caused by milder weather in 2016. Total expenses increased 7% (\$100,384) in the current fiscal year due to increase in staff and sewage rates during 2016.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,930,498, a decrease of \$425,239 in comparison with the prior year. Approximately 85.3% of this total amount (\$1,645,901) constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of the fund balance is either *restricted* or *committed* to indicate that it is 1) restricted for particular purposes (\$182,955) or committed for particular purposes (\$101,642).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,645,901 while total fund balance increase to \$1,805,603. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 49% of total general fund expenditures, while total fund balance represents 53% of that same amount.

The fund balance of the City's general fund decreased \$429,018 during the current fiscal year.

The debt service fund, a major fund, had a decrease in fund balance during the current year of \$6,350 to bring the year end fund balance to \$52,869.

Proprietary Funds. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer fund at the end of the year was \$811,265. The total decrease in net position was \$111,005. Operating revenues fell in 2016 by \$160,494 (12.26%) due to a decrease in water consumption. Operating expenses increase \$100,384 (7.44%).

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, the City increased the original estimated revenue by \$92,323. This was offset with an increase in expenditures of \$642,026. The main components of the difference between original budget and final amended budget can be briefly summarized as follows:

- \$32,000 increase in sales tax
- \$44,592 decrease in licenses and permits
- \$56,300 increase in fines and forfeitures
- \$34,315 increase in miscellaneous revenue
- \$71,738 increase in police protection expenditures
- \$552,314 increase in streets expenditures

Final budget compared to actual results. General fund budgeted revenues of \$2,836,759 exceeded actual revenues of \$2,832,439 by \$4,320.

- The \$17,268 shortfall in licenses and permits is a result of fewer commercial and residential construction activity than expected.

Budgeted general fund expenditures of \$3,661,049 exceeded actual expenditures of \$3,360,633. This \$300,416 positive variance in expenditures was achieved through a series of expenditure restrictions imposed during the year.

Capital Assets and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$4,644,948 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure. The total increase in capital assets for the current fiscal year was approximately 14.0%.

City of Ovilla's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 147,035	\$ 147,035	\$ 86,700	\$ 86,700	\$ 233,735	\$ 233,735
Buildings	142,653	153,247	55,126	57,457	197,779	210,704
Improvements	-	-	2,334,101	2,380,852	2,334,101	2,380,852
Machinery and equipment	334,840	347,339	87,024	101,802	421,864	449,141
Infrastructure	1,457,469	800,291	-	-	1,457,469	800,291
Total	\$ 2,081,997	\$ 1,447,912	\$ 2,562,951	\$ 2,626,811	\$ 4,644,948	\$ 4,074,723

Major capital asset events during the current fiscal year included the following:

- Improvements additions of approximately \$113,000.
- Machinery and equipment additions of approximately \$100,000.
- Infrastructure improvements of approximately \$783,000.

Additional information on the City of Ovilla's capital assets can be found in note 2.E on pages 37-38 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt of \$5,435,000, all of which comprises bonded debt backed by the full faith and credit of the government.

City of Ovilla's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation refunding	\$ 4,368,258	\$ 4,669,656	\$ 1,066,742	\$ 1,140,344	\$ 5,435,000	\$ 5,810,000
Total	\$ 4,368,258	\$ 4,669,656	\$ 1,066,742	\$ 1,140,344	\$ 5,435,000	\$ 5,810,000

The City's General Obligation Refunding Bonds ratings are listed below.

	<u>Standard's & Poor's</u>
General Obligation Refunding	AA

Additional information on the City of Ovilla's long term-debt can be found in note 2.H on pages 40-42 of this report.

Economic Factors and Next Year's Budgets and Rates

The FY2016-17 Budget calls for adopting the Effective Tax Rate (ETR) of \$0.7000 per \$100 of assessed property valuation. The operating and debt tax rates are projected to remain at \$0.5320 and \$0.1680, respectively. The total combined budget of \$5,851,607 represents a decrease of \$405,246 less than the FY2015-16 Amended Budget of \$6,256,853, and an increase of \$535,585, or 10.1% over FY2015-2016 Adopted Budget.

According to both Ellis County and Dallas County Appraisal Districts, the total assessed property value for 2016 equals \$310,867,466. This is a 9.73% increase over 2015. The budget includes projected increases in residential permitting fees, the contribution from ESD No. 2, sales tax and fines.

Revenue from water sales is budgeted to increase as compared to prior year. Revenue from sewer sales is budgeted to decrease as compared to prior year. Overall, Water and Sewer Fund revenue is budgeted to increase by 2.06% over the prior period adopted budget.

The City's annual debt service, including principal of \$375,000 and interest of \$195,525 is \$570,525. The outstanding debt reflects \$4,368,258 in General Obligation Refunding Bonds payable through 2029.

The FY2016-17 budget includes an increase for expenditures in the Water and Sewer Impact Fund and the Capital Projects Fund relating to the design and construction of a 12" waterline that will increase flow rate and pressure in the southern part of the City.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 105 South Cockrell Hill Rd., Ovilla, Texas 75154.

CITY OF OVILLA, TEXAS
STATEMENT OF NET POSITION
September 30, 2016

	Primary Government			Component Units	
	Governmental	Business-type	Total	Ovilla 4B	Ovilla
	Activities	Activities		Economic Development Corporation	Municipal Development District
ASSETS					
Cash and cash equivalents	\$ 1,775,658	\$ 699,674	\$2,475,332	\$ 529,851	\$ 165,032
Investments	306,970	1,148	308,118	-	-
Receivables (net of allowance for uncollectibles)	113,240	225,129	338,369	-	8,233
Due from primary government	-	-	-	17,188	-
Internal balances	21,080	(21,080)	-	-	-
Inventories	-	14,291	14,291	-	-
Prepaid items	-	22,567	22,567	-	-
Restricted assets:					
Cash and cash equivalents	-	253,577	253,577	-	-
Investments	-	4,871	4,871	-	-
Capital assets:					
Non-depreciable	147,035	86,700	233,735	-	-
Depreciable (net of accumulated depreciation)	1,934,962	2,476,251	4,411,213	-	-
Total Assets	<u>4,298,945</u>	<u>3,763,128</u>	<u>8,062,073</u>	<u>547,039</u>	<u>173,265</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows-actuarial experience	9,127	3,379	12,506	-	-
Deferred outflows-assumption changes	35,603	11,729	47,332	-	-
Deferred outflows-contributions	50,418	16,609	67,027	-	-
Deferred outflows-investment experience	95,874	32,013	127,887	-	-
Total deferred outflows of resources	<u>191,022</u>	<u>63,730</u>	<u>254,752</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Accounts payable and other current liabilities	199,480	40,696	240,176	-	-
Accrued payroll payable	51,370	13,581	64,951	-	-
Accrued interest payable	19,644	4,797	24,441	-	-
Due to component unit	17,188	-	17,188	-	-
Customer deposits payable	-	76,585	76,585	-	-
Noncurrent liabilities:					
Due within one year	341,475	84,142	425,617	-	-
Due in more than one year	4,281,872	1,057,426	5,339,298	-	-
Total Liabilities	<u>4,911,029</u>	<u>1,277,227</u>	<u>6,188,256</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows-actuarial experience	17,218	5,672	22,890	-	-
Total deferred inflows of resources	<u>17,218</u>	<u>5,672</u>	<u>22,890</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	(2,372,799)	1,606,268	(766,531)	-	-
Restricted for:					
Cultural and recreational	111,539	-	111,539	-	-
Debt service	52,869	-	52,869	-	-
Economic development	-	-	-	547,039	-
Infrastructure improvements	-	126,426	126,426	-	-
Municipal development	-	-	-	-	173,265
Public safety	18,547	-	18,547	-	-
Unrestricted	1,751,564	811,265	2,562,829	-	-
Total Net Position	<u>\$ (438,280)</u>	<u>\$ 2,543,959</u>	<u>\$2,105,679</u>	<u>\$ 547,039</u>	<u>\$ 173,265</u>

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016

Function/Program Activities	Net (Expense) Revenue and Changes in Net Position								
	Program Revenues				Primary Government			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Ovilla 4B Economic Development Corporation	Ovilla Municipal Development District
Primary government:									
Governmental activities:									
General government	\$ 492,836	\$ 185,269	\$ 3,000	\$ -	\$ (304,567)	\$ -	\$ (304,567)	\$ -	\$ -
Public safety	1,706,956	344,727	10,975	-	(1,351,254)	-	(1,351,254)	-	-
Streets	267,482	-	-	-	(267,482)	-	(267,482)	-	-
Cultural and recreational	48,856	-	-	14,719	(34,137)	-	(34,137)	-	-
Solid waste	196,469	254,142	-	-	57,673	-	57,673	-	-
Interest on long-term debt	156,435	-	-	-	(156,435)	-	(156,435)	-	-
Total governmental activities	<u>2,869,034</u>	<u>784,138</u>	<u>13,975</u>	<u>14,719</u>	<u>(2,056,202)</u>	<u>-</u>	<u>(2,056,202)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Water and sewer	1,449,705	1,148,713	-	260,779	-	(40,213)	(40,213)	-	-
Total business-type activities	<u>1,449,705</u>	<u>1,148,713</u>	<u>-</u>	<u>260,779</u>	<u>-</u>	<u>(40,213)</u>	<u>(40,213)</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$4,318,739</u>	<u>\$ 1,932,851</u>	<u>\$ 13,975</u>	<u>\$ 275,498</u>	<u>(2,056,202)</u>	<u>(40,213)</u>	<u>(2,096,415)</u>	<u>-</u>	<u>-</u>
Component Units:									
Economic development	19,734	-	-	-			(19,734)	-	-
Municipal development	2,361	-	-	-			-	(2,361)	-
Total component units	<u>\$ 22,095</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>(19,734)</u>	<u>(2,361)</u>	<u>-</u>
General revenues:									
Property taxes					1,960,938	-	1,960,938	-	-
Sales taxes					235,233	-	235,233	94,093	44,911
Franchise taxes					161,460	-	161,460	-	-
Investment earnings					9,335	3,266	12,601	1,645	510
Loss on sale of capital assets					(70,012)	-	(70,012)	-	-
Miscellaneous					168,320	-	168,320	-	-
Transfers					74,058	(74,058)	-	-	-
Total general revenues and transfers					<u>2,539,332</u>	<u>(70,792)</u>	<u>2,468,540</u>	<u>95,738</u>	<u>45,421</u>
Change in net position					483,130	(111,005)	372,125	76,004	43,060
Net position - beginning, as restated					(921,410)	2,654,964	1,733,554	471,035	130,205
Net position - ending					<u>\$ (438,280)</u>	<u>\$ 2,543,959</u>	<u>\$ 2,105,679</u>	<u>\$ 547,039</u>	<u>\$ 173,265</u>

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,651,118	\$ 52,514	\$ 72,026	\$ 1,775,658
Investments	306,970	-	-	306,970
Receivables (net of allowance for uncollectibles)	108,466	4,774	-	113,240
Due from other funds	21,080	-	-	21,080
Total assets	<u>\$ 2,087,634</u>	<u>\$ 57,288</u>	<u>\$ 72,026</u>	<u>\$ 2,216,948</u>
LIABILITIES				
Accounts payable and other current liabilities	\$ 199,480	\$ -	\$ -	\$ 199,480
Accrued payroll payable	51,370	-	-	51,370
Due to component unit	17,188	-	-	17,188
Total liabilities	<u>268,038</u>	<u>-</u>	<u>-</u>	<u>268,038</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property tax	<u>13,993</u>	<u>4,419</u>	<u>-</u>	<u>18,412</u>
FUND BALANCES				
Restricted for:				
Cultural and recreational	40,774	-	70,765	111,539
Debt service	-	52,869	-	52,869
Public safety	17,286	-	1,261	18,547
Committed for:				
Infrastructure improvements	101,642	-	-	101,642
Unassigned	<u>1,645,901</u>	<u>-</u>	<u>-</u>	<u>1,645,901</u>
Total fund balances	<u>1,805,603</u>	<u>52,869</u>	<u>72,026</u>	<u>1,930,498</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,087,634</u>	<u>\$ 57,288</u>	<u>\$ 72,026</u>	<u>\$ 2,216,948</u>

The notes to financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds (page 15)	\$	1,930,498
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		2,081,997
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		18,412
Deferred outflows of resources are not reported in the governmental funds:		
Deferred outflows-actuarial experience	\$	9,127
Deferred outflows-assumption changes		35,603
Deferred outflows-contributions		50,418
Deferred outflows-investment experience		95,874
		191,022
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(19,644)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Due within one year		(341,475)
Due in more than one year		(4,281,872)
		(4,623,347)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred inflows-actuarial experience		(17,218)
		(17,218)
Net position of governmental activities (page 13)	\$	(438,280)

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 1,482,575	\$ 468,736	\$ -	\$ 1,951,311
Sales taxes	235,233	-	-	235,233
Franchise taxes	161,460	-	-	161,460
Licenses and permits	143,860	-	-	143,860
Fines and forfeitures	124,498	-	-	124,498
Charges for current services	515,780	-	-	515,780
Revenues from use of money and property	8,632	554	149	9,335
Special assessment	-	-	14,719	14,719
Miscellaneous	168,320	-	-	168,320
Intergovernmental	9,555	-	-	9,555
Contributions and donations	3,000	-	1,420	4,420
Total revenues	<u>2,852,913</u>	<u>469,290</u>	<u>16,288</u>	<u>3,338,491</u>
EXPENDITURES				
Current:				
General government	472,289	-	-	472,289
Public safety	1,672,188	-	159	1,672,347
Streets	993,854	-	-	993,854
Cultural and recreational	45,964	-	6,000	51,964
Solid waste	196,469	-	-	196,469
Debt service:				
Principal retirement	-	301,398	-	301,398
Interest and fiscal charges	-	163,578	-	163,578
Total expenditures	<u>3,380,764</u>	<u>464,976</u>	<u>6,159</u>	<u>3,851,899</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(527,851)</u>	<u>4,314</u>	<u>10,129</u>	<u>(513,408)</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	14,111	-	-	14,111
Transfers in	84,722	-	-	84,722
Transfers out	-	(10,664)	-	(10,664)
Total other financing sources (uses)	<u>98,833</u>	<u>(10,664)</u>	<u>-</u>	<u>88,169</u>
Net change in fund balances	(429,018)	(6,350)	10,129	(425,239)
Fund balances-beginning of year, as restated	<u>2,234,621</u>	<u>59,219</u>	<u>61,897</u>	<u>2,355,737</u>
Fund balances-end of year	<u>\$ 1,805,603</u>	<u>\$ 52,869</u>	<u>\$ 72,026</u>	<u>\$ 1,930,498</u>

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016

Amounts reported for governmental activities in the statement of activities (page 14) are different because:

Net Change in Fund Balances - total governmental funds (page 17) \$ (425,239)

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period. 883,017

The net effect of various transactions involving capital assets (i.e., asset retirements/disposals) is to decrease net position. (84,124)

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (164,808)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond principal repayments	\$ 301,398	
Amortization of bond discount	(773)	
Amortization of bond premium	7,163	307,788

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest. 752

Some property tax will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental funds until received. Change in unavailable revenue on fund statements. 9,627

Pension contributions are recorded as expenditures in the governmental funds. However, in the statement of activities, these contributions are converted to the full accrual GASBS 68 pension amounts.

Deferred outflows-assumption changes	(23,827)	
Deferred outflows-contributions	35,603	
Deferred outflows-investment experience	4,085	
Deferred inflows-actuarial experience	81,860	97,721

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(9,625)	
Net pension liability	(131,979)	(141,604)

Change in net position of governmental activities (page 14) \$ 483,130

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2016

	Business-type Activities - Enterprise (Water and Sewer) Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 699,674
Investments	1,148
Receivables (net of allowance for uncollectibles)	225,129
Inventories	14,291
Prepaid items	22,567
Total current assets	962,809
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	253,577
Investments	4,871
Total restricted assets	258,448
Capital assets (net, where applicable of accumulated depreciation)	2,562,951
Total noncurrent assets	2,821,399
Total assets	3,784,208
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows-actuarial experience	3,379
Deferred outflows-assumption changes	11,729
Deferred outflows-contributions	16,609
Deferred outflows-investment experience	32,013
Total deferred outflows of resources	63,730
LIABILITIES	
Current liabilities:	
Accounts payable and other current liabilities	40,696
Accrued payroll payable	13,581
Due to other funds	21,080
Accrued interest payable	4,797
Compensated absences	10,540
Customer deposits payable	76,585
Bonds payable	73,602
Total current liabilities	240,881
Noncurrent liabilities:	
Net pension liability	42,323
Bonds payable	1,015,103
Total noncurrent liabilities	1,057,426
Total liabilities	1,298,307
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows-actuarial experience	5,672
Total deferred inflows of resources	5,672
NET POSITION	
Net investment in capital assets	1,606,268
Restricted for infrastructure improvements	126,426
Unrestricted	811,265
Total net position	\$ 2,543,959

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2016

	Business-type Activities - Enterprise (Water and Sewer) Fund
OPERATING REVENUES	
Water sales	\$ 770,598
Sewer service charge	338,822
Miscellaneous	39,293
Total operating revenues	1,148,713
OPERATING EXPENSES	
Water administration	144,835
Water	679,447
Sewer	410,222
Depreciation	177,209
Total operating expenses	1,411,713
Operating income (loss)	(263,000)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	3,266
Interest and fiscal charges	(37,992)
Total nonoperating revenue (expenses)	(34,726)
Income (loss) before contributions and transfers	(297,726)
Capital contributions	260,779
Transfer out	(74,058)
Change in net position	(111,005)
Net position - beginning, as restated	2,654,964
Net position - ending	\$ 2,543,959

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2016

	Business-type Activities - Enterprise (Water and Sewer) Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,255,014
Payments to suppliers	(892,911)
Payments to employees	(337,903)
Net cash provided by (used for) operating activities	24,200
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Repayment of advances from other funds	(43,335)
Transfers to other funds	(74,058)
Net cash provided by (used for) noncapital financing activities	(117,393)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contribution	260,779
Acquisition and construction of capital assets	(113,349)
Principal paid on bond maturities	(73,602)
Interest and fiscal charges paid on bonds	(39,848)
Net cash provided by (used for) capital and related financing activities	33,980
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	3,266
Net cash provided by investing activities	3,266
Net decrease in cash and cash equivalents	(55,947)
Cash and cash equivalents October 1 (including \$227,953 reported in restricted accounts)	1,015,217
Cash and cash equivalents September 30 (including \$258,448 reported in restricted accounts)	\$ 959,270
Reconciliation of operating income to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (263,000)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	177,209
(Increase) decrease in accounts receivable	97,486
(Increase) decrease in inventory	1,076
(Increase) decrease in prepaid items	6,129
(Increase) decrease in pension related deferred outflows	(35,562)
Increase (decrease) in accounts payable	(14,707)
Increase (decrease) in accrued payroll payable	1,765
Increase (decrease) in customer deposits payable	8,815
Increase (decrease) in compensated absences	(4,304)
Increase (decrease) in net pension liability	43,621
Increase (decrease) in pension related deferred inflows	5,672
Total adjustments	287,200
Net cash provided by (used for) operating activities	\$ 24,200

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2016

	Insurance Trust Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 17
Total current assets	17
Total assets	17
LIABILITIES	
	-
NET POSITION	
Restricted for employee benefits	17
Total net position	\$ 17

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Fiscal Year Ended September 30, 2016

	Insurance Trust Fund
ADDITIONS	
Contributions	
Employer	\$ 174,318
Revenues from use of money	8
Total contributions	174,326
Total additions	
DEDUCTIONS	
Benefits	174,486
Total deductions	174,486
Change in net position	(160)
Net position - beginning	177
Net position - ending	\$ 17

The notes to the financial statements are an integral part of this statement.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from the legally separate *component units* for which the primary government is financially accountable.

B. Reporting entity

The City of Ovilla, Texas (the "City") is a general law municipality and was incorporated in 1963. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

Discretely presented component units. The Corporations described below are included in the City's reporting entity because the City appoints the governing body and the Corporations are fiscally dependent on the City. The Corporations are reported as discretely presented component units since the governing body is not substantively the same as the governing body of the City, and they provides services to the citizens of Ovilla and the surrounding area as opposed to only the primary government. To emphasize that they are legally separate from the City, they are reported in separate columns in the financial statements.

The *Ovilla 4B Economic Development Corporation* was created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended, and is responsible for collecting and disbursing the one-half percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The City can impose its will on the Corporation by significantly influencing the program, projects, activities, or level of service performed by the Corporation. The Corporation is presented as a governmental fund type and has a September 30 year-end.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting entity (continued)

The *Ovilla Municipal Development District* was created in accordance with Chapter 377 of the Texas Local Government Code and is responsible for collecting and disbursing the one-quarter percent sales tax to be used for municipal development within the City. The members of the District's board are appointed by the City. The City can impose its will on the District by significantly influencing the program, projects, activities, or level of service performed by the District. The District is presented as a governmental fund type and has a September 30 year-end.

Separate financial statements for the Corporation and District are not issued.

C. Basis of presentation - government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the City has two discretely presented component units. The Ovilla 4B Economic Development Corporation and Ovilla Municipal Development District are considered to be major component units and are shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of presentation - fund financial statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of presentation - fund financial statements (continued)

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest and related costs on long-term general obligation debt of governmental funds.

The City reports the following major enterprise fund:

The *water and sewer fund* accounts for the activities of the sewage pumping stations and collection systems, and the water distribution system.

The City reports the following fiduciary fund:

The *insurance trust fund* is used to account for the receipt, investment, and distribution of contributions used to pay premiums on insured employee welfare benefit plans.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary and insurance trust fund are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in TexPool and TexSTAR.

In accordance with state law, TexPool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. TexPool is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

The State Comptroller of Public Accounts oversees TexPool. Federated Investors is the full service provider to the pools managing the assets, providing participant services, and arranging for all custody and other functions in support of the pools operations under a contract with the Comptroller.

TexPool is managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. TexPool is rated AAAM by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pools cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool, like its participants, is governed by the Texas Public Funds Investment Act, and is in full compliance with the Act.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard and Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

J.P. Morgan Investment Management Inc. ("JPMIM" or the "investment manager") and Hilltop Securities Inc. ("HTS") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (the "Board"). JPMIM provides investment management services, and FirstSouthwest, A Division of HTS, provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. ("BFDS" or the "Transfer Agent"). Each of JPMIM, HTS, BFDS, and JPMorgan Chase Bank, N.A. may provide certain services, including those described herein, through the use of subcontractors or delegates.

3. Restricted assets

Certain proceeds of the City's enterprise fund bonds are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "bond construction" account is used to report those proceeds of bond issuances that are restricted for use in construction. The "infrastructure impact fees" account is used to segregate resources accumulated for infrastructure improvements.

4. Receivables and allowances for doubtful accounts

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is the lesser of .2 percent of the tax levy for each fiscal year or the outstanding property taxes for each fiscal year at year end.

5. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

6. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

As the City constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings	30-40
Improvements	5-40
Machinery and equipment	3-15
Infrastructure	10-40

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources reported in this year's financial statements include (1) a deferred outflow of resources related to the difference between expected and actual experience data used by the actuary, (2) a deferred outflow of resources related to changes in actuarial assumptions of the City's defined benefit pension plan, (3) a deferred outflow of resources for contributions made to the City's defined benefit pension plan between the measurement date of the net pension liabilities from that plan and the end of the City's fiscal year, and (4) deferred outflows of resources related to the differences between the projected and actual investment earnings for the City's multiple-employer defined benefit plan. Deferred outflows for difference in expected and actual pension experience is attributed to pension expense over a total of 2.38 years. Deferred outflows for changes in actuarial assumptions is attributed to pension expense over a total of 3.25 years. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The differences between the projected and actual investment earnings are attributed to pension expense over a total of 5 years, including the current year. No deferred outflows of resources affect the governmental funds financial statements in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources are reported in the City's various statements of net position for the difference between expected and actual experience data used by the actuary. This deferred inflow of resources is attributed to pension expense over a total of 3.25 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes and intergovernmental revenue are reported in the governmental funds balance sheet.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

8. Long-term obligations

In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued is reported as other financing sources.

9. Net position flow assumption

Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets —This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position —This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

10. Fund balance flow assumption

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance—amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned fund balance—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the General Fund.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Ellis Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Ellis County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

3. Compensated absences

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Vacation leave shall be taken during the year following its accumulation.

4. Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility and nonmajor enterprise funds are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

5. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully insured or collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year-end, the City's bank balance was \$3,154,714. Of the bank balance, \$741,310 was covered by federal depository insurance and the remaining balance, \$2,413,404 was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping departments of the pledging bank's agent and had a fair value of approximately \$4,389,000.

B. Investments

Public funds of the City of Ovilla may be invested in the following obligations: (1) obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities and including or any obligation fully guaranteed or insured by the FDIC, (2) direct obligations of the State of Texas, or its agencies and instrumentalities, (3) other obligations which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities, (4) fully insured or collateralized certificates of deposits at a national or state bank with FDIC membership, domiciled within the State of Texas, (5) investment pools meeting the criteria established by section 2256.016 of the Texas Government Code, (6) repurchase agreements, reverse repurchase agreements, bankers' acceptances, and commercial paper provided these instruments are authorized for the City to the extent that they are contained in the portfolios of approved public funds investment pools in which the City invests, and (7) regulated no-load money market mutual funds.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

B. Investments (continued)

The State Treasurer’s Investment Pools (TexPool and TexSTAR) operate in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note 1.G.2, *Investments*, for a discussion of how the shares in the Pool are valued. The Pools have a credit rating of AAA from Standard & Poor’s Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. TexPool and TexSTAR invest in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state.

<u>Investment Type</u>	<u>Fair Value</u>
TexPool	\$ 308
TexSTAR	10,382
Certificates of deposit	302,299
	<u>\$ 312,989</u>

Generally, *credit risk* is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of September 30, 2016, the City’s investment in both TexPool and TexSTAR are rated AAAM by Standard & Poor’s.

Concentration of credit risk. The City’s investment policy contains no limitations on the amount that can be invested in authorized local government investment pools.

TexPool, TexSTAR and certificates of deposit are considered cash equivalents on the Government-wide Statement of Net Position and on the Balance Sheets of the Fund Financial Statements.

C. Restricted assets

The balances of the restricted asset accounts in the proprietary fund are as follows:

Bond construction account	\$ 132,022
Infrastructure impact fees	126,426
	<u>\$ 258,448</u>

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general, debt service, and water and sewer funds, including the applicable allowances for uncollectible accounts:

Receivables:	General	Debt Service	Water and Sewer	Total
Taxes	\$ 101,566	\$ 11,492	\$ -	\$ 113,058
Accounts	25,333	-	237,430	262,763
Gross receivables	126,899	11,492	237,430	375,821
Less: allowance for uncollectibles	(18,433)	(6,718)	(12,301)	(37,452)
Net total receivables	<u>\$ 108,466</u>	<u>\$ 4,774</u>	<u>\$ 225,129</u>	<u>\$ 338,369</u>

E. Capital assets

Capital asset activity for the year ended September 30, 2016, was as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 147,035	\$ -	\$ -	\$ 147,035
Total capital assets not being depreciated	147,035	-	-	147,035
Capital assets being depreciated:				
Buildings	317,819	-	-	317,819
Machinery and equipment	2,615,699	99,601	(107,293)	2,608,007
Infrastructure	1,122,134	783,416	(105,957)	1,799,593
Totals capital assets being depreciated	4,055,652	883,017	(213,250)	4,725,419
Less accumulated depreciation for:				
Buildings	(164,572)	(10,594)	-	(175,166)
Machinery and equipment	(2,268,360)	(112,099)	107,292	(2,273,167)
Infrastructure	(321,843)	(42,115)	21,834	(342,124)
Total accumulated depreciation	(2,754,775)	(164,808)	129,126	(2,790,457)
Total capital assets, being depreciated, net	1,300,877	718,209	(84,124)	1,934,962
Governmental activities capital assets, net	<u>\$ 1,447,912</u>	<u>\$ 718,209</u>	<u>\$ (84,124)</u>	<u>\$ 2,081,997</u>

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Capital assets (continued)

Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental activities:

General government	\$ 11,160
Public safety	90,474
Streets	60,066
Cultural and recreational	3,108
Total depreciation expense - governmental activities	\$ 164,808

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 86,700	\$ -	\$ -	\$ 86,700
Total capital assets not being depreciated	86,700	-	-	86,700
Capital assets being depreciated:				
Buildings	85,084	-	-	85,084
Improvements	4,984,555	113,349	-	5,097,904
Machinery and equipment	281,246	-	-	281,246
Total capital assets being depreciated	5,350,885	113,349	-	5,464,234
Less accumulated depreciation for:				
Buildings	(27,627)	(2,331)	-	(29,958)
Improvements	(2,603,703)	(160,100)	-	(2,763,803)
Machinery and equipment	(179,444)	(14,778)	-	(194,222)
Total accumulated depreciation	(2,810,774)	(177,209)	-	(2,987,983)
Total capital assets being depreciated, net	2,540,111	(63,860)	-	2,476,251
Business-type capital assets, net	\$ 2,626,811	\$ (63,860)	\$ -	\$ 2,562,951

F. Significant commitments

The City has entered into a memorandum of agreement with the City of Dallas, Texas to purchase treated water for a term of thirty years, expiring in 2039. The City pays for water based on the volume received at a flat rate as determined under the contract. The City of Dallas agrees to provide potable water to meet volume and demand requirements of the City. Delivery of potable water are subject to and limited to available system supply and system deliverability, as determined by the Director of Water Utilities of Dallas. If the City ceases to take water from the City of Dallas because other surface water supplies have been developed or acquired, the City shall for five years or the balance of this contract, whichever is less, remain liable for demand charges at the billing level in effect at such cessation.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

F. Significant commitments (continued)

Expenses incurred for the year ended September 30, 2016 were \$356,729.

The City has entered into a contract with the Trinity River Authority of Texas - Red Oak Creek Regional Wastewater System to obtain wastewater treatment services. In the contract, the Authority agreed to acquire and construct a regional wastewater treatment system to serve the City and other contractual parties, in the area of the watershed or drainage basin of Red Oak Creek, being a tributary of the Trinity River, and located in Ellis and Dallas Counties, Texas. The Trinity River Authority (TRA) is a governmental agency, which is controlled by directors appointed by the governor.

The City is responsible for a proportionate share of the system's annual operation, maintenance and debt service costs for the term of the contract. These costs are determined annually and are payable in monthly installments. A current schedule of estimated future contractual payments due to the Authority is shown below:

<u>Year Ending</u> <u>September 30</u> 2017	<u>Amount</u> <u>\$ 285,955</u>

Expenses incurred for the year ended September 30, 2016 were \$283,062.

The payments to be received from the City of Ovilla, Texas are used as collateral for the bonds issued by TRA to construct the facility.

Complete separate financial statements for the Trinity River Authority may be obtained at Trinity River Authority of Texas, 5300 South Collins, P.O. Box 60, Arlington, Texas 76004.

The City has entered into a contract with Progressive Waste Solutions of TX, Inc. that grants the exclusive right to operate and maintain the collection, transportation and recycling or disposal of municipal solid waste, expiring in 2018. At which time there is an option for a one-year renewal for each of the two following years.

Expenses incurred for the year ended September 30, 2016 were \$196,469.

The City has entered into an agreement with the Texas Department of Transportation for the City's contribution of right-of-away funds for the improvement of FM664 in the amount of \$77,855 due in three incremental payments. The City made a payment of \$23,928 during 2016 and has a remaining commitment of \$23,928 due in 2017.

CITY OF OVILLA, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

H. Long-term liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition, construction and maintenance of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds outstanding at September 30, 2016 are as follows:

Governmental Activities:

<u>Series</u>	<u>Maturity Issue Amount</u>	<u>Interest Date</u>	<u>Year-end Rate</u>	<u>Balances</u>
2011 - Refunding	\$ 5,959,638	8/15/2029	2%-4%	<u>\$ 4,368,258</u>

Business-type Activities:

<u>Series</u>	<u>Maturity Issue Amount</u>	<u>Interest Date</u>	<u>Year-end Rate</u>	<u>Balances</u>
2011 - Refunding	\$ 1,455,362	8/15/2029	2%-4%	<u>\$ 1,066,742</u>

Compensated Absences

Compensated absences represent the estimated liability for employees' paid time off benefits for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund and Water and Sewer Fund based on the assignment of an employee at termination.

Net Pension Liability

The net pension liability represents the liability for employees' for projected pension benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the pension plan's fiduciary net position.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

H. Long-term liabilities (continued)

Changes in long-term liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligation refunding bonds	\$ 4,669,656	\$ -	\$ (301,398)	\$ 4,368,258	\$ 301,398
Less deferred amounts:					
For issuance discount	(7,346)	-	773	(6,573)	-
For issuance premium	100,274	-	(7,163)	93,111	-
Total bonds payable	4,762,584	-	(307,788)	4,454,796	301,398
Compensated absences	30,452	30,429	(20,804)	40,077	40,077
Net pension liability	-	128,474	-	128,474	-
Governmental activity Long-term liabilities	<u>\$ 4,793,036</u>	<u>\$ 158,903</u>	<u>\$ (328,592)</u>	<u>\$ 4,623,347</u>	<u>\$ 341,475</u>

General obligation refunding bonds issued for governmental activity purposes are liquidated by the debt service fund. Governmental compensated absences and net pension liability will be liquidated by the general fund.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type activities:					
Bonds payable:					
General obligation refunding bonds	\$ 1,140,344	\$ -	\$ (73,602)	\$ 1,066,742	\$ 73,602
Less deferred amounts:					
For issuance discount	(852)	-	77	(775)	-
For issuance premium	24,487	-	(1,749)	22,738	-
Total bonds payable	1,163,979	-	(75,274)	1,088,705	73,602
Compensated absences	14,844	6,759	(11,063)	10,540	10,540
Net pension liability	-	42,323	-	42,323	-
Business-type activity Long-term liabilities	<u>\$ 1,178,823</u>	<u>\$ 49,082</u>	<u>\$ (86,337)</u>	<u>\$ 1,141,568</u>	<u>\$ 84,142</u>

General obligation refunding bonds issued for business-type activities are repaid from those activities. Business-type compensated absences and net pension liability will be liquidated by those activities.

CITY OF OVILLA, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

H. Long-term liabilities (continued)

The debt service requirements for the City's bonds payable are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	General Obligation Refunding Bonds		General Obligation Refunding Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 301,398	\$ 157,150	\$ 73,602	\$ 38,376
2018	313,454	149,614	76,546	38,536
2019	321,491	140,210	78,509	32,240
2020	333,547	130,566	81,453	31,885
2021	337,565	120,559	82,435	29,441
2022-2026	1,884,741	408,133	460,259	99,667
2027-2029	876,062	53,207	213,938	12,993
	<u>\$ 4,368,258</u>	<u>\$ 1,159,439</u>	<u>\$ 1,066,742</u>	<u>\$ 283,138</u>

I. Fund Balance

Minimum fund balance policy. The City's goal is to maintain an unassigned fund balance in the general fund equal to twenty-five percent of budgeted expenditures less budgeted capital equipment items and any amounts budgeted as reserves.

J. Interfund receivables and payables

The composition of interfund balances as of September 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water and sewer	\$ 17,828
		<u>\$ 17,828</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

K. Interfund transfers

The composition of interfund transfers as of September 30, 2016 is as follows:

	Transfer In:	
	General	Total
Transfer out:		
Debt Service	\$ 10,664	\$ 10,664
Water and Sewer	74,058	74,058
	<u>\$ 84,722</u>	<u>\$ 84,722</u>

Transfers were primarily used to move funds from the Water and Sewer Fund to the Debt Service Fund for the payment of bonds and from the Water and Sewer Fund to the General Fund for operations.

L. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor, cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

M. Subsequent events

Subsequent to year end, the City approved the following item:

- Engineering services for infrastructure improvements of approximately \$18,290.

N. Prior period adjustment

Corrections have been made to the governmental activities and business-type activities beginning net position in the government-wide financial statements and proprietary fund beginning net position in the fund financial statements due to the overstatement of assets and net position and the understatement of liabilities. The changes to the beginning net position as of October 1, 2015 are summarized as follows:

	Government-wide Financial Statements		Fund Financial Statements	
	Governmental Activities	Business-type Activities	General Fund	Utility Fund
As previously reported, October 1, 2015	\$ (900,871)	\$ 2,673,208	\$ 2,255,160	\$ 2,673,208
Correct overstatement of accounts receivable	(3,289)	(18,244)	(3,289)	(18,244)
Correct understatement of due to component unit	(17,250)	-	(17,250)	-
Restated, October 1, 2015	<u>\$ (921,410)</u>	<u>\$ 2,654,964</u>	<u>\$ 2,234,621</u>	<u>\$ 2,654,964</u>
Effect of restatement on operations for the year ended September 30, 2015	<u>\$ (3,289)</u>	<u>\$ (18,244)</u>	<u>\$ (3,289)</u>	<u>\$ (18,244)</u>

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 - DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

O. Discretely presented component units

1. Ovilla 4B Economic Development Corporation

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the governmental entity's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully insured or collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end the bank balance of Ovilla 4B Economic Development Corporation's deposits at year end was \$529,851. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$279,851 was covered by collateral pledged in the Corporation's name. The collateral was held in the Corporation's name by the safekeeping departments of the pledging bank's agent and had a fair value of approximately \$305,000.

2. Ovilla Municipal Development District

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the governmental entity's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully insured or collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end the bank balance of Ovilla Municipal Development District's deposits was \$165,032. Of the bank balance, \$165,032 was covered by federal depository insurance.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS

A. Plan description

The City of Ovilla, Texas participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

B. Benefits provided (continued)

	<u>Plan Provisions</u>
Employee deposit rate	7%
Municipal current matching ratio	2 - 1
Updated service credits:	
Rate (%)	100 T
Year effective	2012R
Buyback effective date	11-12-07
Vesting	5 yrs
Service retirement eligibilities	5 yrs/age 60, 20 yrs/any age
Restricted prior service credit effective date	1-92
Supplemental death benefits:	
Employees	Yes
Retirees	Yes
Statutory maximum (%)	13.50%

⁽¹⁾ For years prior to 1982, the rate is the actual percentage in annuities. For 1982 and later, the rate is the percentage of the change in the CPI-U since retirement date, granted to each annuitant as an increase of the original annuity.

T — Includes Transfer Credits.

R — Annually Repeating. Ordinance automatically renews effective January 1 of each successive year.

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	36
Active employees	<u>24</u>
	72

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Ovilla, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Ovilla, Texas were 8.94% and 8.9% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$90,963, and were equal to the required contributions.

D. Net pension liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.0%
Total	100%	

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension (Asset) Liability

	<u>Increase (Decrease)</u>		
	<u>Total</u>	<u>Plan</u>	<u>Net Pension</u>
	<u>Pension</u>	<u>Fiduciary</u>	<u>(Asset)</u>
	<u>Liability</u>	<u>Net Position</u>	<u>Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at 12/31/2014	\$ 2,065,345	\$ 2,070,149	\$ (4,804)
Changes for the year:			
Service cost	152,418	-	152,418
Interest	146,343	-	146,343
Difference between expected and actual experience	(33,064)	-	(33,064)
Changes of assumptions	68,368	-	68,368
Contributions - employer	-	87,584	(87,584)
Contributions - employee	-	69,779	(69,779)
Net investment income	-	3,054	(3,054)
Benefit payments, including refunds of employee contributions	(101,887)	(101,887)	-
Administrative expense	-	(1,861)	1,861
Other changes	-	(92)	92
Net Changes	<u>232,178</u>	<u>56,577</u>	<u>175,601</u>
Balance at 12/31/2015	<u>\$ 2,297,523</u>	<u>\$ 2,126,726</u>	<u>\$ 170,797</u>

Sensitivity of the net pension asset to changes in the discount rate -

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 535,179	\$ 170,797	\$ (124,466)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

E. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2016, the City recognized pension expense of \$138,952.

At September 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ 12,506	\$ 22,890
Changes in actuarial assumptions	47,332	-
Difference between projected and actual investment earnings	127,887	-
Contributions subsequent to the measurement date	67,027	-
Total	\$ 254,752	\$ 22,890

\$67,027 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF OVILLA, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

<u>Year Ended December 31</u>	
2016	\$ 53,089
2017	47,483
2018	35,891
2019	<u>28,372</u>
Total	<u>\$ 164,835</u>

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$407, \$395 and \$382, respectively, which equaled the required contributions each year.

REQUIRED SUPPLEMENTARY INFORMATION

These supplementary schedules are included to supplement the basic financial statements as required by the Governmental Accounting Standards Board.

CITY OF OVILLA, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS - GENERAL FUND
For the Fiscal Year Ended September 30, 2016

	Budget Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	
			Basis	Basis	Basis	Final Budget
REVENUES						
Property taxes	\$ 1,498,255	\$ 1,498,255	\$ 1,482,575	\$ 423	\$ 1,482,998	\$ (15,257)
Sales taxes	204,595	236,595	235,233	156	235,389	(1,206)
Franchise taxes	150,000	150,000	161,460	2,104	163,564	13,564
Licenses and permits	205,720	161,128	143,860	-	143,860	(17,268)
Fines and forfeitures	69,530	125,830	124,498	-	124,498	(1,332)
Charges for current services	481,471	495,771	515,780	(14,757)	501,023	5,252
Revenues from use of money and property	6,000	6,000	8,632	-	8,632	2,632
Miscellaneous	124,700	159,015	168,320	-	168,320	9,305
Intergovernmental	1,165	1,165	9,555	(8,400)	1,155	(10)
Contributions and donations	3,000	3,000	3,000	-	3,000	-
Total revenues	<u>2,744,436</u>	<u>2,836,759</u>	<u>2,852,913</u>	<u>(20,474)</u>	<u>2,832,439</u>	<u>(4,320)</u>
EXPENDITURES						
Current:						
General government	514,839	503,184	472,289	(2,131)	470,158	(33,026)
Public safety:						
Fire protection	693,049	695,090	695,693	(12,342)	683,351	(11,739)
Police protection	759,000	830,738	768,783	(3,618)	765,165	(65,573)
Municipal court	94,134	108,479	69,732	(941)	68,791	(39,688)
Code enforcement	189,000	194,150	137,980	(618)	137,362	(56,788)
Total public safety	<u>1,735,183</u>	<u>1,828,457</u>	<u>1,672,188</u>	<u>(17,519)</u>	<u>1,654,669</u>	<u>(173,788)</u>
Streets	508,629	1,060,943	993,854	(481)	993,373	(67,570)
Cultural and recreational	34,016	42,109	45,964	-	45,964	3,855
Solid waste	226,356	226,356	196,469	-	196,469	(29,887)
Total expenditures	<u>3,019,023</u>	<u>3,661,049</u>	<u>3,380,764</u>	<u>(20,131)</u>	<u>3,360,633</u>	<u>(300,416)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(274,587)</u>	<u>(824,290)</u>	<u>(527,851)</u>	<u>(343)</u>	<u>(528,194)</u>	<u>296,096</u>
OTHER FINANCING SOURCES (USES)						
Sale of capital assets	20,000	20,000	14,111	-	14,111	(5,889)
Transfers in	91,287	92,583	84,722	7,861	92,583	-
Total other financing sources and uses	<u>111,287</u>	<u>112,583</u>	<u>98,833</u>	<u>7,861</u>	<u>106,694</u>	<u>(5,889)</u>
Net change in fund balance	<u>\$ (163,300)</u>	<u>\$ (711,707)</u>	<u>\$ (429,018)</u>	<u>\$ 7,518</u>	<u>\$ (421,500)</u>	<u>\$ 290,207</u>
Fund balance at beginning of year	<u>228,953</u>	<u>203,417</u>	<u>2,234,621</u>	<u>-</u>	<u>2,234,621</u>	<u>2,031,204</u>
Fund balance at end of year	<u>\$ 65,653</u>	<u>\$ (508,290)</u>	<u>\$ 1,805,603</u>	<u>\$ 7,518</u>	<u>\$ 1,813,121</u>	<u>\$ 2,321,411</u>

NOTES TO BUDGETARY INFORMATION

1. Budgetary basis of accounting

An annual budget for the general is adopted on the budgetary basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

CITY OF OVILLA, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Calendar Years (will ultimately be displayed)

	2014	2015
Total Pension Liability		
Service Cost	\$ 133,126	\$ 152,418
Interest (on the Total Pension Liability)	131,163	146,343
Difference between expected and actual experience	30,618	(33,064)
Changes of assumptions	-	68,368
Benefit payments, including refunds of employee contributions	(73,514)	(101,887)
Net Change in Total Pension Liability	<u>221,393</u>	<u>232,178</u>
Total Pension Liability - Beginning	1,843,952	2,065,345
Total Pension Liability - Ending (a)	<u><u>\$ 2,065,345</u></u>	<u><u>\$ 2,297,523</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 65,545	\$ 87,584
Contributions - Employee	94,459	69,779
Net Investment Income	107,420	3,054
Benefit payments, including refunds of employee contributions	(73,514)	(101,887)
Administrative Expense	(1,121)	(1,861)
Other	(92)	(92)
Net Change in Plan Fiduciary Net Position	<u>192,697</u>	<u>56,577</u>
Plan Fiduciary Net Position - Beginning	1,877,452	2,070,149
Plan Fiduciary Net Position - Ending (b) *	<u><u>\$ 2,070,149</u></u>	<u><u>\$ 2,126,726</u></u>
Net Pension (Asset) Liability - Ending (a) - (b)	\$ (4,804)	\$ 170,797
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	100.23%	92.57%
Covered Employee Payroll	955,646	996,849
Net Pension (Asset) Liability as a Percentage of Covered Employee Payroll	(0.50%)	17.13%

* - FNP may be off a dollar due to rounding.

Notes to Schedule:

N/A

CITY OF OVILLA, TEXAS
SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

	2015	2016
Actuarially Determined Contribution	\$ 76,327	\$ 90,963
Contributions in relation to the actuarially determined contribution	76,327	90,963
Contribution deficiency (excess)	-	-
Covered employee payroll	955,673	1,040,711
Contributions as a percentage of covered employee payroll	7.99%	8.74%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to be used for specified purposes.

Fire Department Auxiliary - This fund is used to account for donations to the Fire Department which in turn are spent on education, firefighter awards banquet and community services such as National Night Out and Heritage Day.

Park Impact Fees - This fund is used to account for funds received from an impact fee assessed through new building permits and is used to purchase new park equipment and make improvements to our parks.

Police Department Special - This fund is used to account for donations to the Police Department which in turn are spent on education, protective equipment, police awards and community services such as National Night Out and Heritage Day.

CITY OF OVILLA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2016

	Fire Department Auxiliary	Park Impact Fees	Police Department Special	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,050	\$ 70,765	\$ 211	\$ 72,026
Total assets	<u>\$ 1,050</u>	<u>\$ 70,765</u>	<u>\$ 211</u>	<u>\$ 72,026</u>
LIABILITIES				
	\$ -	\$ -	\$ -	\$ -
FUND BALANCES				
Restricted for:				
Public safety	1,050	-	211	1,261
Cultural and recreational	-	70,765	-	70,765
Total fund balances	<u>1,050</u>	<u>70,765</u>	<u>211</u>	<u>72,026</u>
Total liabilities and fund balances	<u>\$ 1,050</u>	<u>\$ 70,765</u>	<u>\$ 211</u>	<u>\$ 72,026</u>

CITY OF OVILLA, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2016

	Fire Department Auxiliary	Park Impact Fees	Police Department Special	Total Nonmajor Governmental Funds
REVENUES				
Revenues from use of money	\$ -	\$ 149	\$ -	\$ 149
Special assessment	-	14,719	-	14,719
Contributions and donations	1,050	-	370	1,420
Total revenues	<u>1,050</u>	<u>14,868</u>	<u>370</u>	<u>16,288</u>
EXPENDITURES				
Current:				
Public safety	-	-	159	159
Cultural and recreational	-	6,000	-	6,000
Total expenditures	<u>-</u>	<u>6,000</u>	<u>159</u>	<u>6,159</u>
Net change in fund balances	1,050	8,868	211	10,129
Fund balances - beginning	<u>-</u>	<u>61,897</u>	<u>-</u>	<u>61,897</u>
Fund balances - ending	<u>\$ 1,050</u>	<u>\$ 70,765</u>	<u>\$ 211</u>	<u>\$ 72,026</u>

DEBT SERVICE FUND

The *debt service fund* is used to account for the accumulation of resources for the payment of principal and interest on general long-term debt.

CITY OF OVILLA, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Fiscal Year Ended September 30, 2016

	Original and Final Budgeted Amounts	Actual GAAP Amounts	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
REVENUES					
Property tax	\$ 473,435	\$ 468,736	\$ (93)	\$ 468,643	\$ (4,792)
Revenues from use of money	700	554	(1)	553	(147)
Total revenues	<u>474,135</u>	<u>469,290</u>	<u>(94)</u>	<u>469,196</u>	<u>(4,939)</u>
EXPENDITURES					
Debt service:					
Principal on bonds	375,000	301,398	73,602	375,000	-
Interest and fiscal charges	203,525	163,578	39,847	203,425	(100)
Total expenditures	<u>578,525</u>	<u>464,976</u>	<u>113,449</u>	<u>578,425</u>	<u>(100)</u>
Excess (deficiency) of revenues over expenditures	<u>(104,390)</u>	<u>4,314</u>	<u>(113,543)</u>	<u>(109,229)</u>	<u>(4,839)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	102,786	(10,664)	113,450	102,786	-
Total other financing sources (uses)	<u>102,786</u>	<u>(10,664)</u>	<u>113,450</u>	<u>102,786</u>	<u>-</u>
Net change in fund balance	<u>\$ (1,604)</u>	<u>\$ (6,350)</u>	<u>\$ (93)</u>	<u>\$ (6,443)</u>	<u>\$ (4,839)</u>

PROPRIETARY FUND

ENTERPRISE FUND

Water and Sewer Fund - The City's water and sewer operations are accounted for in this fund.

CITY OF OVILLA, TEXAS
SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND SEWER
For the Fiscal Year Ended September 30, 2016

	Budget Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget
	Original	Final				
OPERATING REVENUES						
Water sales	\$ 894,932	\$ 1,004,932	\$ 770,598	\$ 110,256	\$ 880,854	\$ (124,078)
Sewer service charge	441,770	411,770	338,822	(8,928)	329,894	(81,876)
Miscellaneous	34,500	193,300	39,293	148,655	187,948	(5,352)
Total operating revenues	<u>\$1,371,202</u>	<u>\$1,610,002</u>	<u>\$1,148,713</u>	<u>\$ 249,983</u>	<u>\$1,398,696</u>	<u>\$ (211,306)</u>
OPERATING EXPENSES						
Water administration	\$ 152,180	\$ 305,717	\$ 144,835	\$ 145,790	\$ 290,625	\$ (15,092)
Water	729,343	730,852	679,447	(5,864)	673,583	(57,269)
Sewer	369,892	404,342	410,222	(9,146)	401,076	(3,266)
Depreciation	-	-	177,209	(177,209)	-	-
Total operating expenses	<u>\$1,251,415</u>	<u>\$1,440,911</u>	<u>\$1,411,713</u>	<u>\$ (46,429)</u>	<u>\$1,365,284</u>	<u>\$ (75,627)</u>

COMPONENT UNITS FINANCIAL STATEMENTS

Ovilla 4B Economic Development Corporation - This fund is used to account for the Ovilla 4B Economic Development Corporation created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended. The Ovilla 4B Economic Development Corporation initiative is to promote economic development in Ovilla and is currently accumulating funds to spend on future projects.

Ovilla Municipal Development District - This fund is used to account for the Ovilla Municipal Development District, a political subdivision of the State of Texas and the City, created in accordance with Chapter 377 of the Texas Local Government Code (the "Act"). The Ovilla Municipal Development District was established for the purpose of developing and financing all permissible projects prescribed by the Act.

CITY OF OVILLA, TEXAS
BALANCE SHEET
COMPONENT UNITS
September 30, 2016

	Ovilla 4B Economic Development Corporation	Ovilla Municipal Development District
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 529,851	\$ 165,032
Receivables	-	8,233
Due from primary government	17,188	-
Total assets	<u>\$ 547,039</u>	<u>\$ 173,265</u>
 LIABILITIES		
Total liabilities	<u>-</u>	<u>-</u>
 FUND BALANCES		
Restricted for:		
Economic development	547,039	-
Municipal development	-	173,265
Total fund balances	<u>547,039</u>	<u>173,265</u>
 Total liabilities and fund balances	<u>\$ 547,039</u>	<u>\$ 173,265</u>

CITY OF OVILLA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
COMPONENT UNITS
For the Fiscal Year Ended September 30, 2016

	Ovilla 4B Economic Development Corporation	Ovilla Municipal Development District
	<u> </u>	<u> </u>
REVENUES		
Sales tax	\$ 94,093	\$ 44,911
Revenues from use of money	1,645	510
Total revenues	<u>95,738</u>	<u>45,421</u>
 EXPENDITURES		
Current:		
Economic development	19,734	-
Municipal development	-	2,361
Total expenditures	<u>19,734</u>	<u>2,361</u>
 Net change in fund balances	 76,004	 43,060
 Fund balances - beginning	 <u>471,035</u>	 <u>130,205</u>
 Fund balances - ending	 <u><u>\$ 547,039</u></u>	 <u><u>\$ 173,265</u></u>

SUPPLEMENTARY FINANCIAL DATA

CITY OF OVILLA, TEXAS
MISCELLANEOUS STATISTICAL FACTS
September 30, 2016

Estimated gallons billed (in thousands)	151,955
Estimated gallons purchased (in thousands)	184,984
Percent billed to purchased	82.14%