

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF WOODCREEK, TEXAS**

**For the Year Ended  
September 30, 2017**

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# CITY OF WOODCREEK, TEXAS

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September 30, 2017

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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
City Council Members of the  
City of Woodcreek, Texas:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Woodcreek, Texas (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **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. 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 auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the City as of September 30, 2017, and the respective changes in financial position 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 schedule of contributions, identified as Required Supplementary Information on the table of contents, 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.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
May 7, 2018

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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**CITY OF WOODCREEK, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2017**

The Statement of Net Position and the Statement of Activities present the City's financials as one class of activities:

1. *Governmental Activities* – The City's basic services, for general government, are reported here. Property tax, sales tax, and franchise taxes finance most of these activities.

The government-wide financial statements can be found after the MD&A.

## **FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The one category of City funds is governmental.

### **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 the City'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 City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is always considered a major fund for reporting purposes.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

### **Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

### **Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and a schedule of changes in net pension liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

**CITY OF WOODCREEK, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2017

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,420,495 at year end. A portion of the City's net position, 18 percent, reflects its investments in capital assets (e.g. land and City hall, etc.) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	<b>Governmental Activities</b>	
	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 2,526,733	\$ 1,215,783
Net pension asset	1,234	2,545
Capital assets, net	259,432	148,647
<b>Total Assets</b>	<b>2,787,399</b>	<b>1,366,975</b>
Deferred outflows - pensions	7,804	9,087
<b>Total Deferred Outflows of Resources</b>	<b>7,804</b>	<b>9,087</b>
Long-term liabilities	1,352,000	-
Other liabilities	23,333	17,799
<b>Total Liabilities</b>	<b>1,375,333</b>	<b>17,799</b>
<b>Total Deferred Inflows of Resources</b>	<b>(625)</b>	<b>2,123</b>
<b>Net Position:</b>		
Investment in capital assets	259,432	148,647
Unrestricted	1,161,063	1,207,493
<b>Total Net Position</b>	<b>\$ 1,420,495</b>	<b>\$ 1,356,140</b>

A portion of the primary government's net position, \$259,432 or 18 percent, represents the City's current investment in capital assets. The remaining balance of net position, \$1,161,063 or 82 percent, is unrestricted and may be used to meet the City's ongoing obligation to citizens and creditors.

**CITY OF WOODCREEK, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended September 30, 2017

**Statement of Activities:**

The following table provides a summary of the City's changes in net position:

	Governmental Activities	
	2017	2016
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 16,583	\$ -
General revenues:		
Property taxes	233,501	226,056
Sales taxes	47,561	45,961
Franchise and local taxes	176,754	175,805
Investment income	4,157	4,246
Other revenues	26,707	23,018
<b>Total Revenues</b>	<b>505,263</b>	<b>475,086</b>
<b>Expenses</b>		
General government	390,511	326,753
Interest fees on debt	50,397	-
<b>Total Expenses</b>	<b>440,908</b>	<b>326,753</b>
<b>Change in Net Position</b>	64,355	148,333
Beginning net position	1,356,140	1,207,807
<b>Ending Net Position</b>	<b>\$ 1,420,495</b>	<b>\$ 1,356,140</b>

For the year ended September 30, 2017, revenues from governmental activities totaled \$505,263. Overall, governmental revenues increased by 6 percent mainly due to increases in charges for services related to developer fees and increased property tax revenue caused by an increase in property valuations.

For the year ended September 30, 2017, expenses for governmental activities totaled \$440,908, which is an increase of \$114,155 or three percent. This increase is mainly due to additional administrative expenses, along with the cost of the City's debt issuance in fiscal year 2017 of the series 2017 tax notes.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Fund** – The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The City's governmental fund reflects a total fund balance of \$2,495,009. Of the total governmental fund balance, \$1,432,000 is restricted for street repair and the remaining balance of \$1,063,009 is unassigned. The

**CITY OF WOODCREEK, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2017**

fund fund balance increased by \$1,305,333. This increase was mainly due to bond proceeds from the series 2017 tax notes issuance, along with an increase in property and franchise tax revenue.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$1,063,009, while total fund balance reached \$2,495,009. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 193% percent of total general fund expenditures, while total fund balance represents 452% percent of that same amount.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

For the year, the general fund had a positive budget variance of \$1,357,628 from the final budget. This variance was primarily due the issuance of the series 2017 tax notes, along with the City spending less than budgeted for municipal court expenses. The City's actual revenues exceeded budgeted revenues by \$2,870 with the largest positive variance in franchise and other taxes.

**CAPITAL ASSETS**

At the end of the year, the City's governmental activities had invested \$259,432, in a variety of capital assets (net of accumulated depreciation). This represents a net increase of \$3,026 compared to last year.

Major capital asset events during the year included the following:

- Beginning road replacement project for \$107,759

More detailed information about the City's capital assets is presented in note III.B. to the financial statements.

**LONG-TERM DEBT**

At the end of the current year, the City had total tax notes outstanding of \$1,352,000. This balance is related to the Series 2017 Tax Notes that the City issued at the end of the fiscal year.

More detailed information about the City's long-term debt is presented in note III.C to the financial statements.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Manager, City of Woodcreek, 41 Champion Circle, Wimberly, Texas, 78676; telephone 512-847-9390.

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF WOODCREEK, TEXAS

## STATEMENT OF NET POSITION

September 30, 2017

	<u>Primary Government Governmental Activities</u>
<b><u>Assets</u></b>	
Current assets:	
Cash and cash equivalents	\$ 2,421,238
Receivables (net of allowance for uncollectable)	105,495
	<u>2,526,733</u>
Noncurrent assets:	
Net pension asset	1,234
Nondepreciable capital assets	145,609
Net depreciable capital assets	113,823
	<u>260,666</u>
<b>Total Assets</b>	<u>2,787,399</u>
<b><u>Deferred Outflow of Resources</u></b>	
Deferred outflows - pensions	<u>7,804</u>
<b><u>Liabilities</u></b>	
Current liabilities:	
Accounts payable and accrued liabilities	23,333
	<u>23,333</u>
Noncurrent liabilities:	
Long-term liabilities due within one year	126,000
Long-term liabilities due in more than one year	1,226,000
	<u>1,352,000</u>
<b>Total Liabilities</b>	<u>1,375,333</u>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred inflows - pensions	<u>(625)</u>
<b><u>Net Position</u></b>	
Investment in capital assets	259,432
Unrestricted	1,161,063
<b>Total Net Position</b>	<u>\$ 1,420,495</u>

See Notes to Financial Statements.

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# CITY OF WOODCREEK, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position Governmental Activities
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 390,511	\$ 16,583	\$ (373,928)
Interest and fiscal charges	50,397	-	(50,397)
<b>Total Governmental Activities</b>	<b>\$ 440,908</b>	<b>\$ 16,583</b>	<b>(424,325)</b>
 <b>General Revenues:</b>			
Taxes			
Property taxes			233,501
Sales tax			47,561
Franchise and local taxes			176,754
Investment income			4,157
Other revenue			26,707
		<b>Total General Revenues</b>	<b>488,680</b>
		<b>Change in Net Position</b>	<b>64,355</b>
		Beginning net position	1,356,140
		<b>Ending Net Position</b>	<b>\$ 1,420,495</b>

See Notes to Financial Statements.

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# CITY OF WOODCREEK, TEXAS

## BALANCE SHEET GOVERNMENTAL FUND

September 30, 2017

	<u>General</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 2,421,238
Receivables, net	105,495
<b>Total Assets</b>	<b><u>\$ 2,526,733</u></b>
<b><u>Liabilities</u></b>	
Accounts payable and accrued liabilities	<u>\$ 23,333</u>
<b>Total Liabilities</b>	<b><u>23,333</u></b>
<b><u>Deferred Inflows of Resources</u></b>	
Unavailable revenue - property taxes	<u>8,391</u>
<b><u>Fund Balance</u></b>	
Restricted	
Street repair	1,432,000
Unassigned	1,063,009
<b>Total Fund Balance</b>	<b><u>2,495,009</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b><u>\$ 2,526,733</u></b>

See Notes to Financial Statements.

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**CITY OF WOODCREEK, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
September 30, 2017

Total fund balance for governmental fund		\$	2,495,009
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.</p>			
Capital assets - nondepreciable			145,609
Capital assets - net depreciable			113,823
			259,432
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.</p>			
			8,391
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>			
Net pension asset			1,234
Deferred outflows - pensions			7,804
Deferred inflows - pensions			625
Noncurrent liabilities due in one year			(126,000)
Noncurrent liabilities due in more than one year			(1,226,000)
			(1,342,337)
<b>Net Position of Governmental Activities</b>			<b>\$ 1,420,495</b>

See Notes to Financial Statements.

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# CITY OF WOODCREEK, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUND

For the Year Ended September 30, 2017

	<u>General</u>
<b><u>Revenues</u></b>	
Property taxes	\$ 233,418
Sales tax	47,561
Franchise and local taxes	176,754
Investment income	4,157
Other revenue	26,707
<b>Total Revenues</b>	<u>505,180</u>
<b><u>Expenditures</u></b>	
<b>Current:</b>	
General government:	384,914
Capital Outlay	116,536
<b>Debt Service:</b>	
Interest and fiscal charges	50,397
<b>Total Expenditures</b>	<u>551,847</u>
<b><u>Other Financing Sources (Uses)</u></b>	
Debt issued	1,352,000
<b>Total Other Financing Sources</b>	<u>1,352,000</u>
<b>Net Change in Fund Balance</b>	1,305,333
Beginning fund balances	1,189,676
<b>Ending Fund Balance</b>	<u><u>\$ 2,495,009</u></u>

See Notes to Financial Statements.

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**CITY OF WOODCREEK, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2017**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balance - governmental fund	\$ 1,305,333
<p>The governmental fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	116,536
Depreciation expense	(5,751)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.</p>	
Net pension asset	(1,311)
Deferred outflows - pensions	(1,283)
Deferred inflows - pensions	2,748
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental fund. Neither transaction, however, has any effect on net position. Also, the governmental fund reports the effect of premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Tax notes issued	(1,352,000)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 64,355</b>

See Notes to Financial Statements.

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# **CITY OF WOODCREEK, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2017**

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

The City of Woodcreek, Texas (the "City") was incorporated under the laws of the State of Texas on August 11, 1984. The City is a general law type-A city that operates under a council-mayor form of government. The City Council is the principal legislative body of the City.

The City provides the following services: street maintenance, area beautification, code enforcement, building inspection and general administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

#### **B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. Governmental activities are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

#### **C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities incorporates data from the governmental fund. Separate financial statements are provided for the governmental fund.

#### **D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's fund. Separate statements for each fund category, governmental, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

The City reports the following governmental fund:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes and sales and franchise taxes. Expenditures include general government activity. The general fund is always considered a major fund for reporting purposes.

**E. Measurement Focus and Basis of Accounting**

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

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

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

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

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

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

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government or U.S. Government agencies
- Fully collateralized certificates of deposit
- Money market mutual funds that meet certain criteria
- Bankers' acceptances
- Statewide investment pools

**3. Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the City are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 7 years

**4. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred charges have been recognized for the changes in actuarial assumptions related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2017**

expected service lives of pension plan members. Deferred charges have been recognized as a result of the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction or increase to the net pension asset during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized as a result of differences between the actuarial expectations and the actual economic experience. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental fund balance sheet. The governmental fund reports unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**5. Long-Term Obligations**

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 effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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.

**6. Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted debt 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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.



**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

**7. Fund Balance Flow Assumptions**

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

**8. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**9. 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, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**9. Pensions**

For the purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2017**

position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' 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.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The City follows these procedures in establishing the budgetary data reflected in the financial statements: The City Manager submits to the Council a proposed budget. The Council holds a public hearing on the budget submitted, and all interested persons are given an opportunity to be heard for or against any item or the amount of any item contained therein. After the conclusion of the public hearing, the council may insert new items or may increase or decrease the items of the budget, except items in proposed expenditures fixed by law, but where it increases the total proposed expenditures, it also provides for an increase in the total anticipated revenue to at least equal such total proposed expenditures. The budget is adopted by a majority vote of the members of the whole Council. The budget must be adopted no later than the 15th of September. Should the Council take no final action on or prior to such day, the budget as submitted by the City Manager shall be deemed to have been finally adopted by the Council. The City Manager may at any time transfer any unencumbered appropriation balance or portion thereof between general classifications or expenditures within an office, department, or fund. Therefore, expenditures should not exceed appropriations at the fund level. The Council may transfer any unencumbered appropriation balance or portion thereof from one office, department or fund to another through formal budget amendments. Unencumbered appropriations lapse at year end. An annual budget is prepared for the General fund.

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2017, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Texas CLASS	\$ 26,204	0.00
Total Value	\$ 26,204	
Portfolio weighted average maturity		0.00

*Credit risk.* The City’s policy requires that investment pools must be rated no lower than ‘AAA’ or ‘AAA-m’. As of September 30, 2017, the City’s investments in Texas CLASS was rated ‘AAAm’ by Standard & Poor’s.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that the City’s deposits may not be returned in the event of a bank failure. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2017, fair market values of pledged securities and FDIC coverage exceeded bank balances.

**Texas CLASS**

The Texas Cooperative Liquid Assets Securities System Trust – Texas (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the “Agreement”), among certain Texas governmental entities investing in CLASS (the “Participants”), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the “Board”), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS’ website at [www.texasclass.com](http://www.texasclass.com).

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

**B. Capital Assets**

A summary of changes in capital assets for governmental activities for the year end is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 37,850	\$ -	\$ -	\$ 37,850
Construction in progress	-	107,759	-	107,759
<b>Total capital assets not being depreciated</b>	<u>37,850</u>	<u>107,759</u>	<u>-</u>	<u>145,609</u>
Other capital assets:				
Buildings and improvements	287,546	8,777	-	296,323
Machinery and equipment	26,927	-	-	26,927
<b>Total other capital assets</b>	<u>314,473</u>	<u>8,777</u>	<u>-</u>	<u>323,250</u>
Less accumulated depreciation for:				
Buildings and improvements	(179,188)	(3,019)	-	(182,207)
Machinery and equipment	(24,488)	(2,732)	-	(27,220)
Infrastructure	-	-	-	-
Interest fees on debt	110,797	3,026	-	113,823
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 148,647</u>	<u>\$ 110,785</u>	<u>\$ -</u>	<u>\$ 259,432</u>

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

**C. Long-Term Debt**

The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general fund to liquidate governmental long-term liabilities.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds Payable					
Tax Note Series 2017	\$ -	\$ 1,352,000	\$ -	\$ 1,352,000	\$ 126,000
Other liabilities:					
Net pension asset	2,545	-	(1,311)	1,234	-
<b>Total Governmental Activities</b>	<u>\$ 2,545</u>	<u>\$ 1,352,000</u>	<u>\$ (1,311)</u>	<u>\$ 1,353,234</u>	<u>\$ 126,000</u>
				<u>\$ 1,227,234</u>	
				<b>Long-term liabilities due in more than one year</b>	

**Federal Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

**IV. OTHER INFORMATION**

**A. 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; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

**B. Contingent Liabilities**

Amounts received or receivable from granting 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 amounts of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**C. Pension Plan**

**Texas Municipal Retirement System**

**Plan Description**

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at [www.tmr.com](http://www.tmr.com).

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 one of seven payment 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 percent of the member's deposits and interest.

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<b>2017</b>	<b>2016</b>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as ages/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to, but not yet receiving, benefits	4
Active employees	3
<b>Total</b>	<b>9</b>

Contributions

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

Employees for the City were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.97 percent and 2.92 percent in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017, were \$3,931, which were equal to the required contributions.

Net Pension Asset

The City's Net Pension Asset (NPA) was measured as of December 31, 2016 and the Total Pension Liability (TPL) used to calculate the NPA was determined by an actuarial valuation as of that date.

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2017**

Actuarial Assumptions

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% 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 percent and female rates multiplied by 103 percent. 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 male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent 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 three percent floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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



**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
<b>Total</b>	<u><u>100.00%</u></u>	

Discount Rate

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

Changes in the NPA

	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability (Asset) (A) - (B)</u>
Changes for the year:			
Service cost	\$ 9,829	\$ -	\$ 9,829
Interest	6,268	-	6,268
Difference between expected and actual experience	1,117	-	1,117
Contributions - employer	-	3,561	(3,561)
Contributions - employee	-	6,097	(6,097)
Net investment income	-	6,320	(6,320)
Benefit payments, including refunds of employee contributions	(6,065)	(6,065)	-
Administrative expense	-	(71)	71
Other changes	-	(4)	4
<b>Net Changes</b>	<u>11,149</u>	<u>9,838</u>	<u>1,311</u>
Balance at December 31, 2015	90,970	93,515	(2,545)
<b>Balance at December 31, 2016</b>	<u><u>\$ 102,119</u></u>	<u><u>\$ 103,353</u></u>	<u><u>\$ (1,234)</u></u>

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

Sensitivity of the NPL/NPA to Changes in the Discount Rate

The following presents the NPA of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPA would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point 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/(Asset)	\$ 6,740	\$ (1,234)	\$ (8,113)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$1,811.

At September 30, 2017, 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	\$ -	\$ 625
Difference between projected and actual investment earnings	4,241	-
Contributions subsequent to the measurement date	2,938	-
<b>Total</b>	<b>\$ 7,179</b>	<b>\$ 625</b>

\$2,938 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPA for the fiscal year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year End September 30:	Pension Expense
2018	\$ 1,982
2019	1,620
2020	1,264
<b>Total</b>	<b>\$ 4,866</b>

**CITY OF WOODCREEK, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2017

**D. Other Post-Employment Benefits**

**TMRS Supplemental Death Benefits Fund**

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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 post employment benefit," or OPEB. For the year ended September 30, 2016, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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

The City's contributions to the TMRS SDBF, for the fiscal year ended September 30, 2016 was \$76, which equaled the required contribution. The City's contribution rates for the past three years are shown below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Req. Contrib. (Rate)	0.07%	0.07%	0.06%
Actual Contribution Made	0.07%	0.07%	0.06%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**CITY OF WOODCREEK, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended September 30, 2017

	Original Budget	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 220,840	\$ 233,500	\$ 233,418	\$ (82)
Sales tax	41,500	47,290	47,561	271
Franchise and other taxes	164,100	173,670	176,754	3,084
Charges for services	16,500	16,500	16,583	83
Investment income	4,000	4,000	4,157	157
Other revenue	21,250	27,350	26,707	(643)
<b>Total Revenues</b>	468,190	502,310	505,180	2,870
<b>Expenditures</b>				
<b>Current:</b>				
General government:				
Personnel services	162,270	155,300	154,905	395
Professional services	43,750	65,436	65,317	119
Area care/ maintenance	85,500	75,300	75,252	48
Office expenses	16,900	17,520	17,219	301
Municipal court	35,600	35,100	33,819	1,281
Utilitites	9,300	9,100	8,690	410
Insurance	2,900	2,908	2,908	-
Other operating expense	101,790	26,804	26,804	-
Capital Outlay	90,000	116,740	116,536	204
<b>Debt Service:</b>				
Interest and fiscal charges	-	50,397	50,397	-
<b>Total Expenditures</b>	458,010	\$ 554,605	\$ 551,847	\$ 2,758
<b>Other Financing Sources</b>				
Debt issued	-	-	1,352,000	1,352,000
<b>Total Other Financing Sources</b>	-	-	1,352,000	1,352,000
<b>Change in Fund Balance</b>	\$ (6,320)	\$ (52,295)	1,305,333	\$ 1,357,628
Beginning fund balance			1,189,676	
<b>Ending Fund Balance</b>			\$ 2,495,009	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF WOODCREEK, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
For the Year Ended September 30, 2017

	Measurement Year*		
	2014	2015	2016
<b>Total Pension Liability</b>			
Service cost	\$ 5,994	\$ 7,223	\$ 9,829
Interest (on the total pension liability)	5,516	6,100	6,268
Difference between expected and actual experience	2,304	(4,509)	1,117
Change in assumptions	-	1,661	-
Benefit payments, including refunds of employee contributions	(6,104)	(6,065)	(6,065)
<b>Net Change in Total Pension Liability</b>	<u>7,710</u>	<u>4,410</u>	<u>11,149</u>
Beginning total pension liability	<u>78,850</u>	<u>86,560</u>	<u>90,970</u>
<b>Ending Total Pension Liability</b>	<u>\$ 86,560</u>	<u>\$ 90,970</u>	<u>\$ 102,119</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - employer	\$ 1,547	\$ 2,665	\$ 3,561
Contributions - employee	4,225	4,486	6,097
Net investment income	5,019	136	6,320
Benefit payments, including refunds of employee contributions	(6,104)	(6,065)	(6,065)
Administrative expense	(52)	(83)	(71)
Other	(4)	(4)	(4)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>4,631</u>	<u>1,135</u>	<u>9,838</u>
Beginning plan fiduciary net position	<u>87,749</u>	<u>92,380</u>	<u>93,515</u>
<b>Ending Plan Fiduciary Net Position</b>	<u>\$ 92,380</u>	<u>\$ 93,515</u>	<u>\$ 103,353</u>
<b>Net Pension (Asset)</b>	<u>\$ (5,820)</u>	<u>\$ (2,545)</u>	<u>\$ (1,234)</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	106.72%	102.80%	101.21%
<b>Covered Employee Payroll</b>	\$ 84,492	\$ 89,729	\$ 121,945
<b>City's Net Pension (Asset) as a Percentage of Covered Employee Payroll</b>	(6.89%)	(2.84%)	(1.01%)

\*Only three years of information is currently available. The City will build this schedule over the next seven-year period.

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**CITY OF WOODCREEK, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**For the Year Ended September 30, 2017**

	Fiscal Year*		
	2015	2016	2017
Actuarially determined contribution	\$ 2,665	\$ 3,200	\$ 3,931
Contributions in relation to the actuarially determined contribution	2,665	3,200	3,931
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 89,729	\$ 109,241	\$ 140,063
Contributions as a percentage of covered employee payroll	2.97%	2.93%	2.81%

\*Only three years of information is currently available. The City will build this schedule over the next seven-year period.

**Notes to Required Supplementary Information:**

**1. Valuation Date:**

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

**2. Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
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 with scale BB.

**3. Other Information:**

There were no benefit changes during the year.

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