

ANNUAL FINANCIAL REPORT

of the

CITY OF WOODCREEK, TEXAS

**For the Year Ended
September 30, 2016**

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CITY OF WOODCREEK, TEXAS

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September 30, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2016, 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 4, 2017

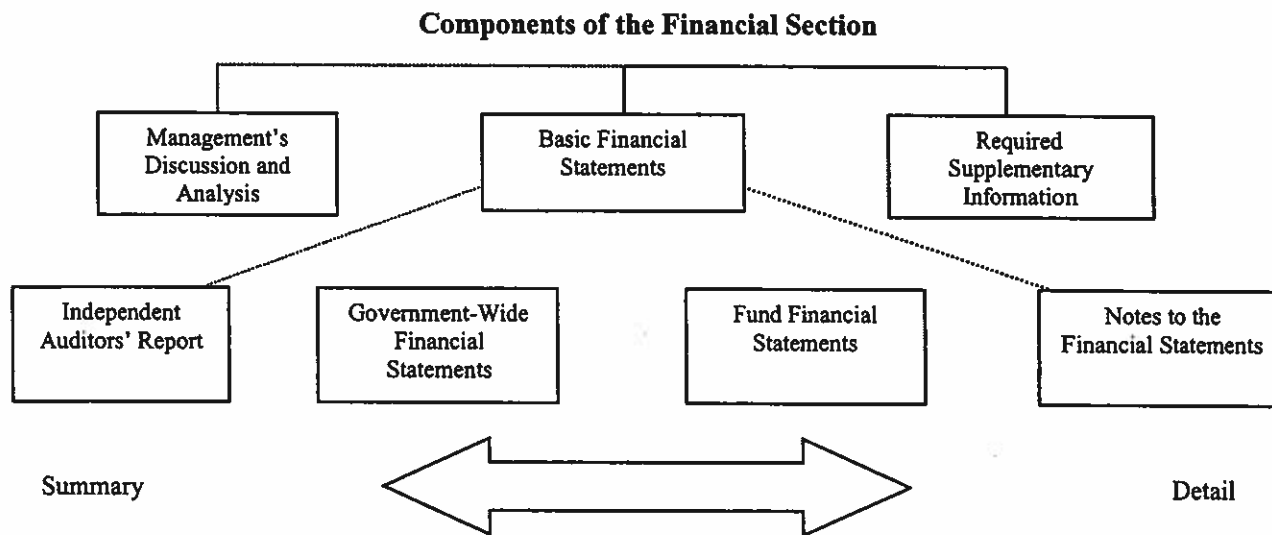
MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF WOODCREEK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended September 30, 2016

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Woodcreek, Texas (the "City") for the year ending September 30, 2016. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statement themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent 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 – the accrual method rather than modified accrual that is used in the fund level statements.

CITY OF WOODCREEK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

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 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 the 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, 2016

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 \$1,356,140 at year end. A portion of the City's net position, 11 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:

	Governmental Activities	
	2016	2015
Current and other assets	\$ 1,215,783	\$ 1,082,411
Net pension asset	2,545	5,820
Capital assets, net	148,647	144,133
Total Assets	1,366,975	1,232,364
Deferred outflows - pension	9,087	6,101
Total Deferred Outflows of Resources	9,087	6,101
Other liabilities	17,799	30,658
Total Liabilities	17,799	30,658
Deferred inflows - pension	2,123	-
Total Deferred Inflows of Resources	2,123	-
Net Position:		
Investment in capital assets	148,647	144,133
Unrestricted	1,207,493	1,063,674
Total Net Position	\$ 1,356,140	\$ 1,207,807

The remaining balance of net position, \$1,207,493 or 89 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, 2016

Statement of Activities:

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

	Governmental Activities	
	2016	2015
Revenues		
General revenues:		
Property taxes	\$ 226,056	\$ 196,739
Sales taxes	45,961	36,862
Franchise and local taxes	175,805	155,170
Investment income	4,246	2,236
Other revenues	23,018	36,138
Total Revenues	475,086	427,145
Expenses		
General government	326,753	335,042
Total Expenses	326,753	335,042
Change in Net Position	148,333	92,103
Beginning net position	1,207,807	1,115,704
Ending Net Position	\$ 1,356,140	\$ 1,207,807

For the year ended September 30, 2016, revenues from governmental activities totaled \$475,086. Overall, governmental revenues increased by 11 percent mainly due to increases in property tax revenue and franchise revenue.

For the year ended September 30, 2016, expenses for governmental activities totaled \$326,753, which is a decrease of \$8,289 or three percent. This decrease is mainly due to lower fees paid for professional services than last fiscal year.

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 \$1,189,676. Of the total governmental fund balance, \$80,000 is assigned for street repair and the remaining balance of \$1,109,676 is unassigned. The governmental fund balance increased by \$137,923 or 13 percent. This increase was mainly due to an increase in property and franchise tax and a decrease in overall operating expenses.

CITY OF WOODCREEK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year, the general fund had a positive budget variance of \$28,323 from the final budget. This variance was primarily due to the City spending less than budgeted for professional services and municipal court expenses. The City's actual revenues exceeded budgeted revenues by \$18,598 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 \$148,647, in a variety of capital assets (net of accumulated depreciation). This represents a net increase of \$4,514 compared to last year.

Major capital asset events during the year included the following:

- Replacement of HVAC units at City hall for \$12,818

More detailed information about the City's capital assets is presented in note III.B. 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, 2016

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 1,120,723
Receivables (net of allowance for uncollectable)	95,060
	<u>1,215,783</u>
Noncurrent assets:	
Net pension asset	2,545
Non-depreciable capital assets	37,850
Net depreciable capital assets	110,797
	<u>151,192</u>
Total Assets	<u>1,366,975</u>
<u>Deferred Outflow of Resources</u>	
Deferred outflows - pension	<u>9,087</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	17,799
Total Liabilities	<u>17,799</u>
<u>Deferred Inflows of Resources</u>	
Deferred inflows - pension	<u>2,123</u>
<u>Net Position</u>	
Investment in capital assets	148,647
Unrestricted	1,207,493
Total Net Position	<u>\$ 1,356,140</u>

See Notes to Financial Statements.

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CITY OF WOODCREEK, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Position
Primary Government Governmental Activities		Governmental Activities
General government	\$ 326,753	\$ (326,753)
Total Governmental Activities	\$ 326,753	\$ (326,753)
	General Revenues:	
	Taxes	
	Property taxes	\$ 226,056
	Sales tax	45,961
	Franchise and local taxes	175,805
	Investment income	4,246
	Other revenue	23,018
	Total General Revenues	475,086
	Change in Net Position	148,333
Beginning net position		1,207,807
	Ending Net Position	\$ 1,356,140

See Notes to Financial Statements.

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CITY OF WOODCREEK, TEXAS

BALANCE SHEET

GOVERNMENTAL FUND

September 30, 2016

	<u>General</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 1,120,723
Receivables, net	95,060
Total Assets	\$ 1,215,783
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 17,799
Total Liabilities	17,799
<u>Deferred Inflows of Resources</u>	
Unavailable revenue - property taxes	8,308
<u>Fund Balance</u>	
Assigned	
Street repair	80,000
Unassigned	1,109,676
Total Fund Balance	1,189,676
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,215,783

See Notes to Financial Statements.

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

Total fund balances for governmental fund		\$	1,189,676
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.</p>			
Capital assets - non-depreciable			37,850
Capital assets - net depreciable			110,797
			148,647
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental fund.</p>			
			8,308
<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			2,545
Deferred outflows - pension			9,087
Deferred inflows - pension			(2,123)
			9,509
Net Position of Governmental Activities		\$	1,356,140

See Notes to Financial Statements.

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CITY OF WOODCREEK, TEXAS

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

For the Year Ended September 30, 2016

	<u>General</u>
<u>Revenues</u>	
Property taxes	\$ 217,748
Sales tax	45,961
Franchise and local taxes	175,805
Investment income	4,246
Other revenue	23,018
Total Revenues	<u>466,778</u>
<u>Expenditures</u>	
Current:	
General government	328,855
Total Expenditures	<u>328,855</u>
Net Change in Fund Balances	137,923
Beginning fund balances	1,051,753
Ending Fund Balances	<u>\$ 1,189,676</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, 2016

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

Net changes in fund balance - governmental fund	\$	137,923
<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		12,818
Depreciation expense		(8,304)
<p>Revenues that do not provide current financial resources are not reported as revenues in the fund.</p>		
		8,308
<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		(3,275)
Deferred outflows - pension		3,964
Deferred inflows - pension		(3,101)
Change in Net Position of Governmental Activities	\$	<u>148,333</u>

See Notes to Financial Statements.

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CITY OF WOODCREEK, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

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 funds. 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 funds. 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, 2016

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, 2016

2. Investments

Investments, except money market funds, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported net asset value. Money market investments are reported at amortized 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
- 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 estimated fair market 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 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

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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. 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.

6. 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.

7. 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.

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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.

8. 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 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.

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Texas CLASS	\$ 25,935	0.00
Total Value	\$ 25,935	
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, 2016, the City’s investments in Texas CLASS was rated ‘AAAm’ by Standard & Poor’s.

Texas CLASS

Texas CLASS is an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. CLASS was created in 1996 by contract among participating governmental units and is governed by a board of trustees that is elected annually. The Board of Trustees (the “Board”) administers the affairs of CLASS and acts as the liaison between the participants, the Custodian, and the Program Administrator. Additionally, the Board has established an advisory board composed of both participants in CLASS and other persons who do not have a business relationship with CLASS. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates CLASS “AAAm”.

Texas CLASS is measured at net asset value (NAV). Texas CLASS’s strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The City has no unfunded commitments related to the investment pool. Texas

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

CLASS has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of general suspensions of trading on major securities markets, general banking moratorium or a natural or state emergency that affects the pool's liquidity. Additional information about Texas CLASS can be found online at www.texasclass.com.

B. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 37,850	\$ -	\$ -	\$ 37,850
Total capital assets not being depreciated	<u>37,850</u>	<u>-</u>	<u>-</u>	<u>37,850</u>
Other capital assets:				
Buildings and improvements	274,728	12,818	-	287,546
Machinery and equipment	26,927	-	-	26,927
Total other capital assets	<u>301,655</u>	<u>12,818</u>	<u>-</u>	<u>314,473</u>
Less accumulated depreciation for:				
Buildings and improvements	(173,502)	(5,686)	-	(179,188)
Machinery and equipment	(21,870)	(2,618)	-	(24,488)
Total accumulated depreciation	<u>(195,372)</u>	<u>(8,304)</u>	<u>-</u>	<u>(203,676)</u>
Other capital assets, net	106,283	4,514	-	110,797
Governmental Activities Capital Assets, Net	<u>\$ 144,133</u>	<u>\$ 4,514</u>	<u>\$ -</u>	<u>\$ 148,647</u>

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.

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

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of 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.

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, 2016

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:

	2016	2015
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

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	2
Inactive employees entitled to, but not yet receiving, benefits	3
Active employees	3
Total	8

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 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016, were \$3,200, which were equal to the required contributions.

Net Pension Asset

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

Actuarial Assumptions

The TPL in the December 31, 2015 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

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the 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 7.00 percent to 6.75 percent. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<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%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	<u><u>100.00%</u></u>	

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (Asset) (A) - (B)
Changes for the year:			
Service cost	\$ 7,223	\$ -	\$ 7,223
Interest	6,100	-	6,100
Difference between expected and actual experience	(4,509)	-	(4,509)
Changes of assumptions	1,661	-	1,661
Contributions - employer	-	2,665	(2,665)
Contributions - employee	-	4,486	(4,486)
Net investment income	-	136	(136)
Benefit payments, including refunds of employee contributions	(6,065)	(6,065)	-
Administrative expense	-	(83)	83
Other changes	-	(4)	4
Net Changes	4,410	1,135	3,275
Balance at December 31, 2014	86,560	92,380	(5,820)
Balance at December 31, 2015	\$ 90,970	\$ 93,515	\$ (2,545)

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)	\$ 4,636	\$ (2,545)	\$ (8,759)

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$3,419.

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	\$ -	\$ (2,123)
Changes in actuarial assumptions	782	-
Difference between projected and actual investment earnings	5,737	-
Contributions subsequent to the measurement date	2,568	-
Total	\$ 9,087	\$ (2,123)

\$2,568 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, 2017. 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
2017	\$ 150
2018	1,491
2019	1,489
2020	1,266
Total	\$ 4,396

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

CITY OF WOODCREEK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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>2016</u>	<u>2015</u>	<u>2014</u>
Annual Req. Contrib. (Rate)	0.07%	0.07%	0.03%
Actual Contribution Made	0.07%	0.07%	0.03%
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, 2016

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Property taxes	\$ 214,500	\$ 217,748	\$ 3,248
Sales tax	43,000	45,961	2,961
Franchise and other taxes	164,180	175,805	11,625
Investment income	4,000	4,246	246
Other revenue	22,500	23,018	518
Total Revenues	448,180	466,778	18,598
Expenditures			
Current:			
General government:			
Personnel services	123,330	138,967	(15,637)
Professional services	42,150	31,515	10,635
Area care/ Maintance	58,400	57,122	1,278
Office expenses	38,650	38,307	343
Municipal court	40,150	25,196	14,954
Utilitites	9,200	10,436	(1,236)
Insurance	2,550	2,514	36
Other operating expense	24,150	24,798	(648)
Total Expenditures	\$ 338,580	\$ 328,855	\$ 9,725
Change in Fund Balance	\$ 109,600	137,923	\$ 28,323
Beginning fund balance		1,051,753	
Ending Fund Balance		\$ 1,189,676	

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, 2016

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

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

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CITY OF WOODCREEK, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2016

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

*Only two years of information is currently available. The City will build this schedule over the next eight-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 B.

3. Other Information:

There were no benefit changes during the year.

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Required Auditor Disclosure Letter

May 4, 2017

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

We have audited the financial statements of the governmental activities and the major fund, of the City of Woodcreek, Texas (the "City") for the year ended September 30, 2016. Professional standards require that we provide the City Council (the "governing body") with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit.

I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 19, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the governing body's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the governing body in our engagement letter dated September 19, 2016.

III. Significant Audit Findings

I. Qualitative Aspects of Accounting Practices

- A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

- B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets is based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Estimates are used in the calculation of the pension liability/ asset and the required annual contribution. The Texas Municipal Retirement System (TMRS) hires a licensed actuary to make key assumptions and to perform calculations, as well as an independent auditor to review those assumptions and calculations. We evaluated the reasonableness of the employee data provided by the City to TMRS.

- C. The financial statement disclosures are neutral, consistent, and clear.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

4. Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 4, 2017.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IV. Other Matters

We applied certain limited procedures to the Required Supplementary Information (RSI), as identified on the table of contents, which supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

V. Restrictions on Use

This information is intended solely for the use of the Mayor, City Council, and management and is not intended to be, and should not be, used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

Client: City of Woodcreek, Texas
 Engagement: Woodcreek 09/30/2016
 Period Ending: 9/30/2016
 Workpaper: 2.5.06 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
To correct fund balance				
		J.02		
1000	Operating - Broadway 9628		2,419.97	
1120	Delinquent Taxes Receivable		1,871.64	
1124	Sales Tax Receivable		3,201.75	
1125	Franchise Fees Receivable		67,397.00	
1226	Building & Improvements		20,894.00	
1250	Deferred Revenue		2,478.22	
1900	Accounts Payable		14,113.23	
2021	Accrued Wages Payable		2,608.53	
2100	WVWA / LCRA Grant Expenditures		21.24	
2105	Capital Development Grant		18,259.00	
9998	Opening Balance Equity		159,297.00	
9999	Retained Earnings		17,029.76	
1240	Accumulated Depreciation - All			176,111.00
1900	Accounts Payable			14,917.37
9997	Net Investment in Capital Assets			4,080.00
9998	Opening Balance Equity			95,320.00
9999	Retained Earnings			19,162.97
Total			309,591.34	309,591.34
Adjusting Journal Entries JE # 2				
To make adjustment for funds committed to street repair in Texas CLASS Account				
		A.06		
1020	Investment Account - Class 0001		80,000.00	
9998	Opening Balance Equity		140,052.96	
1300	Committed for Streets Repair			80,000.00
9997	Net Investment in Capital Assets			140,052.96
Total			220,052.96	220,052.96
Adjusting Journal Entries JE # 3				
To reverse PY sales tax accrual and post CY				
		C.02		
1124	Sales Tax Receivable		6,897.14	
3005	State Sales Tax Revenue		3,201.75	
1124	Sales Tax Receivable			3,201.75
3005	State Sales Tax Revenue			6,897.14
Total			10,098.89	10,098.89
Adjusting Journal Entries JE # 4				
To clear out Due from HOT account				
		J.01		
8900	Miscellaneous		52.00	
1122	Due to/from HOT Account			52.00
Total			52.00	52.00
Adjusting Journal Entries JE # 5				
Accrual reversal from PY				
		C.03		
3020	Electric Franchise Fee Revenue		7,844.15	
3040	Water Service Franchise Revenue		59,552.85	
1125	Franchise Fees Receivable			67,397.00
Total			67,397.00	67,397.00
Adjusting Journal Entries JE # 6				
To accrue franchise fees after year end				
		C.03		
1125	Franchise Fees Receivable		79,855.12	
3020	Electric Franchise Fee Revenue			9,318.75
3030.1	Cable Services Franchise Rev:PEG - Cable Revenue			1,374.54
3040	Water Service Franchise Revenue			65,410.59
3050	Disposal Service Franchise Rev			3,308.49

Client: **City of Woodcreek, Texas**
 Engagement: **Woodcreek 09/30/2016**
 Period Ending: **9/30/2016**
 Workpaper: **2.5.06 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
3060	Telephone Franchise Revenue			442.75
Total			79,855.12	79,855.12
Adjusting Journal Entries JE # 7				
To accrue wages for fiscal year end				
		F.01a		
5000.01	Personnel Services:Salaries and Wages		7,353.00	
2021	Accrued Wages Payable			7,353.00
Total			7,353.00	7,353.00
Adjusting Journal Entries JE # 8				
To adjust AP for PY accruals that were expenses in CY				
		J.02		
1900	Accounts Payable		14,917.37	
6000.11	Professional Services:Contract Labor			470.25
6000.15	Professional Services:Engineering			800.00
6000.20	Professional Services:Legal Expenses			5,962.70
8020.60	Municipal Court Costs:Traffic Enforcements			7,085.00
8900	Miscellaneous			599.42
Total			14,917.37	14,917.37
Adjusting Journal Entries JE # 9				
To adjust fund balance to match PY ending balances				
		J.02		
1900	Accounts Payable		20,481.15	
8900	Miscellaneous		3,249.22	
9999	Retained Earnings			3,249.22
9999	Retained Earnings			20,481.15
Total			23,730.37	23,730.37
Adjusting Journal Entries JE # 10				
To adjust deferred revenue for property taxes				
		C.01		
1250	Deferred Revenue		2,387.88	
1250	Deferred Revenue		2,504.00	
1120	Delinquent Taxes Receivable			585.55
1121	Allowance for Uncollectible			1,802.33
3000	Ad Valorem Tax Revenue			2,504.00
Total			4,891.88	4,891.88
Adjusting Journal Entries JE # 11				
To accrue for items that should be payable at year end				
		E.02		
5500.30	Office Expenses:IT & Radio Expenses		1,288.25	
7500.30	Utilities:Telephone & Internet		1,167.53	
1900	Accounts Payable			2,455.78
Total			2,455.78	2,455.78
Adjusting Journal Entries JE # 12				
To adjust for liability accounts with debit balances				
		E.01		
5000.01	Personnel Services:Salaries and Wages		3,739.35	
6500.21	Area Care/Maintenance:Outdoor Beautification		1,707.50	
2105.1	Augusta Park Proj Expenditures			1,707.50
2110	Direct Deposit Liabilities			3,739.35
Total			5,446.85	5,446.85



Management Letter

May 4, 2017

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

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to the City. Accordingly, the City's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows:

In planning and performing our audit of the 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, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our findings and additional comments are as follows:

CURRENT YEAR MATTERS

Material Weaknesses

2016.001- AUDIT ADJUSTMENTS AND JOURNAL ENTRIES

Finding

The City did not post audit adjusting journal entries at the conclusion of the prior year audit. Accordingly, the City's financial records were materially misstated.

Recommendation

The City should ensure that all audit adjusting entries provided by the auditors are posted.

2016.002- MONTHLY CLOSING PROCEDURES

Finding

The City has not established a formal process for closing the books at the end of each month. Multiple adjustments were proposed and required at year-end during the audit process to correct general ledger account balances. Accordingly, it does not appear that some subsidiary ledgers and other support are being compared and reconciled to the general ledger on a monthly basis to ensure the interim financial statements are materially correct.

Recommendation

The City should develop a formal closing process at month end, including reviewing supporting subsidiary ledgers and other supporting documents to determine their accuracy and to ensure the general ledger is appropriately adjusted.

This communication is intended solely for the information and use of management, the Mayor, City Council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Mayor, City Council and the City's management for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

