



ANNUAL FINANCIAL REPORT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

PB&H

PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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CITY OF BELLMEAD, TEXAS

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FINANCIAL SECTION

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P A T T I L L O , B R O W N & H I L L , L L P
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bellmead, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Bellmead'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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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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, each major fund, and the aggregate remaining fund information of the City of Bellmead, 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, schedule of changes in net pension liability and related ratios, and the schedule of contributions on pages 3 – 10 and 42 – 48 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 Bellmead's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules 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 nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Pattillo, Brown & Hill, L.L.P.

March 13, 2017

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Bellmead, Texas (the "City") offers the following overview and analysis of the City's financial statements and financial activities for the fiscal year ended September 30, 2016. It should be read in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$30,796,412 (net position). Of this amount, \$9,834,901 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with fund designation and fiscal policies. In the prior year, the City's assets exceeded its liabilities by \$30,180,839. Of this amount, \$9,327,966 (unrestricted net position) could have been used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- As of September 30, 2016, the City of Bellmead's governmental funds reported ending fund balances of \$13,459,240. Of this amount, \$1,854,773 is unassigned fund balance in the General Fund available for use within the City's fund designation and fiscal policies. In the prior year, the City's governmental funds reported ending fund balances of \$13,214,682. Of this amount, \$1,912,301 was unassigned fund balance in the General Fund available for use within the City's fiscal policies.
- As of September 30, 2016, the restricted net position of the governmental activities is \$7,372,858 of which \$5,509,434 is restricted for economic development and \$1,421,289 was restricted for culture and recreation. In the prior year, restricted net position of the governmental activities was \$6,862,334 of which \$5,206,660 was restricted for economic development and \$1,285,977 was restricted for culture and recreation.
- As of September 30, 2016, the City of Bellmead's Enterprise Fund reported ending fund net position of \$8,780,546. Of this amount, \$5,655,690 is unrestricted fund net position available for use within the City's fund designation and fiscal policies. In the prior year, the City's Enterprise Fund reported ending fund net position of \$8,638,346. Of this amount, \$5,472,338 was unrestricted fund net position available for use within the City's fiscal policies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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 information on all of the City's assets, liabilities and deferred inflows/outflows of resources, with the difference between the two 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 in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the full accrual basis of accounting.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by citations, sales tax, street tax, 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, economic development, culture and recreation, and highways and streets. The business-type activities of the City include a water distribution operation and sewer services.

The government-wide financial statements can be found on pages 11 and 12 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 two categories: governmental funds and proprietary 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 evaluating 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 basic governmental fund financial statements can be found on pages 13 through 17 of this report.

Proprietary funds. The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its water distribution operations and sewer services. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 18 through 20 of this report.

Notes to financial statements. The notes provide additional information that is essential to 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 21 – 41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net position may serve as a useful indicator of a government’s financial position. The City’s combined net position was \$30,796,412 at September 30, 2016, which is a 2.04% increase from September 30, 2015. (See Table A-1) The largest portion of the City’s net position, \$13,568,158, reflects its investment in capital assets (e.g., land, buildings and improvements, equipment, and water and sewer facilities), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

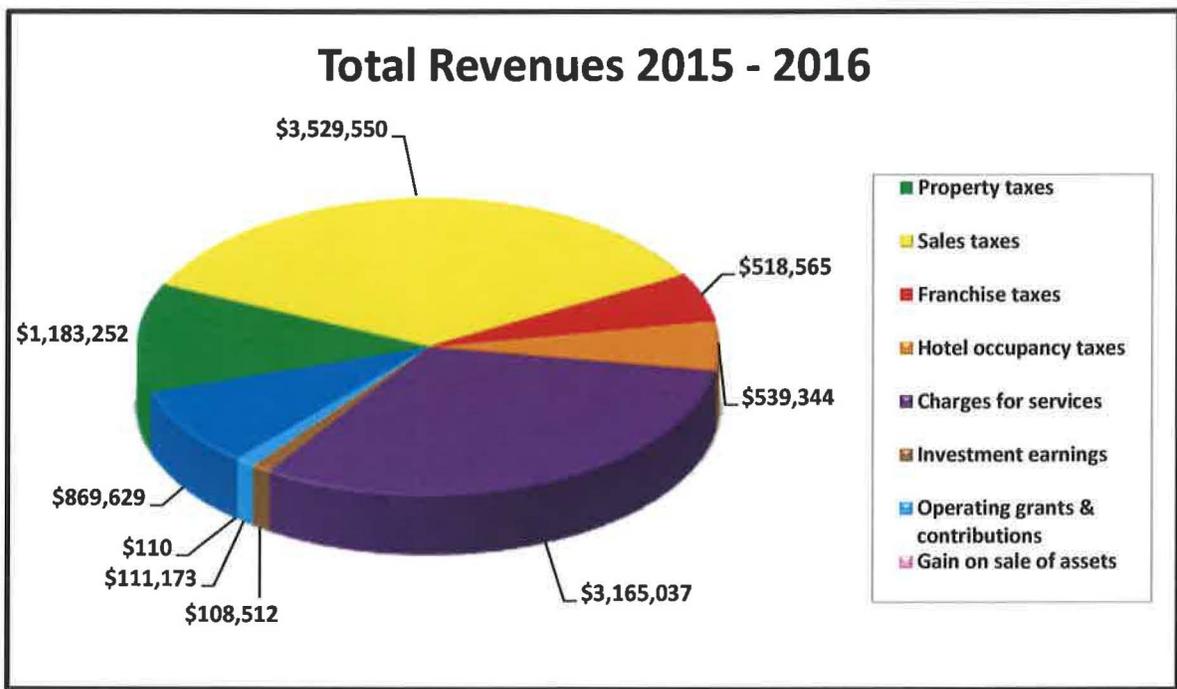
**Table A-1
City of Bellmead, Texas’ Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 14,867,161	\$ 14,867,688	\$ 12,873,178	\$ 10,252,481	\$ 27,740,339	\$ 25,120,169
Capital assets	11,617,363	11,401,184	3,722,682	3,808,057	15,340,045	15,209,241
Total assets	26,484,524	26,268,872	16,595,860	14,060,538	43,080,384	40,329,410
Total deferred outflows of resources	920,410	335,406	122,002	47,107	1,042,412	382,513
Long-term liabilities	4,494,902	4,370,523	6,994,825	4,784,632	11,489,727	9,155,155
Other liabilities	531,560	691,262	896,251	684,667	1,427,811	1,375,929
Total liabilities	5,026,462	5,061,785	7,891,076	5,469,299	12,917,538	10,531,084
Total deferred inflows of resources	362,606	-	46,240	-	408,846	-
Net position:						
Net investment in capital assets	10,463,797	10,824,531	3,104,361	3,145,571	13,568,158	13,970,102
Restricted	7,372,858	6,862,334	20,495	20,437	7,393,353	6,882,771
Unrestricted	4,179,211	3,855,628	5,655,690	5,472,338	9,834,901	9,327,966
Total net position	\$ 22,015,866	\$ 21,542,493	\$ 8,780,546	\$ 8,638,346	\$ 30,796,412	\$ 30,180,839

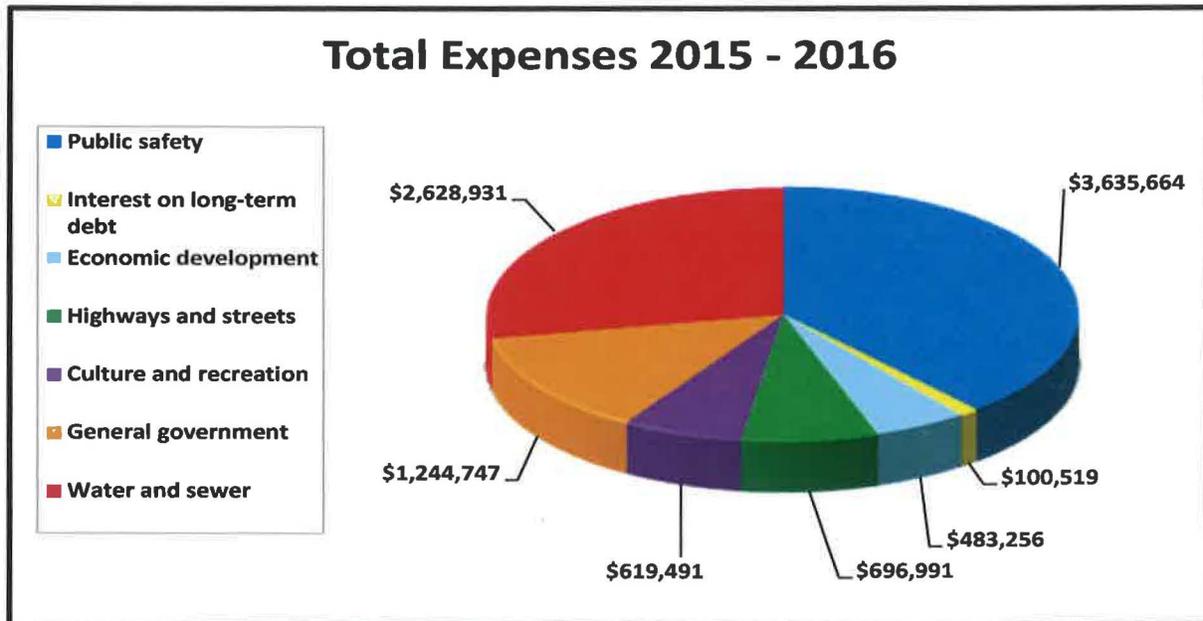
As of September 30, 2016, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as separately for its governmental and business-type activities.

Changes in Net Position. The City's total revenues were \$10,025,172. Property taxes comprise 11.80%, or \$1,183,252 of the City's revenue. Sales tax revenue comprises 35.21%, or \$3,529,550 of the City's revenue. In addition, \$3,165,037 or 31.57% comes from charges for services; water and sewer fees of \$2,758,010 comprise 87.14% of the charges for services.

For the prior year, The City's total revenues were \$9,886,377. Property taxes comprise 11.44%, or \$1,131,364 of the City's revenue. Sales tax revenue comprises 34.73%, or \$3,433,253 of the City's revenue. In addition, \$3,074,874 or 31.10% comes from charges for services; water and sewer fees of \$2,643,494 comprise 85.97% of the charges for services.



The total cost of all programs and services for the year ended September 30, 2016, was \$9,409,599. For the prior year ended September 30, 2015, the total cost of all programs and services was \$8,945,571.



Governmental Activities

- The City’s property tax rate increased from \$0.298608 to \$0.303761 per \$100 valuation resulting in a slight increase in property tax income for fiscal year 2016. Assessed values also increased during fiscal year 2016.
- City franchise tax revenue decreased \$13,302 or 2.50% from the prior year while hotel occupancy tax revenue increased \$50,827 or 10.40% from the prior year.
- Miscellaneous income increased due to the increase in the charging for administrative services.
- The increases in public safety are related to the additional salaries expenses including some from the change in administrative services. Highways and streets decreased due to decreased expenditures related to the significant street rehab project.

Business-type Activities

- Water and sewer expenses increased due to salaries and benefits, utilities, and insurance costs.

Table A-2
City of Bellmead, Texas' Statement of Activities

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 407,027	\$ 431,380	\$ 2,758,010	\$ 2,643,494	\$ 3,165,037	\$ 3,074,874
Operating grants	76,929	79,912	34,244	193,684	111,173	273,596
General revenues:						
Property taxes	1,183,252	1,131,364	-	-	1,183,252	1,131,364
Sales taxes	3,529,550	3,433,253	-	-	3,529,550	3,433,253
Franchise taxes	518,565	531,867	-	-	518,565	531,867
Hotel occupancy	539,344	488,517	-	-	539,344	488,517
Investment earnings	97,768	114,130	10,744	10,382	108,512	124,512
Miscellaneous	869,629	735,105	-	-	869,629	735,105
Gain on sale of land	110	93,289	-	-	110	93,289
Total revenues	7,222,174	7,038,817	2,802,998	2,847,560	10,025,172	9,886,377
Expenditures						
General government	1,244,747	1,108,455	-	-	1,244,747	1,108,455
Public safety	3,635,664	3,378,464	-	-	3,635,664	3,378,464
Highways and streets	696,991	884,412	-	-	696,991	884,412
Economic development	483,256	487,357	-	-	483,256	487,357
Culture and recreation	619,491	498,863	-	-	619,491	498,863
Interest on long-term debt	100,519	106,443	-	-	100,519	106,443
Water and sewer	-	-	2,628,931	2,481,577	2,628,931	2,481,577
Total expenditures	6,780,668	6,463,994	2,628,931	2,481,577	9,409,599	8,945,571
Increase (decrease) in net position						
before transfers	441,506	574,823	174,067	365,983	615,573	940,806
Transfers	31,867	53,064	(31,867)	(53,064)	-	-
Changes in net position	473,373	627,887	142,200	312,919	615,573	940,806
Net position, beginning	21,542,493	21,004,002	8,638,346	8,335,515	30,180,839	29,339,517
Prior period adjustment	-	(89,396)	-	(10,088)	-	(99,484)
Net position, ending	\$ 22,015,866	\$ 21,542,493	\$ 8,780,546	\$ 8,638,346	\$ 30,796,412	\$ 30,180,839

Analysis of the City's Operations. Table A-2 provides a summary of the City's operations for the year ended September 30, 2016. The governmental activities increased the City's net position by \$473,373. The business-type activities increased net position by \$142,200.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS AND BUDGETARY HIGHLIGHTS

Governmental Funds

In the current year, actual expenditures as compared to prior year actual expenditures, increased by \$316,161. The significant changes in actual expenditures reflected an increase in general government of \$108,546, public safety of \$132,736, culture and recreation of \$113,835 and capital outlay of \$221,221 offset by decreases in highways and streets of \$211,852 and economic development of \$55,451. Also, actual resources available were \$47,721 or 0.66% more than the actual resources available in the prior year. Notable changes in actual resources were as follows: property tax increased by \$64,267, sales tax increased by \$96,297, hotel occupancy tax increased by \$50,827 and miscellaneous revenue increased by \$134,795.

Proprietary Fund

For the current year, actual expenses as compared to prior year actual expenses decreased by \$8,684, or 0.42%. Operating revenues in the current year were \$114,516 or 4.33% more than the operating revenues in the prior year. The notable increases in operating revenues was an increase in sewer charges in the amount of \$43,633, water and sewer tap fees in the amount of \$ 21,919 and miscellaneous revenue in the amount of \$23,850.

General Fund Budgetary Highlights

The original budget for the General Fund was not amended during the year. For fiscal year 2015-2016, revenues and expenditures were below budgetary estimates.

Actual expenditures were below budgeted expenditures by \$677,617. The most significant variance resulted from actual expenditures being less than budgeted in general government by \$15,361, public safety by \$248,539 and highways and streets by \$413,714. On the other hand, actual revenue was \$240,608 less than budgeted revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year ended September 30, 2016, the City spent \$794,748 for governmental capital asset additions. Of the additions, \$28,551 represented the equipment and vehicles purchased. Additionally, the City spent \$378,225 for enterprise capital asset additions during the year ended September 30, 2016.

- Total gross governmental capital assets as of September 30, 2016, are \$19,504,025. For the prior year, gross governmental capital assets were \$18,709,277.
- Total gross enterprise capital assets as of September 30, 2016, are \$12,560,571. For the prior year, gross enterprise capital assets were \$12,182,346.

Additional information on the City's capital assets can be found in Note 8 to the financial statements on pages 32 – 33 of this report.

Long-term Debt

At September 30, 2016, the City had \$10,805,000 in bonds and notes outstanding. As of September 30, 2015, the City had \$8,800,000 in bonds and notes outstanding.

Additional information on the City's long-term debt can be found in Note 9 to the financial statements on pages 33 – 35 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is continuing to budget conservatively in order to maintain fiscal responsibility. The unassigned fund balance in the General Fund is currently approximately 4.5 months of estimated expenditures for a year. The City will continue to monitor its fund balance closely in order to keep a strong fund balance for future considerations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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 City'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 Manager, City of Bellmead, Texas, 3015 Bellmead Drive, Bellmead, Texas 76705.

**BASIC
FINANCIAL STATEMENTS**

CITY OF BELLMEAD, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 17,275,945	\$ 6,478,995	\$ 23,754,940
Accounts receivable, net	791,589	351,289	1,142,878
Inventories	728	5,000	5,728
Internal balances	(4,175,698)	4,175,698	-
Prepays	440	-	440
Restricted cash and cash equivalents	-	20,495	20,495
Equity in joint venture	-	1,841,701	1,841,701
Lease receivable:			
Due within one year	94,037	-	94,037
Due in more than one year	880,120	-	880,120
Capital assets not being depreciated:			
Land	2,771,193	38,799	2,809,992
Construction in progress	761,622	263,895	1,025,517
Capital assets, net of accumulated depreciation:			
Building and improvements	4,162,997	714,102	4,877,099
Infrastructure	2,626,057	-	2,626,057
Water and sewer facilities	-	2,461,942	2,461,942
Equipment	1,295,494	243,944	1,539,438
Total assets	<u>26,484,524</u>	<u>16,595,860</u>	<u>43,080,384</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TMRS	920,410	117,373	1,037,783
Deferred charge on refunding	-	4,629	4,629
Total deferred outflows of resources	<u>920,410</u>	<u>122,002</u>	<u>1,042,412</u>
LIABILITIES			
Accounts payable	203,940	210,801	414,741
Accrued liabilities	62,424	24,066	86,490
Customer deposits payable	-	358,153	358,153
Noncurrent liabilities:			
Due within one year	265,196	303,231	568,427
Due in more than one year	4,494,902	6,994,825	11,489,727
Total liabilities	<u>5,026,462</u>	<u>7,891,076</u>	<u>12,917,538</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to TMRS	362,606	46,240	408,846
Total deferred inflows of resources	<u>362,606</u>	<u>46,240</u>	<u>408,846</u>
NET POSITION			
Net investment in capital assets	10,463,797	3,104,361	13,568,158
Restricted for:			
Court security and technology	45,730	-	45,730
Public safety	74,643	-	74,643
Debt service	321,762	-	321,762
Capital projects	-	20,495	20,495
Economic development	5,509,434	-	5,509,434
Culture and recreation	1,421,289	-	1,421,289
Unrestricted	4,179,211	5,655,690	9,834,901
Total net position	<u>\$ 22,015,866</u>	<u>\$ 8,780,546</u>	<u>\$ 30,796,412</u>

See accompanying notes to financial statements.

CITY OF BELLMEAD, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 1,244,747	\$ 33,761	\$ -	\$(1,210,986)	\$ -	\$(1,210,986)
Public safety	3,635,664	320,431	76,929	(3,238,304)	-	(3,238,304)
Highways and streets	696,991	-	-	(696,991)	-	(696,991)
Economic development	483,256	-	-	(483,256)	-	(483,256)
Culture and recreation	619,491	52,835	-	(566,656)	-	(566,656)
Interest on long-term debt	100,519	-	-	(100,519)	-	(100,519)
Total governmental activities	<u>6,780,668</u>	<u>407,027</u>	<u>76,929</u>	<u>(6,296,712)</u>	<u>-</u>	<u>(6,296,712)</u>
Business-type activities:						
Water and sewer	2,628,931	2,758,010	34,244	-	163,323	163,323
Total business-type activities	<u>2,628,931</u>	<u>2,758,010</u>	<u>34,244</u>	<u>-</u>	<u>163,323</u>	<u>163,323</u>
Total primary government	<u>\$ 9,409,599</u>	<u>\$ 3,165,037</u>	<u>\$ 111,173</u>	<u>(6,296,712)</u>	<u>163,323</u>	<u>(6,133,389)</u>
General revenues:						
Property taxes, levied for general purposes				875,106	-	875,106
Property taxes, levied for debt service				308,146	-	308,146
Sales taxes				3,529,550	-	3,529,550
Franchise taxes				518,565	-	518,565
Hotel occupancy taxes				539,344	-	539,344
Investment earnings				97,768	10,744	108,512
Miscellaneous				869,629	-	869,629
Transfers				31,867	(31,867)	-
Gain on sale of assets				110	-	110
Total general revenues and transfers				<u>6,770,085</u>	<u>(21,123)</u>	<u>6,748,962</u>
Change in net position				473,373	142,200	615,573
Net position, beginning				<u>21,542,493</u>	<u>8,638,346</u>	<u>30,180,839</u>
Net position, ending				<u>\$ 22,015,866</u>	<u>\$ 8,780,546</u>	<u>\$ 30,796,412</u>

See accompanying notes to financial statements.

CITY OF BELLMEAD, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General	Bellmead EDC A
ASSETS		
Cash and cash equivalents	\$ 4,198,670	\$ 1,413,328
Receivables (net of allowance for uncollectibles)	647,896	-
Lease receivable	-	974,157
Due from other funds	-	-
Prepays	440	-
Inventories	728	-
	<u>\$ 4,847,734</u>	<u>\$ 2,387,485</u>
LIABILITIES		
Accounts payable	\$ 98,386	\$ 32,225
Accrued liabilities	50,866	-
Due to other funds	38,173	35,573
	<u>187,425</u>	<u>67,798</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes	132,516	-
Unavailable revenue - lease receivable	-	974,157
	<u>132,516</u>	<u>974,157</u>
FUND BALANCES		
Restricted for:		
Inventories	728	-
Prepays	440	-
Public safety	74,643	-
Court technology	-	-
Culture and recreation	-	-
Economic development	-	1,345,530
Capital projects	-	-
Debt service	-	-
Committed for:		
Street improvements	2,597,209	-
Unassigned	1,854,773	-
	<u>4,527,793</u>	<u>1,345,530</u>
	<u>\$ 4,847,734</u>	<u>\$ 2,387,485</u>
Total liabilities, deferred inflows of resources and fund balances		

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the funds.

Long-term liabilities (net pension liability, bonds payable, and etc.) are not due and payable in the current period and; therefore, have not been included in the fund financial statements. Also, the premium on the issuance of bonds and deferred resources related to the net pension liability are not reported in the funds.

Net position of governmental activities

See accompanying notes to financial statements.

Bellmead EDC B	Hotel/Motel Tax	Capital Projects	Other Governmental	Total Governmental Funds
\$ 3,056,562	\$ 1,433,551	\$ 6,901,276	\$ 272,558	\$ 17,275,945
98,830	-	-	44,863	791,589
-	-	-	-	974,157
35,573	6,948	1,598	35,090	79,209
-	-	-	-	440
-	-	-	-	728
<u>\$ 3,190,965</u>	<u>\$ 1,440,499</u>	<u>\$ 6,902,874</u>	<u>\$ 352,511</u>	<u>\$ 19,122,068</u>
\$ 1,218	\$ 16,531	\$ 55,580	\$ -	\$ 203,940
-	2,679	-	-	53,545
-	-	4,177,765	3,396	4,254,907
<u>1,218</u>	<u>19,210</u>	<u>4,233,345</u>	<u>3,396</u>	<u>4,512,392</u>
-	-	-	43,763	176,279
-	-	-	-	974,157
-	-	-	43,763	1,150,436
-	-	-	-	728
-	-	-	-	440
-	-	-	-	74,643
-	-	-	45,730	45,730
-	1,421,289	-	-	1,421,289
3,189,747	-	-	-	4,535,277
-	-	2,669,529	-	2,669,529
-	-	-	259,622	259,622
-	-	-	-	2,597,209
-	-	-	-	1,854,773
<u>3,189,747</u>	<u>1,421,289</u>	<u>2,669,529</u>	<u>305,352</u>	<u>13,459,240</u>
<u>\$ 3,190,965</u>	<u>\$ 1,440,499</u>	<u>\$ 6,902,874</u>	<u>\$ 352,511</u>	
				11,617,363
				1,150,436
				(4,211,173)
				<u>\$ 22,015,866</u>

CITY OF BELLMEAD, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General</u>	<u>Bellmead EDC A</u>
REVENUES		
Taxes:		
Property	\$ 856,729	\$ -
Sales	2,941,292	-
Franchise	518,565	-
Hotel occupancy	-	-
Other	57,722	-
Licenses and permits	33,761	-
Intergovernmental	76,929	-
Rent	-	-
Fines and fees	320,431	-
Investment earnings	18,778	50,211
Miscellaneous	757,909	-
Total revenues	<u>5,582,116</u>	<u>50,211</u>
EXPENDITURES		
General government	1,121,916	-
Public safety	3,329,224	-
Highways and streets	605,892	-
Economic and physical development	-	10,517
Culture and recreation	82,830	-
Debt service:		
Principal	-	-
Interest	-	-
Capital outlay	-	-
Total expenditures	<u>5,139,862</u>	<u>10,517</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>442,254</u>	<u>39,694</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(227)	(135,950)
Premium on bonds issued	-	-
Sale of general capital assets	-	90,017
Total other financing sources (uses)	<u>(227)</u>	<u>(45,933)</u>
NET CHANGE IN FUND BALANCE	442,027	(6,239)
FUND BALANCE, BEGINNING	<u>4,085,766</u>	<u>1,351,769</u>
FUND BALANCE, ENDING	<u>\$ 4,527,793</u>	<u>\$ 1,345,530</u>

See accompanying notes to financial statements.

<u>Bellmead EDC B</u>	<u>Hotel/Motel Tax</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 304,042	\$ 1,160,771
588,258	-	-	-	3,529,550
-	-	-	-	518,565
-	539,344	-	-	539,344
-	-	-	-	57,722
-	-	-	-	33,761
-	-	-	-	76,929
-	52,835	-	-	52,835
-	-	-	-	320,431
3,692	1,301	22,658	1,128	97,768
41,900	-	-	12,098	811,907
<u>633,850</u>	<u>593,480</u>	<u>22,658</u>	<u>317,268</u>	<u>7,199,583</u>
-	-	-	-	1,121,916
-	-	-	-	3,329,224
-	-	-	-	605,892
359,899	-	-	-	370,416
-	453,564	-	-	536,394
-	-	-	195,000	195,000
-	-	-	109,001	109,001
10,981	4,604	798,077	-	813,662
<u>370,880</u>	<u>458,168</u>	<u>798,077</u>	<u>304,001</u>	<u>7,081,505</u>
<u>262,970</u>	<u>135,312</u>	<u>(775,419)</u>	<u>13,267</u>	<u>118,078</u>
135,950	-	-	32,094	168,044
-	-	-	-	(136,177)
-	-	-	4,596	4,596
-	-	-	-	90,017
<u>135,950</u>	<u>-</u>	<u>-</u>	<u>36,690</u>	<u>126,480</u>
398,920	135,312	(775,419)	49,957	244,558
<u>2,790,827</u>	<u>1,285,977</u>	<u>3,444,948</u>	<u>255,395</u>	<u>13,214,682</u>
<u>\$ 3,189,747</u>	<u>\$ 1,421,289</u>	<u>\$ 2,669,529</u>	<u>\$ 305,352</u>	<u>\$ 13,459,240</u>

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CITY OF BELLMEAD, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net change in fund balances - total governmental funds	\$ 244,558
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense in the current period.	216,179
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	22,481
The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets.	(89,907)
Certain pension expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource inflows/outflows related to the pension liability were amortized.	(65,478)
The issuance of long-term debt (e.g., bonds, leases) 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.	198,506
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 governmental funds.	(52,966)
Changes in net position of governmental activities	<u>\$ 473,373</u>

See accompanying notes to financial statements

CITY OF BELLMEAD, TEXAS
STATEMENT OF NET POSITION
PROPREITARY FUND
SEPTEMBER 30, 2016

	Business-type Activities <u>Enterprise Fund</u> <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,478,995
Accounts receivable, net of allowance for uncollectibles of \$64,926:	
Accounts	340,354
Other	10,935
Due from other funds	4,179,563
Inventories	5,000
Total current assets	<u>11,014,847</u>
Noncurrent assets:	
Restricted cash	20,495
Equity in joint venture	1,841,701
Capital assets:	
Land	38,799
Buildings and improvements	877,695
Water and sewer facilities	9,872,897
Equipment	1,507,284
Construction in progress	263,895
Less: accumulated depreciation	<u>(8,837,888)</u>
Total capital assets (net of accumulated depreciation)	3,722,682
Total noncurrent assets	<u>5,584,878</u>
Total assets	<u>16,599,725</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge of refunding	4,629
Deferred outflows related to TMRS	<u>117,373</u>
Total deferred outflows of resources	<u>122,002</u>
LIABILITIES	
Current liabilities:	
Accounts payable	210,801
Accrued liabilities	24,066
Customer deposits payable	358,153
Compensated absences, current portion	3,231
Due to other funds	3,865
Revenue bond and note payable, current portion	<u>300,000</u>
Total current liabilities	<u>900,116</u>
Noncurrent liabilities:	
Compensated absences	9,693
Net pension liability	86,234
Revenue bond and note payable	<u>6,898,898</u>
Total noncurrent liabilities	<u>6,994,825</u>
Total liabilities	7,894,941
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to TMRS	<u>46,240</u>
Total deferred inflows of resources	<u>46,240</u>
NET POSITION	
Net investment in capital assets	3,104,361
Restricted for:	
Capital projects	20,495
Unrestricted	<u>5,655,690</u>
Total net position	<u>\$ 8,780,546</u>

See accompanying notes to financial statements

CITY OF BELLMEAD, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPREITARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-type Activities <u>Enterprise Fund</u> <u>Water and Sewer</u>
REVENUE	
Operating revenues:	
Water sales	\$ 1,737,393
Sewer charges	902,593
Turn-on fees	51,915
Water and sewer tap fees	29,169
Other	<u>36,940</u>
Total operating revenue	<u>2,758,010</u>
EXPENSES	
Operating expenses:	
Salaries and benefits	515,313
System repair and maintenance	144,978
Auto and equipment maintenance	50,950
Office expense	40,117
Professional fees	87,115
Utilities	316,662
Depreciation	463,599
Insurance	65,685
Miscellaneous	<u>394,764</u>
Total operating expenses	<u>2,079,183</u>
OPERATING INCOME	<u>678,827</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	34,244
Interest and other income	10,744
Gain (loss) on joint venture	(302,604)
Interest charges	<u>(247,144)</u>
Total nonoperating revenue (expenses)	<u>(504,760)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>174,067</u>
TRANSFERS	
Transfers out	<u>(31,867)</u>
Total transfers	<u>(31,867)</u>
CHANGE IN NET POSITION	142,200
NET POSITION, BEGINNING	<u>8,638,346</u>
NET POSITION, ENDING	<u>\$ 8,780,546</u>

See accompanying notes to financial statements.

CITY OF BELLMEAD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2016

	Business-type Activities <u>Enterprise Fund</u> <u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 2,759,379
Payments to suppliers	(997,026)
Payments to employees	(524,569)
Net cash provided by operating activities	<u>1,237,784</u>
CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES	
Transfers from other funds	79,675
Transfers to other funds	(31,867)
Operating grants	<u>34,244</u>
Net cash provided by noncapital and related financing activities	<u>82,052</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(378,224)
Principal paid on bonds and note payable	(208,089)
Proceeds from debt issuance	2,487,061
Interest paid on bonds and note payable	(242,514)
Net cash provided by capital and related financing activities	<u>1,658,234</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in joint venture	(528,271)
Interest received	<u>10,744</u>
Net cash provided by investing activities	<u>(517,527)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,460,543
CASH AND CASH EQUIVALENTS, BEGINNING	<u>4,038,947</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 6,499,490</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 678,827
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	463,599
Change in assets and liabilities:	
Accounts receivable, net	(17,305)
Other receivables	3,143
Customer deposits	15,531
Accounts payable	103,245
Deferred outflows of resources	(79,525)
Deferred inflows of resources	46,240
Net pension liability	42,412
Compensated absences	(14,922)
Other liabilities	(3,461)
Net cash provided by operating activities	<u>\$ 1,237,784</u>

See accompanying notes to financial statements

CITY OF BELLMEAD, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bellmead, Texas (the "City") is a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: general government, public safety (police and fire), highways and streets, economic development, and culture and recreation.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are appropriately presented as funds of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the City.

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. The following was determined:

The Bellmead Economic Development Corporation Type A (EDC A) and Bellmead Economic Development Corporation Type B are *blended component units* and are reported within the City's primary government. The Corporations are responsible for certain economic development expenditures benefiting all citizens of the government and are financed by a portion of sales tax revenue and are governed by a board comprised of members of the government's council and citizens of the community. The Corporations have a September 30 year-end and are reported as Special Revenue Funds

B. Government-wide and Fund 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 activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenue is 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 revenue 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if 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.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – The General Fund is the City’s primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

Bellmead Economic Development Corporation – The Bellmead Economic Development Corporation Types A and B are blended component units which are reported as Special Revenue Funds that account for sales tax revenue that is to be used for certain economic development expenditures benefiting all citizens of the City.

Hotel/Motel Tax Fund – The Hotel/Motel Tax Fund accounts for the receipts and allocation of the City’s occupancy tax imposed on the rental of hotel-motel rooms. These funds are used to promote tourism and related activities within the City.

Capital Projects Fund – The Capital Projects Fund accounts for the acquisition or construction of governmental capital assets.

The City reports the following major proprietary fund:

Water and Sewer Fund – The Water and Sewer Fund accounts for the activities of the water distribution system, the sewage treatment plant, sewage pumping stations and collection systems.

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 wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

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 City’s Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities and Net Position or Equity

Deposits and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments (investments with original maturities less than 90 days, including restricted assets) to be cash equivalents.

State statutes authorize the City to invest in obligations of the United States or its agencies and instrumentalities and state or local governments, commercial paper, guaranteed investment contracts, repurchase agreements, and certain governmental investment pools. The City's local investment policy limits the City to invest in obligations of the United States or its agencies and instrumentalities, certificates of deposit, money market mutual funds, and local government investment pools.

Investments are reported at fair value. The governmental investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied each October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The McLennan County Tax Assessor/Collector bills and collects the City's property taxes. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenue.

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2016, the City had a tax rate of \$0.303761 per \$100 of which \$0.22415 was allocated for general government and \$0.079611 was allocated for payment of principal and interest on general long-term debt.

Inventories and Prepaid Items

All inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include land, buildings and improvements, machinery and 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. The City has elected to report general infrastructure assets prospectively from October 1, 2003, as permitted by GASB Statement No. 34. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of the assets are not capitalized.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	5 to 30
Water and sewer facilities	5 to 30
Equipment	3 to 20
Infrastructure	40

Restricted Assets

Restricted cash accounts in the Water and Sewer Fund of \$20,495 represents proceeds from the 2008 tax and revenue certificates of obligation that have not been spent but have been restricted to purchase water and sewer improvements in the future.

Long-term Debt

In the government-wide financial statements and proprietary fund types 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 Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the period of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in 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.

Net Position

Net Position represents the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Net Position Flow Assumption

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.

Fund Balance Flow Assumption

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 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet 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. The City has the following items that qualify for reporting in this category.

- **Deferred charges on refundings** – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt.
- **Pension contributions after measurement date** – These contributions are deferred and recognized in the following fiscal year.
- **Difference in projected and actual earnings on pension assets** – This difference is deferred and amortized over a closed five year period.

- Difference in expected and actual pension experience – This difference is deferred and recognized over the average remaining lives of all member determined as of the measurement date

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or 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. The City has one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and lease receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Compensated Absences

Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. In the governmental fund level financial statements, only matured compensated absences payable to currently terminated employees are reported.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance of total governmental funds and net position of governmental activities as reported in the government-wide statement of net position.

The governmental statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances of total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

3. UNDIVIDED INTEREST IN WACO METROPOLITAN AREA REGIONAL SEWER SYSTEM

During 2004, the City entered into an agreement with the City of Waco, Texas to acquire a 5.73% undivided interest in the facilities and operations of the Waco Metropolitan Area Regional Sewer System (WMARSS). The City believes that its purchase and operation of the system will increase the efficiency and effectiveness of providing sewer treatment services to its citizens.

During 2009, the undivided interest of 5.73% in the WMARSS facilities and operations was adjusted to 5.707% to adjust another City's allocation to the agreement.

Under an interlocal agreement, a WMARSS board consists of the City managers from each of the seven participating cities. The operation and administration of the system is subject to joint control by the cities through the WMARSS board; however, a separate legal entity was not created. The agreement allows the cities to pool resources and share the costs, risk, and rewards of providing services. Further, each City retains an ongoing financial interest and ongoing financial interest and ongoing financial responsibility in the operations of the system.

The City has reported its share of assets, liabilities, equity, revenues and expenses that are associated with this joint activity in its Enterprise Fund as follows:

Current assets	\$ 449,690
Capital assets	1,500,776
Current liabilities	<u>(108,765)</u>
Net position	<u>\$ 1,841,701</u>
Operating expenses	\$(322,164)
Nonoperating revenues	<u>19,560</u>
Income(loss) before contributions	\$(302,604)
Capital contributions - current year	<u>\$ 528,271</u>
Change in net position	<u><u>\$ 225,667</u></u>

4. DEPOSITS AND INVESTMENTS

A summary of the City's cash and cash equivalents follows:

Cash and certificates of deposit in bank	\$ 23,588,271
Government investment pools:	
TexPool	116,039
TexStar	<u>68,511</u>
Total cash and cash equivalents	<u><u>\$ 23,772,821</u></u>

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in shorter-term certificates of deposit, securities, money market mutual funds, or government investment pools, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to invest in securities maturing more than three years from the date of purchase. At September 30, 2016, the City's only investment is in external investment pools. The weighted average maturity of Texas Local Government Investment Pool (TexPool) and Texas Short-term Asset Reserve Fund (TexStar) as of September 30, 2016, is less than 60 days.

Credit Risk. The City's investment policy limits investments in governmental investment pools and money market mutual funds to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2016, the City's investment in TexPool and TexStar was rated AAA by Standard & Poor's.

TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The City has delegated the authority to hold legal title to the pool as custodians and to make investment purchases with the City's funds. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the state comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

TexStar is a Texas public funds investment pool that is co-administered by J. P. Morgan Chase and First Southwest Asset Management, Inc. TexStar is run by a five-member board comprised of three representatives of eligible governmental entities and one member designated by each of the co-administrators. TexStar currently offers a "Cash Reserve Fund" which will invest only in authorized investments under the Public Funds Investment Act with weighted average maturities which cannot exceed 60 days.

TexPool and TexStar operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool and TexStar use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and TexStar is the same as the value of TexPool shares and TexStar shares.

5. RECEIVABLES

Receivables as of September 30, 2016, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Bellmead Economic Development Corporation - B	Other Nonmajor	Water and Sewer	Total
Receivables:					
Property taxes	\$ 180,679	\$ -	\$ 59,817	\$ -	\$ 240,496
Sales taxes	494,149	98,830	-	-	592,979
Accounts	-	-	-	405,280	405,280
Other	18,237	-	-	10,935	29,172
Gross receivables	693,065	98,830	59,817	416,215	1,267,927
Less: allowance for uncollectibles	(45,169)	-	(14,954)	(64,926)	(125,049)
Net total receivables	<u>\$ 647,896</u>	<u>\$ 98,830</u>	<u>\$ 44,863</u>	<u>\$ 351,289</u>	<u>\$ 1,142,878</u>

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the "District"). The District is required under the Property Tax Code to assess all property within the District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the District must be reviewed every four years.

The City's property tax is levied each October 1 on assessed value listed as of the prior January 1 for all real and business personal property located in the City. The new assessed value upon which the fiscal 2016 levy was based was \$381,347,126.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2016, were 96.7 % of the tax levy.

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payable balances at September 30, 2016, are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ -	\$ 38,173
Bellmead EDC - A	-	35,573
Bellmead EDC - B	35,573	-
Hotel/Motel Tax	6,948	-
Capital Projects	1,598	4,177,765
Nonmajor	35,090	3,396
Water and sewer	<u>4,179,563</u>	<u>3,865</u>
Totals	<u>\$ 4,258,772</u>	<u>\$ 4,258,772</u>

All balances resulted 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.

Interfund transfers at September 30, 2016, are as follows:

	<u>Bellmead EDC - B</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Transfers out:			
General Fund	\$ -	\$ 227	\$ 227
Bellmead EDC - A	135,950	-	135,950
Water/Sewer	<u>-</u>	<u>31,867</u>	<u>31,867</u>
Total transfers	<u>\$ 135,950</u>	<u>\$ 32,094</u>	<u>\$ 168,044</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Debt Service Fund to establish mandatory reserve accounts, and 3) move unrestricted General Fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or match funds for various grant programs.

7. LEASE RECEIVABLES

The Bellmead Economic Development Corporation (BEDC) constructed on a building which is being utilized as a plant and office space by Texas Machine & Tool International, LLC (TMI). BEDC has entered into a 10-year promissory note with TMTI to purchase the property in accordance with the following schedule based on the remainder of the previous lease agreement of \$1,093,146. After the 2016 payments, the current lease receivable is \$974,157.

The new promissory note began July 1, 2015. The payments, including interest at 4.5% are:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 94,037	\$ 41,913
2018	98,357	37,593
2019	102,876	33,075
2020	107,602	28,349
2021	112,545	23,405
2022-2026	<u>458,740</u>	<u>39,744</u>
	<u>\$ 974,157</u>	<u>\$ 204,079</u>

8. CAPITAL ASSETS

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

	<u>Balance</u> <u>October 1,</u> <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30,</u> <u>2016</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,771,193	\$ -	\$ -	\$ 2,771,193
Construction in progress	<u>73,701</u>	<u>755,216</u>	<u>(67,295)</u>	<u>761,622</u>
Total capital assets not being depreciated	<u>2,844,894</u>	<u>755,216</u>	<u>(67,295)</u>	<u>3,532,815</u>
Capital assets being depreciated:				
Buildings and improvements	6,580,756	78,276	-	6,659,032
Infrastructure	3,191,770	-	-	3,191,770
Equipment	<u>6,091,857</u>	<u>28,551</u>	<u>-</u>	<u>6,120,408</u>
Total capital assets being depreciated	<u>15,864,383</u>	<u>106,827</u>	<u>-</u>	<u>15,971,210</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,266,646)	(229,389)	-	(2,496,035)
Infrastructure	(486,628)	(79,085)	-	(565,713)
Equipment	<u>(4,554,819)</u>	<u>(270,095)</u>	<u>-</u>	<u>(4,824,914)</u>
Total accumulated depreciation	<u>(7,308,093)</u>	<u>(578,569)</u>	<u>-</u>	<u>(7,886,662)</u>
Total capital assets being depreciated, net	<u>8,556,290</u>	<u>(471,742)</u>	<u>-</u>	<u>8,084,548</u>
Governmental activities capital assets, net	<u>\$ 11,401,184</u>	<u>\$ 283,474</u>	<u>\$ (67,295)</u>	<u>\$ 11,617,363</u>

	Balance October 1, 2015	Additions	Deletions	Balance September 30, 2016
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 38,799	\$ -	\$ -	\$ 38,799
Construction in progress	136,185	127,710	-	263,895
Total capital assets not being depreciated	<u>174,984</u>	<u>127,710</u>	<u>-</u>	<u>302,694</u>
Capital assets being depreciated:				
Buildings and improvements	877,695	-	-	877,695
Water and sewer facilities	9,668,674	204,223	-	9,872,897
Equipment	1,460,993	46,291	-	1,507,284
Total capital assets being depreciated	<u>12,007,362</u>	<u>250,514</u>	<u>-</u>	<u>12,257,876</u>
Less accumulated depreciation for:				
Buildings and improvements	(120,023)	(43,570)	-	(163,593)
Water and sewer facilities	(7,042,693)	(368,262)	-	(7,410,955)
Equipment	(1,211,573)	(51,767)	-	(1,263,340)
Total accumulated depreciation	<u>(8,374,289)</u>	<u>(463,599)</u>	<u>-</u>	<u>(8,837,888)</u>
Total capital assets being depreciated, net	<u>3,633,073</u>	<u>(213,085)</u>	<u>-</u>	<u>3,419,988</u>
Business-type activities capital assets, net	<u>\$ 3,808,057</u>	<u>\$(85,375)</u>	<u>\$ -</u>	<u>\$ 3,722,682</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	\$ 82,280
Public safety	223,713
Highways and streets	84,943
Economic development	112,840
Culture and recreation	74,793
Total depreciation - governmental activities	<u>\$ 578,569</u>
Business-type activities	
Water and sewer	\$ 463,599
Total depreciation - business-type activities	<u>\$ 463,599</u>

9. LONG-TERM DEBT

Long-term debt consists of bonded indebtedness, note payable, and compensated absences. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and pledges income derived from the acquired or constructed assets to pay debt service. General obligation bonds have been issued for the business-type activities. For the governmental activities, compensated absences are generally liquidated by the General Fund.

The following is a summary of changes in long-term debt of the year ended September 30, 2016:

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016	Due Within One Year
Governmental activities					
Certificates of obligation	\$ 3,860,000	\$ -	\$(150,000)	\$ 3,710,000	\$ 150,000
Tax anticipation notes	95,000	-	(45,000)	50,000	50,000
Net pension liability	388,345	562,522	(274,646)	676,221	-
Compensated absences	207,436	90,129	(36,783)	260,782	65,196
Premium on debt	66,601	-	(3,506)	63,095	-
	<u>\$ 4,617,382</u>	<u>\$ 652,651</u>	<u>\$(509,935)</u>	<u>\$ 4,760,098</u>	<u>\$ 265,196</u>
Business-type activities					
General obligation bonds	\$ 345,000	\$ -	\$(170,000)	\$ 175,000	\$ 175,000
Certificates of obligation	4,500,000	2,400,000	(30,000)	6,870,000	125,000
Net pension liability	43,822	77,435	(35,024)	86,233	-
Compensated absences	27,846	5,054	(19,976)	\$ 12,924	3,231
Premium on debt	74,926	87,061	(8,088)	153,899	-
	<u>\$ 4,991,594</u>	<u>\$ 2,569,550</u>	<u>\$(263,088)</u>	<u>\$ 7,298,056</u>	<u>\$ 303,231</u>

Long-term debt for governmental activities at September 30, 2016, is comprised of the following:

\$230,000 Series 2012 Tax Anticipation Notes, due in annual installments of \$45,000 to \$50,000 with an interest rate of 1.79%, maturing in 2017.	<u>\$ 50,000</u>
\$4,000,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation, due in annual installments of \$140,000 to \$265,000 with an interest rate of 2.00% to 3.75%, maturing in 2034.	<u>\$ 3,710,000</u>

Annual debt services requirements to maturity for governmental activities are as follows:

Year Ended September 30,	Certificates of Obligation		Note Payable	
	Principal	Interest	Principal	Interest
2017	\$ 150,000	\$ 104,156	\$ 50,000	\$ 447
2018	200,000	100,656	-	447
2019	170,000	96,956	-	-
2020	175,000	93,506	-	-
2021	180,000	89,731	-	-
2022-2026	960,000	381,684	-	-
2027-2031	1,110,000	233,563	-	-
2032-2036	765,000	43,476	-	-
	<u>\$ 3,710,000</u>	<u>\$ 1,143,728</u>	<u>\$ 50,000</u>	<u>\$ 894</u>

Long-term debt for business-type activities at September 30, 2016, is comprised of the following:

\$870,000 Series 2012 General Obligation Refunding Bonds, due in annual installments of \$165,000 to \$180,000 with an interest rate of 1.79%, maturing in 2017.	<u>\$ 175,000</u>
\$4,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation, due in annual installments of \$30,000 to \$330,000 with an interest rate of 2.00% to 3.75%, maturing in 2034.	<u>\$ 4,470,000</u>
\$2,400,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation, due in annual installments of \$95,000 to \$150,000 with an interest rate of 2.00% to 3.00%, maturing in 2036.	<u>\$ 2,400,000</u>

Annual debt service requirements to maturity for business-type activities are as follows:

Year Ended September 30,	General Obligation Bonds		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2016	\$ 175,000	\$ 1,566	\$ 125,000	\$ 191,538
2017	-	-	305,000	187,237
2018	-	-	315,000	181,038
2019	-	-	320,000	174,687
2020	-	-	330,000	167,906
2021-2025	-	-	1,760,000	720,487
2026-2030	-	-	2,030,000	450,925
2031-2035	-	-	<u>1,685,000</u>	<u>109,638</u>
	<u>\$ 175,000</u>	<u>\$ 1,566</u>	<u>\$ 6,870,000</u>	<u>\$ 2,183,456</u>

In August 2014, the City issued \$8.5 million in certificates of obligation to finance \$4.5 million in Utility Fund capital improvement projects and \$4 million in General Fund capital improvement projects. This issuance has been done without a current increase in the tax rate.

In March 2016, the City issued \$2.4 million in certificates of obligation to finance \$2.4 million in Utility Fund capital improvement projects.

10. EMPLOYEE BENEFIT PLAN

Plan Description

The City 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 agency 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 Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tMrs.org.

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

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 over 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.

Beginning in 1998, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1998, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	6%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	25 years to any age, 5 years at age 60 and above
Updated service credit	100% Repeating
Annuity increase to retirees	70% of CPI Repeating

The City does participate in Social Security.

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	27
Inactive employees entitled to but not yet receiving benefits	49
Active employees	<u>72</u>
	<u>148</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions 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 were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.07% and 9.00% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$320,484, and were equal to the required contributions.

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%. 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.

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 the 2009 through 2011, and the 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 expenses 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, GRS 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 pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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 target allocation and best estimates of arithmetic real rates return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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%	8.00%
Total	100.0%	

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 period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 11,725,600	\$ 11,293,433	\$ 432,167
Changes for the year:			
Service cost	458,188	-	458,188
Interest	818,762	-	818,762
Difference between expected and actual experience	(519,945)	-	(519,945)
Changes of assumptions	93,818	-	-
Contributions - employer	-	309,670	(309,670)
Contributions - employee	-	204,853	(204,853)
Net investment income	-	16,664	(16,664)
Benefit payments, including refunds of employee contributions	(516,186)	(516,186)	-
Administrative expense	-	(10,150)	10,150
Other changes	-	(502)	502
Net changes	334,637	4,349	330,288
Balance at 12/31/2015	\$ 12,060,237	\$ 11,297,782	\$ 762,455

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-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 2,600,213	\$ 762,455	\$(721,475)

Pension Plan Fiduciary Net Position

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

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 \$395,089.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 27,755	\$ 408,846
Changes in actuarial assumptions	73,771	-
Difference between projected and actual investment earnings	701,395	-
Contributions subsequent to the measurement date	234,862	-
Total	<u>\$ 1,037,783</u>	<u>\$ 408,846</u>

\$234,862 reported as deferred outflows of resources related to pension 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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending December 31,	
2017	\$ 102,881
2018	102,881
2019	95,455
2020	92,858
2021	-
Thereafter	-

11. OTHER POSTEMPLOYMENT BENEFITS

Supplemental Death Benefits Fund

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.

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.

Contributions

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$6,844, \$6,676, and \$6,322, respectively, which equaled the required contributions each year.

12. COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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.

There are other claims and pending actions incident to normal operations of the City. In the opinion of the City management based on consultation with the City's attorney, the City's potential liability in these matters will not have a material impact on the financial statements.

13. 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 has joined together with other governments in the State of Texas to form the Texas Municipal League Intergovernmental Risk Pool (the "Pool"), a public entity risk pool currently operating as a common risk management and insurance program for liability, property and workers' compensation coverages.

The City pays a quarterly contribution to the Pool for its insurance coverage. The agreement for formation of the Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754-5128.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 835,750	\$ 835,750	\$ 856,729	\$ 20,979
Sales	2,775,000	2,775,000	2,941,292	166,292
Franchise	528,000	528,000	518,565	(9,435)
Other	50,000	50,000	57,722	7,722
Licenses and permits	53,350	53,350	33,761	(19,589)
Intergovernmental	474,694	474,694	76,929	(397,765)
Fines and fees	335,000	335,000	320,431	(14,569)
Investment earnings	11,600	11,600	18,778	7,178
Miscellaneous	759,330	759,330	757,909	(1,421)
Total revenue	<u>5,822,724</u>	<u>5,822,724</u>	<u>5,582,116</u>	<u>(240,608)</u>
EXPENDITURES				
General government	1,137,277	1,137,277	1,121,916	15,361
Public safety	3,577,763	3,577,763	3,329,224	248,539
Highways and streets	1,019,606	1,019,606	605,892	413,714
Culture and recreation	82,833	82,833	82,830	3
Total expenditures	<u>5,817,479</u>	<u>5,817,479</u>	<u>5,139,862</u>	<u>677,617</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>5,245</u>	<u>5,245</u>	<u>442,254</u>	<u>437,009</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(227)	(227)
Proceeds from sale of assets	50,000	50,000	-	(50,000)
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>(227)</u>	<u>(50,227)</u>
NET CHANGE IN FUND BALANCE				
	55,245	55,245	442,027	386,782
FUND BALANCE, BEGINNING				
	<u>4,085,766</u>	<u>4,085,766</u>	<u>4,085,766</u>	<u>-</u>
FUND BALANCE, ENDING				
	<u>\$ 4,141,011</u>	<u>\$ 4,141,011</u>	<u>\$ 4,527,793</u>	<u>\$ 386,782</u>

CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

BELLMEAD ECONOMIC DEVELOPMENT CORPORATION - A

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES				
Investment earnings	\$ 45,700	\$ 45,700	\$ 50,211	\$ 4,511
Total revenue	<u>45,700</u>	<u>45,700</u>	<u>50,211</u>	<u>4,511</u>
EXPENDITURES				
Economic development	12,500	12,500	10,517	1,983
Total expenditures	<u>12,500</u>	<u>12,500</u>	<u>10,517</u>	<u>1,983</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>33,200</u>	<u>33,200</u>	<u>39,694</u>	<u>6,494</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(135,700)	(135,700)	(135,950)	(250)
Sale of property	90,000	90,000	90,017	17
Total other financing sources (uses)	<u>(45,700)</u>	<u>(45,700)</u>	<u>(45,933)</u>	<u>(233)</u>
NET CHANGE IN FUND BALANCE	(12,500)	(12,500)	(6,239)	6,261
FUND BALANCE, BEGINNING	<u>1,351,769</u>	<u>1,351,769</u>	<u>1,351,769</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,339,269</u>	<u>\$ 1,339,269</u>	<u>\$ 1,345,530</u>	<u>\$ 6,261</u>

CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

BELLMEAD ECONOMIC DEVELOPMENT CORPORATION - B

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 550,000	\$ 550,000	\$ 588,258	\$ 38,258
Investment earnings	2,500	2,500	3,692	1,192
Miscellaneous	-	-	41,900	41,900
Total revenue	<u>552,500</u>	<u>552,500</u>	<u>633,850</u>	<u>81,350</u>
EXPENDITURES				
Economic development	912,500	912,500	359,899	552,601
Capital outlay	-	-	10,981	(10,981)
Total expenditures	<u>912,500</u>	<u>912,500</u>	<u>370,880</u>	<u>541,620</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(360,000)</u>	<u>(360,000)</u>	<u>262,970</u>	<u>622,970</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>135,700</u>	<u>135,700</u>	<u>135,950</u>	<u>250</u>
Total other financing sources (uses)	<u>135,700</u>	<u>135,700</u>	<u>135,950</u>	<u>250</u>
NET CHANGE IN FUND BALANCE	<u>(224,300)</u>	<u>(224,300)</u>	<u>398,920</u>	<u>623,220</u>
FUND BALANCE, BEGINNING	<u>2,790,827</u>	<u>2,790,827</u>	<u>2,790,827</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,566,527</u>	<u>\$ 2,566,527</u>	<u>\$ 3,189,747</u>	<u>\$ 623,220</u>

CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

HOTEL/MOTEL TAX FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES				
Hotel occupancy tax	\$ 441,800	\$ 441,800	\$ 539,344	\$ 97,544
Rent	45,000	45,000	52,835	7,835
Investment earnings	2,000	2,000	1,301	(699)
Total revenue	<u>488,800</u>	<u>488,800</u>	<u>593,480</u>	<u>104,680</u>
EXPENDITURES				
Culture and recreation	518,029	518,029	453,564	64,465
Capital outlay	42,000	42,000	4,604	37,396
Total expenditures	<u>560,029</u>	<u>560,029</u>	<u>458,168</u>	<u>101,861</u>
NET CHANGE IN FUND BALANCE	(71,229)	(71,229)	135,312	206,541
FUND BALANCE, BEGINNING	<u>1,285,977</u>	<u>1,285,977</u>	<u>1,285,977</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,214,748</u>	<u>\$ 1,214,748</u>	<u>\$ 1,421,289</u>	<u>\$ 206,541</u>

CITY OF BELLMEAD, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Plan Year	<u>2014</u>	<u>2015</u>
A. Total pension liability		
Service Cost	\$ 389,742	\$ 458,188
Interest (on the Total Pension Liability)	767,022	818,762
Change of benefit terms	-	-
Difference between expected and actual experience	51,209	(519,945)
Change of assumptions	-	93,818
Benefit payments, including refunds of employee contributions	(489,931)	(516,186)
Net change in total pension liability	718,042	334,637
Total pension liability - beginning	<u>11,007,558</u>	<u>11,725,600</u>
Total pension liability - ending (a)	<u>\$ 11,725,600</u>	<u>\$ 12,060,237</u>
B. Plan fiduciary net position		
Contributions - employer	\$ 262,945	\$ 309,670
Contributions - employee	195,254	204,853
Net investment income	613,170	16,664
Benefit payments, including refunds of employee contributions	(489,931)	(516,186)
Administrative expenses	(6,402)	(10,150)
Other	<u>(526)</u>	<u>(502)</u>
Net change in plan fiduciary net position	574,510	4,349
Plan fiduciary net position - beginning	<u>10,718,923</u>	<u>11,293,433</u>
Plan fiduciary net position - ending (b)	<u>\$ 11,293,433</u>	<u>\$ 11,297,782</u>
C. Net pension liability - ending (a) - (b)	<u>\$ 432,167</u>	<u>\$ 762,455</u>
D. Plan fiduciary net position as a percentage of total pension liability	96.31%	93.68%
E. Covered employee payroll	\$ 3,254,228	\$ 3,414,216
F. Net position liability as a percentage of covered employee payroll	13.28%	22.33%

CITY OF BELLMEAD, TEXAS
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Fiscal Year	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarial determined contribution	\$ 260,868	\$ 297,841	\$ 320,484
Contributions in relation to the actuarially determined contribution	<u>260,868</u>	<u>297,841</u>	<u>320,484</u>
Contribution deficiency (excess)	-	-	-
Covered employee payroll	3,192,687	3,383,497	3,552,338
Contributions as a percentage of covered employee payroll	8.17%	8.80%	9.02%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date 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	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% 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 of with BB.

Other Information There were no benefit changes during the year.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2016
(Unaudited)

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The City Manager has the authority to transfer appropriations within departmental accounts. The City Council, however, must approve any interdepartmental transfer of unencumbered appropriation balances or portions thereof as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.
5. Annual budgets are only adopted for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles ("GAAP"). There are no legally mandated budgetary constraints for the proprietary funds, however a budget is adopted for the proprietary fund annually as a management tool and for purposes of planning revenue bond repayment in accordance with bond covenants.
6. The budgetary data presented has not been amended from the original budget by the City Council. There were no significant supplemental appropriations necessary during the year.
7. Expenditures did not exceed appropriations in the General Fund. Expenditures did not exceed appropriations in the EDC A Fund. Expenditures exceeded appropriations in the capital outlay function in the EDC B Fund. Expenditures did not exceed appropriations in the Hotel/Motel Tax Fund.

**OTHER SUPPLEMENTARY
INFORMATION**

CITY OF BELLMEAD, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	<u>Special Revenue</u> <u>Court Technology</u>	<u>Debt</u> <u>Service</u>	<u>Total</u> <u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 14,505	\$ 258,053	\$ 272,558
Receivables (net of allowance for uncollectibles)	-	44,863	44,863
Due from other funds	<u>31,225</u>	<u>3,865</u>	<u>35,090</u>
Total assets	\$ <u>45,730</u>	\$ <u>306,781</u>	\$ <u>352,511</u>
LIABILITIES			
Due to other funds	\$ -	\$ 3,396	\$ 3,396
Total liabilities	<u>-</u>	<u>3,396</u>	<u>3,396</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	<u>-</u>	<u>43,763</u>	<u>43,763</u>
Total deferred inflows of resources	<u>-</u>	<u>43,763</u>	<u>43,763</u>
FUND BLANCES			
Restricted for:			
Court technology	45,730	-	45,730
Debt service	<u>-</u>	<u>259,622</u>	<u>259,622</u>
Total fund balances	<u>45,730</u>	<u>259,622</u>	<u>305,352</u>
Total liabilities, deferred inflows of resources and fund balances	\$ <u>45,730</u>	\$ <u>306,781</u>	\$ <u>352,511</u>

CITY OF BELLMEAD, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Special Revenue</u>	<u>Debt</u>	<u>Total</u>
	<u>Court Technolgy</u>	<u>Service</u>	<u>Nonmajor</u>
			<u>Governmental</u>
			<u>Funds</u>
REVENUES			
Taxes:			
Property	\$ -	304,042	\$ 304,042
Investment earnings	-	1,128	1,128
Miscellaneous	<u>12,098</u>	<u>-</u>	<u>12,098</u>
Total revenues	<u>12,098</u>	<u>305,170</u>	<u>317,268</u>
EXPENDITURES			
Debt service:			
Principal	-	195,000	195,000
Interest and other charges	<u>-</u>	<u>109,001</u>	<u>109,001</u>
Total expenditures	<u>-</u>	<u>304,001</u>	<u>304,001</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>12,098</u>	<u>1,169</u>	<u>13,267</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	32,094	32,094
Premium on bonds issued	<u>-</u>	<u>4,596</u>	<u>4,596</u>
Total other financing sources (uses)	<u>-</u>	<u>36,690</u>	<u>36,690</u>
NET CHANGE IN FUND BALANCE	12,098	37,859	49,957
FUND BALANCE, BEGINNING	<u>33,632</u>	<u>221,763</u>	<u>255,395</u>
FUND BALANCE, ENDING	<u>\$ 45,730</u>	<u>\$ 259,622</u>	<u>\$ 305,352</u>

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