

CITY OF SLATON, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

CITY OF SLATON, TEXAS

ANNUAL FINANCIAL REPORT

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Independent Auditor's Report

To the City Commission
City of Slaton, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Slaton, Texas as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flow thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the plan's net pension liability and related ratios, and schedule of contributions for the retirement plan, and budgetary comparison information on pages 35 through 37 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report March 24, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the City's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 24, 2017

CITY OF SLATON, TEXAS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Primary Government			Component Unit (SEDCO)
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 811,493	\$ 150,950	\$ 962,443	\$ 428,985
Receivables (Net of Allowances)	204,323	310,273	514,596	58,200
Due From City of Slaton				13,973
Inventory				5,779
Internal Balances	256,376	(256,376)		
Prepaid Expenses	4,000		4,000	
Capital Assets, Net of Accumulated Amortization and Depreciation				
Land	76,136	264,595	340,731	13,821
Water Infrastructure		4,572,537	4,572,537	
Sewer Infrastructure		1,884,249	1,884,249	
Buildings and Equipment	9,878,298	252,997	10,131,295	382,218
Investment in Water Facilities		3,599,657	3,599,657	
Construction Work in Progress	19,759		19,759	
Total Assets	<u>\$ 11,250,385</u>	<u>\$ 10,778,882</u>	<u>\$ 22,029,267</u>	<u>\$ 902,976</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plan - Employer Contributions	\$ 73,349	\$ 13,437	\$ 86,786	\$ 2,784
Pension Plan - Change in Assumption	97,757	17,909	115,666	3,520
Pension Plan - Earnings Differences	356,589	65,325	421,914	13,120
Unamortized Loss on Refunding	151,579		151,579	
Total Deferred Outflows of Resources	<u>\$ 679,274</u>	<u>\$ 96,671</u>	<u>\$ 775,945</u>	<u>\$ 19,424</u>
LIABILITIES				
Accounts Payable	\$ 79,112	\$ 60,882	\$ 139,994	\$ 762
Accrued Payroll	44,284	11,602	55,886	
Accrued Interest	34,471	10,419	44,890	
Meter Deposits		153,240	153,240	
Due to Other Government Units	3,972		3,972	
Due to SEDCO	13,973		13,973	
Noncurrent Liabilities				
Net Pension Liability	120,078	21,998	142,076	4,324
Due Within One Year	582,972	395,287	978,259	11,584
Due In More Than One Year	8,881,572	5,324,428	14,206,000	40,229
Total Liabilities	<u>\$ 9,760,434</u>	<u>\$ 5,977,856</u>	<u>\$ 15,738,290</u>	<u>\$ 56,899</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Plan - Experience Differences	\$ 124,040	\$ 22,724	\$ 146,764	\$ 4,571
Unavailable Revenue - Rents				15,600
Total Deferred Inflows of Resources	<u>\$ 124,040</u>	<u>\$ 22,724</u>	<u>\$ 146,764</u>	<u>\$ 20,171</u>
NET POSITION				
Net Investment in Capital Assets	\$ 591,322	\$ 4,882,333	\$ 5,473,655	\$ 344,226
Restricted for:				
Debt Service	1,359,952		1,359,952	
Economic Development				501,104
Unrestricted	<u>93,911</u>	<u>(7,360)</u>	<u>86,551</u>	
Total Net Position	<u>\$ 2,045,185</u>	<u>\$ 4,874,973</u>	<u>\$ 6,920,158</u>	<u>\$ 845,330</u>

See accompanying notes to the financial statements.

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CITY OF SLATON, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit SEDCO
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Net (Expense) Revenue								
Primary Government:								
General Government	\$ 1,203,082	\$	\$ 197,648	\$	\$ (1,005,434)	\$	\$ (1,005,434)	\$
Public Safety	1,248,009	34,422	63,469		(1,150,118)		(1,150,118)	
Streets and Sanitation	1,109,830	1,139,108			29,278		29,278	
Health and Welfare	185,656	87,369			(98,287)		(98,287)	
Culture and Recreation	107,120		14,762		(92,358)		(92,358)	
Airport	548				(548)		(548)	
Interest and Fee's Related to Debt	287,176				(287,176)		(287,176)	
Depreciation	769,921				(769,921)		(769,921)	
Total Governmental Activities	\$ 4,911,342	\$ 1,260,899	\$ 275,879	\$ 0	\$ (3,374,564)	\$ 0	\$ (3,374,564)	\$ 0
Business-Type Activities:								
Water and Sewer	\$ 1,251,191	\$ 1,946,651	\$	\$	\$	\$ 695,460	\$ 695,460	\$
Interest on Debt	220,620					(220,620)	(220,620)	
Depreciation	332,980					(332,980)	(332,980)	
Amortization	319,894					(319,894)	(319,894)	
Total Business-Type Activities	\$ 2,124,685	\$ 1,946,651	\$ 0	\$ 0	\$ 0	\$ (178,034)	\$ (178,034)	\$ 0
Total Primary Government	\$ 7,036,027	\$ 3,207,550	\$ 275,879	\$ 0	\$ (3,374,564)	\$ (178,034)	\$ (3,552,598)	\$ 0
Component Unit:								
SEDCO	\$ 151,852	\$ 0	\$ 0	\$ 0				\$ (151,852)
General Revenues (Expenses):								
Taxes:								
Property Taxes, Levied for General Purposes				\$ 1,418,831	\$	\$ 1,418,831	\$	
Sales Taxes				428,718		428,718		204,794
Franchise Taxes				292,397		292,397		
Investment Earnings				5,230	121	5,351		2,187
Special Assessment - CIP				372,441		372,441		
Miscellaneous				154,791	17,187	171,978		60,007
Gain (Loss) on Disposition of Assets				(1,140)		(1,140)		549
Transfers				200,000	(200,000)			
Total General Revenues, Special Items, and Transfers				\$ 2,871,268	\$ (182,692)	\$ 2,688,576	\$ 267,537	\$ 267,537
Change in Net Position				\$ (503,296)	\$ (360,726)	\$ (864,022)	\$ 115,685	\$ 115,685
Net Position—Beginning				2,548,481	5,235,699	7,784,180	729,645	729,645
Net Position—Ending				\$ 2,045,185	\$ 4,874,973	\$ 6,920,158	\$ 845,330	\$ 845,330

See accompanying notes to the financial statements.

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CITY OF SLATON, TEXAS

**BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	Major Governmental Funds		Non-Major		Total
	General Fund	2005 Debt Service Fund	2011 Debt Service Fund	Cemetery Fund	
ASSETS					
Cash and Certificates of Deposit	\$ 161,778	\$ 337,394	\$ 306,339	\$ 5,982	\$ 811,493
Receivables (Net of Allowances)					
Ad Valorem Taxes	42,263	16,573	9,583		68,419
Other Receivables	131,113			4,791	135,904
Due from Other Funds	5,395	433,659	282,560	466	722,080
Prepaid Expenses	4,000				4,000
Total Assets	\$ 344,549	\$ 787,626	\$ 598,482	\$ 11,239	\$ 1,741,896
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 72,863	\$	\$	\$ 6,249	\$ 79,112
Accrued Payroll	41,909			2,375	44,284
Due to Other Governmental Units	3,972				3,972
Due to Other Funds	465,704				465,704
Due to SEDCO	13,973				13,973
Total Liabilities	\$ 598,421	\$ 0	\$ 0	\$ 8,624	\$ 607,045
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenues	\$ 42,263	\$ 16,573	\$ 9,583	\$ 4,791	\$ 73,210
FUND BALANCES (DEFICITS)					
Restricted for:					
Debt Service	\$ 4,000	\$ 771,053	\$ 588,899	\$	\$ 1,359,952
Nonspendable - Prepaid Expenses	4,000				4,000
Unassigned (Deficit)	(300,135)			(2,176)	(302,311)
Total Fund Balances	\$ (296,135)	\$ 771,053	\$ 588,899	\$ (2,176)	\$ 1,061,641
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 344,549	\$ 787,626	\$ 598,482	\$ 11,239	\$ 1,741,896

See accompanying notes to the financial statements.

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CITY OF SLATON, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

Total Fund Balances - Governmental Funds Balance Sheet	\$ 1,061,641
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (net of accumulated depreciation)	9,974,193
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(81,673)
Long-term obligations including reoffering premiums are not due and payable in the current period and therefore are not reported in the funds.	(9,382,871)
Payables for bond interest which are not due in the current period are not reported in the funds.	(34,471)
Unamortized loss on refunding related to refunding of bonds are not recorded in the funds.	151,579
Net Pension Liability and Related Deferred Outflows and Inflows are not reported in the funds.	283,577
Property tax revenue is recognized in funds but not in the statement of net position.	<u>73,210</u>
Net Position of Governmental Activities	<u>\$ 2,045,185</u>

See accompanying notes to the financial statements

CITY OF SLATON, TEXAS

STATEMENT OF GOVERNMENTAL FUNDS REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Major Governmental Funds		Non-Major		Total
	General Fund	2005 Debt Service Fund	2011 Debt Service Fund	Cemetery Fund	
REVENUES					
Taxes:					
Ad Valorem Taxes and Related	\$ 833,368	\$ 311,659	\$ 182,948	\$ 93,194	\$ 1,421,169
Sales and Use Taxes	428,718				428,718
Franchise Taxes	292,397				292,397
Intergovernmental Revenues	275,879				275,879
Sanitation and Related Revenues	757,828				757,828
Street Revenues	381,280				381,280
Cemetery Revenues				87,369	87,369
Court Fines and Fees	34,422				34,422
Special Assessment - CIP		165,900	206,541		372,441
Other Revenues and Fees	148,912			5,879	154,791
Interest	1,599	1,956	1,672	3	5,230
Total Revenues	<u>\$ 3,154,403</u>	<u>\$ 479,515</u>	<u>\$ 391,161</u>	<u>\$ 186,445</u>	<u>\$ 4,211,524</u>
EXPENDITURES					
General Government	\$ 1,200,413	\$	\$	\$	\$ 1,200,413
Public Safety	1,369,108				1,369,108
Streets and Sanitation	1,180,169				1,180,169
Health and Welfare				188,621	188,621
Culture and Recreation	106,841				106,841
Airport	548				548
Debt Service - Principal	134,022	225,000	192,106		551,128
Debt Service - Interest and Fees	9,628	150,269	143,046		302,943
Total Expenditures	<u>\$ 4,000,729</u>	<u>\$ 375,269</u>	<u>\$ 335,152</u>	<u>\$ 188,621</u>	<u>\$ 4,899,771</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>\$ (846,326)</u>	<u>\$ 104,246</u>	<u>\$ 56,009</u>	<u>\$ (2,176)</u>	<u>\$ (688,247)</u>
OTHER FINANCING SOURCES					
Transfers In (Out)	\$ 200,000	\$	\$	\$	\$ 200,000
Loan Proceeds	187,099				187,099
Proceeds from the Sale of Assets	2,675				2,675
Total Other Financing Sources (Uses)	<u>\$ 389,774</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 389,774</u>
Net Change in Fund Balance	\$ (456,552)	\$ 104,246	\$ 56,009	\$ (2,176)	\$ (298,473)
Fund Balance - October 1 (Beginning)	<u>160,417</u>	<u>666,807</u>	<u>532,890</u>	<u>0</u>	<u>1,360,114</u>
Fund Balance - September 30 (Ending)	<u>\$ (296,135)</u>	<u>\$ 771,053</u>	<u>\$ 588,899</u>	<u>\$ (2,176)</u>	<u>\$ 1,061,641</u>

See accompanying notes to the financial statements.

CITY OF SLATON, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$	(298,473)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:		
Governmental funds report capital outlay as expenditures. However, the statement of activities reports these as Capital Assets that are depreciated over their useful lives.		187,099
The loss on disposition of assets is not reported in the funds.		(3,815)
Depreciation is recorded in the statement of activities as an expense but not in governmental funds.		(769,921)
Principal payments are recorded as expenditures in governmental funds but excluded in the statement of activities.		551,128
Loan proceed do not provide revenue in the SOA, but are reported as current resources in the funds.		(187,099)
Decrease in accrued interest from beginning of period to end of period.		4,581
Accrued compensated absences are recorded in the statement of activities as an expense but not in governmental funds.		55,837
Amortization of premiums and loss on refundings are not reported in the funds.		11,186
Pension Expense is not recognized in the funds related to the Net Pension Liability and related balance sheet amounts.		(51,481)
Deferred revenue is not recorded in the statements of net position thus the change is excluded in activities.		<u>(2,338)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(503,296)</u></u>

See accompanying notes to the financial statements

CITY OF SLATON, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2016

	<u>Proprietary Fund</u> Water and Sewer
ASSETS	
Cash and Certificates of Deposit	\$ 150,950
Accounts Receivable (Net of Allowances)	310,273
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation and Amortization:	
Land	264,595
Water Infrastructure	4,572,537
Sewer Infrastructure	1,884,249
Building and Equipment	252,997
Construction Work in Progress	
Investment in Water Facilities	3,599,657
Total Assets	<u>\$ 11,035,258</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Plan - Employer Contributions	\$ 13,437
Pension Plan - Change in Assumption	17,909
Pension Plan - Earnings Differences	65,325
Total Deferred Outflows of Resources	<u>\$ 96,671</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 60,882
Accrued Payroll	11,602
Accrued Interest	10,419
Due to Other Funds	256,376
Meter Deposits	153,240
Current Portion of Long Term Debt	393,886
Current Portion of Accrued Compensated Absences	1,401
Noncurrent Liabilities:	
Long-Term Debt	5,297,816
Net Pension Liability	21,998
Accrued Compensated Absences	26,612
Total Liabilities	<u>\$ 6,234,232</u>
DEFERRED INFLOWS OF RESOURCES	
Pension Plan - Experience Differences	<u>\$ 22,724</u>
NET POSITION	
Net Investment in Capital Assets	\$ 4,882,333
Unrestricted (Deficit)	(7,360)
Total Net Position	<u>\$ 4,874,973</u>

See accompanying notes to the financial statements.

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CITY OF SLATON, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Proprietary Fund <u>Water and Sewer</u>
OPERATING REVENUES	
Water and Sewer Service Revenues	\$ 1,820,467
Other Revenue	126,184
Total Operating Revenues	<u>\$ 1,946,651</u>
OPERATING EXPENSES	
Contract Services	\$ 463,720
Water Distribution	629,249
Sewer Distribution	158,222
Depreciation	332,980
Amortization of Water Rights	319,894
Total Operating Expense	<u>\$ 1,904,065</u>
Operating Income	<u>\$ 42,586</u>
NONOPERATING REVENUE (EXPENSE)	
Interest Revenue	\$ 121
Interest Expense and Fees	(220,620)
Miscellaneous	17,187
Total Nonoperating Revenue (Expense)	<u>\$ (203,312)</u>
Loss Before Transfers	<u>\$ (160,726)</u>
TRANSFERS	
Transfers Out	\$ (200,000)
Total Transfers	<u>\$ (200,000)</u>
Change in Net Position	\$ (360,726)
TOTAL NET POSITION - BEGINNING	<u>5,235,699</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 4,874,973</u></u>

See accompanying notes to the financial statements.

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CITY OF SLATON, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Proprietary Fund <u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts From Customers	\$ 1,986,330
Payments to Suppliers	(655,431)
Payments to Employees	(410,301)
Net Cash Provided by Operating Activities	<u>\$ 920,598</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due to Other Funds	\$ 144,095
Transfers Out	(200,000)
Net Cash Used in Noncapital Financing Activities	<u>\$ (55,905)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions of Property, Equipment, and Water Rights	\$ (166,766)
Principal Payments on Long-Term Debt	(368,542)
Interest Payments	(227,663)
Net Cash Used in Capital and Related Financing Activities	<u>\$ (762,971)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned on Investments	\$ 121
Net Cash Provided by Investing Activities	<u>\$ 121</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 101,843</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>49,107</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 150,950</u></u>
Reconciliation of Operating Income to Net Cash Flows From Operating Activities	
Operating Income	\$ 42,586
Adjustments to Reconcile Income From Operations to Net Cash From Operating Activities:	
Depreciation Expense	\$ 332,980
Amortization Expense	319,894
Miscellaneous	17,187
Non-Cash - Long-Term Payable related to O&M Expense	181,489
Change in Assets and Liabilities:	
Receivables	15,792
Prepaid Expenses	1,867
Deferred Outflows - Pension Plan	(70,236)
Accounts Payable	(10,551)
Accrued Payroll	4,572
Meter Deposits	6,700
Net Pension Asset	66,767
Accrued Compensated Absences	(5,930)
Deferred Inflows - Pension Plan	17,481
	<u>\$ 878,012</u>
Net Cash Provided by Operating Activities	<u><u>\$ 920,598</u></u>

Supplemental Cash Flow Information:

Non-Cash Financing Activities:

During the year ended September 30, 2016, the City of Slaton was billed \$181,489 from CRMWD for additional operations and maintenance fees that will be paid over a 10 year period. This was a non-cash transaction which increased both expenses and liabilities by \$181,489.

The City also entered into a capital lease agreement to purchase two new pickups for \$55,450. This non-cash transaction increase capital assets and liabilities by \$55,450.

See accompanying notes to the financial statements.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

The City of Slaton, Texas' (the City) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

1. Reporting Entity

Primary Government

The City was incorporated as a town in 1929. The City has a commission form of government with a mayor and four commission members. The mayor is elected at large and each commissioner is elected by the Ward in which he or she resides. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs when deemed appropriate by the City. The City Commission (the Commission) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the GASB in its Statement No. 61, *The Financial Reporting Entity*.

Component Unit

As defined by GASB No. 61, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

The Slaton Economic Development Corporation (SEDCO) was formed and incorporated in January, 2000, as a component unit of the City. SEDCO's declared mission is to provide for the promotion and development of presently existing businesses and the aggressive pursuit of new businesses and industry for the City. The mission includes offering an environment conducive for industrial growth, and making the City known as a location that business and industry seeks.

Economic development corporations are authorized by the provisions of Vernon's Texas Civil Statutes, Article 5190.6, Section 4A as amended. SEDCO was brought into being by the Slaton City Commission after the required public election held November 2, 1999.

SEDCO is managed by a five member Board of Directors appointed by the Slaton City Commission which hold the oversight authority over SEDCO. SEDCO derives its major funding from an "additional one-half of one percent sales tax" that is collected within the City for that purpose.

Complete financial statements for SEDCO may be obtained from:

Slaton Economic Development Corporation
101 N. 9th Street
Slaton, Texas 79364

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation – Government Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's general fund and other funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, streets and sanitation, health and welfare, culture and recreation, and general government services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Position, the governmental activities, business-type activities, and component unit (a) are presented by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (public safety, streets and sanitation, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (public safety, streets and sanitation, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or franchise taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

b. Basis of Presentation – Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

NOTES TO FINANCIAL STATEMENTS

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

Major Funds:

General Fund – This governmental fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

2005 Debt Service – This governmental fund is established to account for the payment of bond principal and interest payments on the Series 2005 Tax and Revenue Certificates of Obligation.

Non-Major Funds:

2011 Debt Service - This governmental fund is established to account for the payment of bond principal and interest payments on Series 2011 General Obligation Bonds.

Special Revenue Fund – The special revenue fund for the cemetery is used to account for the receipt of taxes dedicated to operation of the City cemetery.

2. Proprietary Fund – Water and Sewer Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Water and Sewer Fund – This fund accounts for the revenues and expenses associated with providing water and sewer service to the citizens of the City.

A proprietary fund is required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, to be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Fund Balances

The City applies GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Non-spendable fund balance—includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain in-tact such as the principal of an endowment.

Restricted fund balance—includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

Committed fund balance—includes the portion of net resources upon which the City Commission has imposed limitations on use and those amounts can only be used for the specific purposes determined by a formal action of the City Commission. Commitments may be changed or lifted only by the Commission taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned fund balance—includes the portion of net resources for which an intended use has been established by the City Commission or the City Official authorized to do so by the City Commission. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance—includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Fund Balance Policy

Committed Fund Balance—The City Commission is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Commission at the City's Commission meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period (i.e. the Commission may approve the calculation or formula for determining the amount to be committed).

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Assigned Fund Balance—The City Commission authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Commission, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

c. Measurement Focus, Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Governmental activities, business-type activities and discretely presented component units in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

d. Financial Statement Amounts

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand and cash in bank.

2. Investments:

Investments are stated at fair value (quoted market price or the best available estimate).

3. Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Governmental Activities:

Buildings and Equipment	7-35 years
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Business-Type Activities:

Water Infrastructure	10-50 years
Sewer Infrastructure	50 years
Buildings and Equipment	7-33 years

4. Revenues:

Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue. The City also recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements related to grants, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as cash paid in advance by the provider and deferred inflows of resources by the City.

5. Expenditures:

Expenditures are recognized when the related fund liability is incurred. In accordance with GASB 63 and 65, any loss on bond refunding is recognized as a deferred outflow of resources on the statement of net position and amortized over the life of the refunding bonds. In addition, bond issue costs are immediately expensed. The City expenses immediately any refunding changes with respect to the debt issued by Canadian River Municipal Water Association (CRMWA) in the City's name.

6. Compensated Absences:

Unused vacation is accumulated to a maximum of no more than twice what an employee can earn in a year. Employees with one to four years of service earn ten days of vacation per year. Employees with five to nine years of service earn 15 days of vacation per year. Employees with over ten years of service earn 20 days of vacation per year. This maximum amount is paid to terminating employees.

Employees who retire from city service are paid for unused sick leave. The payment is made for a maximum of 65 days of accumulated leave. With ten years of continuous service, the employee receives a payment of 50% of the accumulated sick leave days. With 10-20 years the payment is pro-rated from 50% through 100%.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

7. Interfund Activity

Interfund activity is reported as advances, services provided reimbursements, or transfers. Advances are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

8. Encumbrances:

The City does not utilize an encumbrance accounting system. At year-end, the City reviews commitments to determine amounts encumbered. At September 30, 2016, there were no material commitments to be indicated by a reserve in the general fund balance.

9. Inventory:

Inventories are considered expenditures when purchased. The City purchases almost all operating supplies on an "as needed" basis and does not accumulate a material amount of inventory. Therefore, no inventory is reported in the statement.

10. Deferred Inflows of Resources

In addition to liabilities, the balance sheet 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 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 funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

B. Cash and Cash Equivalents

At September 30, 2016, the carrying amount of the City's cash and cash equivalents was \$962,443, \$835 of which was cash on hand, and the remaining had a bank balance of \$966,489. The City's cash and cash equivalents at September 30, 2016, and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

C. Disaggregation of Accounts Receivable

Estimated uncollectible receivables are charged to current operations under the allowance method of accounting. The allowance for uncollectible balances at September 30, 2016, for the various accounts included in the financial statements is as follows:

	<u>Total Receivables</u>	<u>Estimated Uncollectible Accounts</u>	<u>Net Receivables</u>
Governmental Activities:			
General Fund			
Ad Valorem Taxes	\$ 178,700	\$ 125,282	\$ 53,418
Sales Taxes	41,918		41,918
Franchise Taxes	78,040		78,040
2011 Debt Service Fund			
Ad Valorem Taxes	28,677	19,094	9,583
2005 Debt Service Fund			
Ad Valorem Taxes	40,145	23,572	16,573
Cemetery Fund			
Ad Valorem Taxes	16,897	12,106	4,791
Total Governmental Activities	\$ 384,377	\$ 180,054	\$ 204,323
Business-Type Activities:			
Water and Sewer Fund			
Customer Accounts	638,961	328,688	310,273
Primary Government	\$ 1,023,338	\$ 508,742	\$ 514,596

D. Investments Policies and Risk

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy.

That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does not address the following risks:

- a. **Custodial Credit Risk – Deposits and Investments:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The City's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The City is not exposed to custodial credit risk, for its deposits are all covered by depository insurance and pledged securities held by a third party in the City's name.
- b. **Concentration of Credit Risk –** The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2016, all of the City's investments are with various financial institutions which are covered by FDIC insurance and pledged securities, and as such the City has no risk.
- c. **Credit Risk –** The risk that an issuer of other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2016, the City was not significantly exposed to credit risk.
- d. **Interest Rate Risk –** Not applicable
- e. **Foreign Currency Risk –** Not applicable

E. Property Taxes

The City is permitted by the State of Texas Constitution to levy taxes up to \$.80 per \$100 of assessed valuation. Taxes are collected by the Lubbock Central Appraisal District from the citizens of Slaton and remitted to the City on a regular basis.

On October 1, 2015, property taxes of \$1,379,862 were levied for the governmental funds. Individual tax levies from the tax roll on October 1, 2015, were delinquent if unpaid at January 31, 2016.

F. Component Unit Payables

The City had \$13,973 due to SEDCO at September 30, 2016 for their share of sales tax.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

G. Capital Assets

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

	<u>Balance 10/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2016</u>
Governmental Activities:				
Capital Asses Not Being Depreciated				
Land	\$ 76,136	\$	\$	\$ 76,136
Construction Work in Progress	<u>19,759</u>			<u>19,759</u>
Total Capital Assets Not Being Depreciated	<u>\$ 95,895</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,895</u>
Depreciable Assets:				
Buildings and Equipment	<u>\$ 17,313,802</u>	<u>\$ 187,099</u>	<u>\$ 270,034</u>	<u>\$ 17,230,867</u>
Total Depreciable Assets	<u>\$ 17,313,802</u>	<u>\$ 187,099</u>	<u>\$ 270,034</u>	<u>\$ 17,230,867</u>
Less Accumulated Depreciation for:				
Buildings and Equipment	<u>\$ 6,848,867</u>	<u>\$ 769,921</u>	<u>\$ 266,219</u>	<u>\$ 7,352,569</u>
Total Accumulated Depreciation	<u>\$ 6,848,867</u>	<u>\$ 769,921</u>	<u>\$ 266,219</u>	<u>\$ 7,352,569</u>
Total Depreciable Assets, Net	<u>\$ 10,464,935</u>	<u>\$ (582,822)</u>	<u>\$ 3,815</u>	<u>\$ 9,878,298</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,560,830</u>	<u>\$ (582,822)</u>	<u>\$ 3,815</u>	<u>\$ 9,974,193</u>

Depreciation was not allocated to the City's various functions in the statement of activities.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>10/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/2016</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 264,595	\$	\$	\$ 264,595
Construction Work in Progress	<u>1,887,220</u>	<u>(1,887,220)</u>		<u>0</u>
Total Capital Assets Not Being Depreciated	<u>\$ 2,151,815</u>	<u>\$ (1,887,220)</u>	<u>\$ 0</u>	<u>\$ 264,595</u>
Depreciable Assets:				
Water Infrastructure	\$ 5,493,818	\$ 2,011,501	\$	\$ 7,505,319
Sewer Infrastructure	4,036,834	42,485		4,079,319
Buildings and Equipment	<u>872,991</u>	<u>55,450</u>		<u>928,441</u>
Total Depreciable Assets	<u>\$ 10,403,643</u>	<u>\$ 2,109,436</u>	<u>\$ 0</u>	<u>\$ 12,513,079</u>
Less Accumulated Depreciation for:				
Water Infrastructure	\$ 2,698,674	\$ 234,108	\$	\$ 2,932,782
Sewer Infrastructure	2,173,016	22,054		2,195,070
Buildings and Equipment	<u>598,626</u>	<u>76,818</u>		<u>675,444</u>
Total Accumulated Depreciation	<u>\$ 5,470,316</u>	<u>\$ 332,980</u>	<u>\$ 0</u>	<u>\$ 5,803,296</u>
Total Depreciable Assets, Net	<u>\$ 4,933,327</u>	<u>\$ 1,776,456</u>	<u>\$ 0</u>	<u>\$ 6,709,783</u>
Investment in Water Facilities	\$ 5,121,039	\$	\$	\$ 5,121,039
Accumulated Amortization Investment in Water Facilities	<u>(1,201,488)</u>	<u>(319,894)</u>		<u>(1,521,382)</u>
Net Investment in Water Facilities	<u>\$ 3,919,551</u>	<u>\$ (319,894)</u>	<u>\$ 0</u>	<u>\$ 3,599,657</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,004,693</u>	<u>\$ (430,658)</u>	<u>\$ 0</u>	<u>\$ 10,574,035</u>

H. Investment in Water Facilities and Related Debt

The City, along with several West Texas municipalities, entered into various contracts with the Canadian River Municipal Water Authority (CRMWA), to participate in the construction and maintenance of water gathering, holding, treatment, and transmission facilities. Under the agreements, CRMWA agreed to issue revenue bonds to finance construction and maintenance of the facilities and the City agreed to pay back their share of the total annual debt service requirements. Additionally, the City entered into a similar agreement with the City of Lubbock, Texas, for the acquisition and maintenance of a water treatment facility. The total investment made by the City to obtain its total water rights was \$5,121,039, including other amounts invested related to grant funding.

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CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following schedules comprise the debt outstanding related to the CRMWA and City of Lubbock contracts as September 30, 2016:

<u>Water Facilities Debt</u>	Balance 10/1/2015	Addition	Principal Payments	Principal Refunded	Refunding Changes	Balance 9/30/2016
Series 2010, Refunding, CUP	\$ 60,160	\$	\$ 10,221	\$	\$	\$ 49,939
Series 2010, Refunding, BUREC	170,035		43,011			127,024
Series 2012, Refunding, BUREC	683,437		18,237			665,200
Series 2006, CUP	11,505		11,505			-
Series 2009, CUP	261,380		13,967			247,413
Series 2011, Refunding, CUP	1,127,158		52,064			1,075,094
Series 2014, Refunding, CUP	727,755		77,527			650,228
2015/2016 O&M Overage		181,489				181,489
2014 City of Lubbock	285,965		26,478			259,487
	<u>\$ 3,327,395</u>	<u>\$ 181,489</u>	<u>\$ 253,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,255,874</u>

<u>Water Facilities Debt</u>	<u>Maturity</u>	<u>Interest Rates</u>
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2005	2020	3.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2009	2029	3.0%-5.0%
Revenue Refunding Bonds, Bureau of Reclamation Project, Series 2010	2018	2.0%-3.5%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2010	2021	3.0%-3.5%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2011	2031	3.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2012	2025	2.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2014	2027	2.0%-5.0%
2014 City of Lubbock	2024	3.38%

The City paid \$152,908 in interest related to this debt for the year ended September 30, 2016.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Debt service requirements on all long-term debt outstanding at September 30, 2016, are as follows:

Year Ending September 30,	CRMWA		
	Principal	Interest	Total
2017	\$ 232,021	\$ 134,451	\$ 366,472
2018	302,117	125,196	427,313
2019	232,915	112,687	345,602
2020	244,778	102,509	347,287
2021	253,171	91,361	344,532
2022-2026	1,231,865	272,783	1,504,648
2027-2031	499,520	57,682	557,202
Totals	\$ 2,996,387	\$ 896,669	\$ 3,893,056

Year Ending September 30,	City of Lubbock		
	Principal	Interest	Total
2017	\$ 27,666	\$ 11,247	\$ 38,913
2018	28,909	11,004	39,913
2019	30,209	8,705	38,914
2020	31,567	7,346	38,913
2021	32,988	5,926	38,914
2022-2024	108,148	8,592	116,740
Totals	\$ 259,487	\$ 52,820	\$ 312,307

Year Ending September 30,	Total Water Facilities Debt		
	Principal	Interest	Total
2017	\$ 259,687	\$ 145,698	\$ 405,385
2018	331,026	136,200	467,226
2019	263,124	121,392	384,516
2020	276,345	109,855	386,200
2021	286,159	97,287	383,446
2022-2026	1,340,013	281,375	1,621,388
2027-2031	499,520	57,682	557,202
Totals	\$ 3,255,874	\$ 949,489	\$ 4,205,363

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CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Investment in water facilities at cost as of September 30, 2016 is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions/ Other</u>	<u>Ending</u>
Cost:				
CRMWA - Debt	\$ 3,625,505	\$	\$	\$ 3,625,505
City of Lubbock - Debt	311,305			311,305
Other	<u>1,184,229</u>			<u>1,184,229</u>
Total Cost of Water Facilities	<u>\$ 5,121,039</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,121,039</u>
Accumulated Amortization:				
CRMWA - Debt	\$ 565,505	\$ 226,045	\$	\$ 791,550
City of Lubbock - Debt	25,340	26,478		51,818
Other	<u>610,643</u>	<u>67,371</u>		<u>678,014</u>
Total Accumulated Amortization	<u>\$ 1,201,488</u>	<u>\$ 319,894</u>	<u>\$ 0</u>	<u>\$ 1,521,382</u>
Total Investment in Water Facilities	<u>\$ 3,919,551</u>	<u>\$ (319,894)</u>	<u>\$ 0</u>	<u>\$ 3,599,657</u>
Investments in Water Facilities, Net of Related Debt:	<u>Net Investment</u>	<u>Debt</u>	<u>Investment Net of Related Debt</u>	
CRMWA - Debt	\$ 2,833,955	\$ 2,814,898	\$ 19,057	
City of Lubbock - Debt	259,487	259,487		
Other	<u>506,215</u>		<u>506,215</u>	
Totals	<u>\$ 3,599,657</u>	<u>\$ 3,074,385</u>	<u>\$ 525,272</u>	

I. Long-Term Debt

The City's long-term debt is made up of bonds, premiums on bonds, notes, capitalized leases, and compensated absences, the activity from the year is summarized below. These liabilities have been grouped by primary government activities in which the debts are recorded and serviced and show the amounts payable at September 30, 2016.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Interest and Fees</u>
Governmental Activities:						
Series 2005, CO Bonds	\$ 135,000	\$	\$ 135,000	\$ 0	\$	\$ 3,206
Series 2011, GO Bonds	3,998,475		192,106	3,806,369	196,573	141,296
Series 2013, Refunding GO Bonds	4,880,000		90,000	4,790,000	235,000	143,063
Long-Term Note	127,068		30,397	96,671	31,298	3,733
Capital Leases	336,981	187,099	107,224	416,856	98,956	9,494
Compensated Absences	137,510		55,837	81,673	4,084	
Unamortized Issuance Premiums	290,036		17,061	272,975	17,061	17,061
Unamortized Loss on Refunding						(9,474)
Total Governmental Activities	<u>\$ 9,905,070</u>	<u>\$ 187,099</u>	<u>\$ 627,625</u>	<u>\$ 9,464,544</u>	<u>\$ 582,972</u>	<u>\$ 308,379</u>

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Interest and Fees</u>
Business-Type Activities:						
Series 2011, GO Bonds	\$ 476,524	\$	\$ 22,894	\$ 453,630	\$ 23,427	\$ 16,839
Series 2013, Refunding GO Bonds	1,795,000		80,000	1,715,000	80,000	54,900
Capital Leases	111,703	55,450	12,639	154,514	24,144	3,016
CRMWA - Debt	3,041,430	181,489	226,532	2,996,387	232,021	140,472
2014 City of Lubbock - Debt	285,965		26,478	259,487	27,666	12,436
Compensated Absences	33,943		5,930	28,013	1,401	
Unamortized Issuance Premiums	119,312		6,628	112,684	6,628	6,628
Total Business-Type Activities	\$ 5,863,877	\$ 236,939	\$ 381,101	\$ 5,719,715	\$ 395,287	\$ 234,291

The funds typically used to liquidate other long term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated Absences	Governmental	General
Compensated Absences	Business-Type	Proprietary

Detail on the maturity dates and interest rates of the outstanding long-term debt of the City as of September 30, 2016 is as follows:

Governmental Activities:

<u>Debt</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
Series 2005, CO Bonds	2016	3.50% - 5.00%
Series 2011, GO Bonds	2031	3.50% - 4.45%
Series 2013, Refunding GO Bonds	2032	2.00% - 4.00%
Long Term Note	2019	2.89%
Capital Leases	Various through 2021	2.09% - 2.94%

Business-Type Activities:

<u>Debt</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
Series 2011, GO Bonds	2031	3.50% - 4.45%
Series 2013, Refunding GO Bonds	2032	2.00% - 4.00%
Capital Leases	2020	2.70% - 3.25%
CRMWA - Debt	Various through 2031	2.00% - 5.00%
2014 City of Lubbock - Debt	2024	3.38%

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Debt service requirements on all long-term debt outstanding at September 30, 2016, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 561,827	\$ 289,947	\$ 851,774
2018	548,741	277,660	826,401
2019	561,036	264,744	825,780
2020	608,752	250,994	859,746
2021	489,647	235,613	725,260
2022-2026	2,556,452	968,206	3,524,658
2027-2031	3,053,441	472,441	3,525,882
2032	730,000	14,600	744,600
Unamortized Issuance Premiums	272,975		272,975
Totals	\$ 9,382,871	\$ 2,774,205	\$ 12,157,076

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2017	\$ 387,258	\$ 218,863	\$ 606,121
2018	463,866	207,427	671,293
2019	397,200	189,592	586,792
2020	457,209	174,923	632,132
2021	413,846	157,880	571,726
2022-2026	1,958,561	535,394	2,493,955
2027-2031	1,246,078	187,045	1,433,123
2032-2033	255,000	10,300	265,300
Unamortized Issuance Premiums	112,684		112,684
Totals	\$ 5,691,702	\$ 1,681,424	\$ 7,373,126

J. Capital Leases

The City has entered into various lease agreements as lessee for financing the acquisition of various equipment. The leased equipment have various estimated useful lives ranging from 5-10 years. This year, \$92,566 was included in depreciation expense. This lease agreements qualify as a capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Summary of the leased equipment as of September 30, 2016 is as follows:

	Governmental Activities	Business-Type Activities	Total
Front End Loader	\$ 157,584	\$	\$ 157,584
Dump Trucks	106,000		106,000
Police Cars	195,760		195,760
2016 Rosco Distributor	74,295		74,295
2016 Ford Explorer	39,673		39,673
2016 Ford Explorer	36,217		36,217
2016 Chevy Silverado	36,814		36,814
Backhoe/Loader		113,705	113,705
2 2016 Ford F250 4x4 Reg Cabs		55,450	55,450
Less: Accumulated Depreciation	<u>(188,541)</u>	<u>(34,336)</u>	<u>(222,877)</u>
Totals	<u>\$ 457,802</u>	<u>\$ 134,819</u>	<u>\$ 592,621</u>
Depreciation Expense - 2016	<u>\$ 74,474</u>	<u>\$ 18,092</u>	<u>\$ 92,566</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

Year Ending September 30,	Governmental Activities	Business-Type Activities	Total Minimum Lease Payments
	Minimum Lease Payments	Minimum Lease Payments	
2017	\$ 108,949	\$ 27,645	\$ 136,594
2018	83,483	27,645	111,128
2019	83,483	27,645	111,128
2020	153,482	72,644	226,126
2021	<u>16,193</u>	<u>12,004</u>	<u>28,197</u>
Total Minimum Lease Payments	\$ 445,590	\$ 167,583	\$ 613,173
Less: Amount Representing Interest Present Value of Minimum Lease Payments	<u>(28,734)</u>	<u>(13,069)</u>	<u>(41,803)</u>
	<u>\$ 416,856</u>	<u>\$ 154,514</u>	<u>\$ 571,370</u>

K. Pension Plan

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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% of the member's deposits and interest.

Currently the City has adopted the following provisions related to the pension plan:

	<u>December 31, 2015</u>
Employee Deposit Rate	6%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI

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	28
Inactive Employees Entitled to but not Yet Receiving Benefits	32
Active Employees	<u>46</u>
Total Plan Employees	<u><u>106</u></u>

Contributions

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

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Employees for the City were required to contribute 6.00% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 6.92% and 6.33% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$123,758, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

Inflation	2.5% per year
Overall Payroll Growth	2.9% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization Period	25 years

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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

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 January 1, 2010 through December 31, 2014. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are 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 EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The 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.

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

The target allocation and best estimates of arithmetic 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	17.5%	4.5%
International Equity	17.5%	6.1%
Core Fixed Income	10.0%	1.0%
Non-Core Fixed Income	20.0%	3.7%
Real Return	10.0%	4.0%
Real Estate	10.0%	5.0%
Absolute Return	10.0%	4.0%
Private Equity	5.0%	8.0%

Discount Rate

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

Changes in Net Pension Asset (Liability)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Asset (Liability)</u>
Balance 12/31/2014	\$ 6,476,413	\$ 6,748,602	\$ 272,189
Service Cost	224,555		(224,555)
Interest (on the Total Pension Liability)	451,616		(451,616)
Difference Between Expected and Actual Expenses	(186,001)		186,001
Changes of Assumptions	167,768		(167,768)
Contributions - Employee		113,672	113,672
Contributions - Employer		124,688	124,688
Net Investment Income		10,010	10,010
Benefit Payments	(345,337)	(345,337)	
Administrative Expense		(6,098)	(6,098)
Other		1,401	1,401
Balance 12/31/2015	<u>\$ 6,789,014</u>	<u>\$ 6,646,938</u>	<u>\$ (142,076)</u>

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Sensitivity of the net pension liability to changes in the discount rate

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

<u>1% Decrease</u>	<u>Current Rate Assumption</u>	<u>1% Increase</u>
\$ 995,907	\$ 142,076	\$ (569,221)

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.

Pension Expense, Deferred Outflows, and Deferred Inflows Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$182,858 and calculated as shown below:

Total Service Cost	\$ 224,555
Interest on the Total Pension Liability	451,616
Employee Contributions (Reduction of Expense)	(113,672)
Projected Earnings on Plan Investments (Reduction of Expense)	(475,001)
Administrative Expense	6,098
Other Changes in Fiduciary Net Position	(1,401)
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(19,067)
Recognition of Current Year Outflow (Inflow) of Resources-Assets	<u>109,730</u>
Total Pension Expense	<u>\$ 182,858</u>

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

<u>Deferred Outflows/(Inflows) of Resources - Pension Plan</u>	<u>Plan Year</u>	<u>Amount</u>	<u>Remaining Amortization Period</u>
Employer Contribution Deferrals	2015	\$ 86,786	1.000
Differences Between Projected and Actual Investment Earnings	2014	(18,527)	1.390
Differences Between Projected and Actual Investment Earnings	2015	(128,236)	2.220
Differences Between Expected and Actual Economic Experience	2014	115,666	2.220
Differences Between Expected and Actual Economic Experience	2015	49,921	3.000
Difference in Assumptions	2015	<u>371,993</u>	4.000
Total Deferred Outflows/(Inflows) of Resources		<u>\$ 477,603</u>	

CITY OF SLATON, TEXAS

NOTES TO FINANCIAL STATEMENTS

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Plan Year</u>	<u>Amortization of Deferred Outflows</u>
2016	\$ 177,430
2017	98,781
2018	108,393
2019	92,999
2020	
	<u>\$ 477,603</u>

L. Commitments, Contingencies, and Subsequent Events

The City has no litigation pending which would have a material impact on the financial statements.

The City has evaluated subsequent events through March 24, 2017, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

-35-
CITY OF SLATON, TEXAS
DEFINED BENEFIT RETIREMENT PLAN

SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2014</u>	<u>12/31/2015</u>
	Total Pension Liability	Total Pension Liability
Service Cost	\$ 192,098	\$ 224,555
Interest	431,485	451,616
Benefit Payments/Refunds of Employee Contributions	(339,386)	(345,337)
Differences Between Expected and Actual Experience	(45,191)	(186,001)
Changes of Assumptions		167,768
Other	<u>(8,716)</u>	<u></u>
Net Change	\$ 230,290	\$ 312,601
Beginning Balance	6,246,123	6,476,413
Ending Balance	<u>\$ 6,476,413</u>	<u>\$ 6,789,014</u>
	<u>Fiduciary</u>	<u>Fiduciary</u>
	Net Position	Net Position
Employer Contributions	\$ 116,781	\$ 125,192
Employee Contributions	105,244	113,168
Net Investment Income	371,710	10,010
Benefit Payments/Refunds of Employee Contributions	(339,386)	(345,337)
Administration Expenses	(3,881)	(6,098)
Other	<u>(9,375)</u>	<u>1,401</u>
Net Change	\$ 241,093	\$ (101,664)
Beginning Balance	6,507,509	6,748,602
Ending Balance	<u>\$ 6,748,602</u>	<u>\$ 6,646,938</u>
Net Pension Asset (Liability)	<u>\$ 272,189</u>	<u>\$ (142,076)</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	104.20%	97.91%
Covered Payroll	\$ 1,754,067	\$ 1,894,531
Net Pension Asset as a Percentage of Covered Payroll	15.52%	-7.50%

Note: Only two years of GASB 68 Data Available as of 12/31/2015. The remaining eight years of data will be built on a go forward basis.

The accompanying notes are an integral part of this statement.

**CITY OF SLATON, TEXAS
DEFINED BENEFIT RETIREMENT PLAN**

**SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2015</u>	<u>9/30/2016</u>
Actuarially Determined Contribution	\$ 122,574	\$ 123,758
Actual Contributions	<u>122,574</u>	<u>123,758</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered Payroll	\$ 1,770,048	\$ 1,903,631
Contributions as a Percentage of Covered Employee Payroll	6.92%	6.50%

Note: Only two years of GASB 68 Data Available as of 09/30/2016. The remaining eight years of Data will be built on a go forward basis.

The accompanying notes are an integral part of this statement.

CITY OF SLATON, TEXAS

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

	Original Budget	Actual	Variance with Original Budget- Positive (Negative)
REVENUE			
Taxes:			
Ad Valorem Taxes and Related	\$ 938,000	\$ 833,368	\$ (104,632)
Sales and Use Taxes	416,000	428,718	12,718
Franchise Taxes	319,000	292,397	(26,603)
Intergovernmental Revenues	64,762	80,731	15,969
Sanitation and Related Revenues	725,000	757,828	32,828
Street Revenue	400,000	381,280	(18,720)
Court Fines and Fees	51,200	34,422	(16,778)
Other Revenues and Fees	104,700	148,912	44,212
Interest	2,100	1,599	(501)
Total Revenue	<u>\$ 3,020,762</u>	<u>\$ 2,959,255</u>	<u>\$ (61,507)</u>
EXPENDITURES			
General Government	\$ 895,316	\$ 1,005,265	\$ (109,949)
Public Safety	1,226,482	1,256,304	(29,822)
Streets and Sanitation	1,107,441	1,105,874	1,567
Culture and Recreation	95,985	106,841	(10,856)
Airport	6,000	548	5,452
Debt Service - Principal	20,000	134,022	(114,022)
Debt Service - Interest and Fees	0	9,628	(9,628)
Total Expenditures	<u>\$ 3,351,224</u>	<u>\$ 3,618,482</u>	<u>\$ (267,258)</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>\$ (330,462)</u>	<u>\$ (659,227)</u>	<u>\$ (328,765)</u>
OTHER FINANCING SOURCES			
Transfers In	\$ 200,000	\$ 200,000	\$ 0
Sale of Property	0	2,675	2,675
	<u>\$ 200,000</u>	<u>\$ 202,675</u>	<u>\$ 2,675</u>
Excess (Deficit) of Revenues and Other Sources Over (Under) Expenditures and Other Uses - Budget Basis	<u>\$ (130,462)</u>	<u>\$ (456,552)</u>	<u>\$ (326,090)</u>
Reconciliation to Modified Accrual - General Fund Statement			
Non-Budgeted Items			
Revenues:			
Intergovernmental Funds		<u>\$ 195,148</u>	
Expenditures:			
Intergovernmental Funds Expended		\$ 195,148	
Capital Outlay - Debt Related		187,099	
Total Expenditures Unbudgeted		<u>\$ 382,247</u>	
Other Financing Sources:			
Loan Proceeds		\$ 187,099	
General Fund Change in Fund Balance - Modified Accrual Basis		<u>\$ (456,552)</u>	

No adjustments to the budget during the year.

The accompanying notes are an integral part of this statement.

CITY OF SLATON, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN
SEPTEMBER 30, 2016

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

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

Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.

Mortality

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

Other Information:

Changes in Assumptions:

TMRS changes the Long Term Rate of Return and Discount Rate from 7.00% to 6.75% and the Inflation Rate from 3.00% to 2.50% as result of updated experience studies during the year ended December 31, 2015.

Benefits Changes:

There were no benefit changes during the year.

CITY OF SLATON, TEXAS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SEPTEMBER 30, 2016**

BUDGETARY DATA

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Commission is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Commission.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Commission. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Commission and are not made after fiscal year end. The legal level of control is at the function level. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the City Commission
City of Slaton, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Slaton, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Slaton, Texas' basic financial statements and have issued our report thereon dated March 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Slaton, Texas' internal control over financial reporting (internal control) to determine the audit 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 City of Slaton, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Slaton, Texas' internal control.

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 consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Slaton, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

Lubbock, Texas

March 24, 2017

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

March 24, 2017

To the City Commission
City of Slaton, Texas

We have audited the financial statements of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Slaton, Texas for the year ended September 30, 2016, and have issued our report thereon dated March 24, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 5, 2016 our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Slaton. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report, in addition we do not have an obligation to perform any procedures to corroborate other information contained in these documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meetings about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Slaton 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 fiscal year ended September 30, 2016. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 estimate affecting the financial statements was:

Management's estimate of its Net Pension Asset and related amounts. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of Pensions in the notes to the financial statements given that the position of the City's Pension Plan could have material impact on the City and its future obligations.

The disclosure of Long-Term Debt and Debt Service Requirements in the notes to the financial statements given that bond interest, principal, and deferred charges are material to the financial statements.

The disclosure of Capital Assets and Depreciation in the notes to the financial statements given that asset addition, deletion, and related depreciation charges are material to the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The misstatements detected as a result of audit procedures were corrected by management and are attached to this letter.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 24, 2017.

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 auditor's 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.

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Client: **76090 - City of Slaton**
Engagement: **2016 City of Slaton**
Period Ending: **9/30/2016**
Trial Balance: **Trial Balance**
Workpaper: **Adjusting Journal Entries Report - City of Slaton**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To close Booster Pump Station #3 to fixed assets at 9/30/16			
1402.1	WATER SYSTEM-WATER FUND	2,011,500.72	
1499.1	CONSTRUCTION IN PROGRESS		2,011,500.72
Total		<u>2,011,500.72</u>	<u>2,011,500.72</u>
Adjusting Journal Entries JE # 2			
To record sewer sytem fixed asset additions during FY 2016			
1440.1	SEWER SYSTEM-WATER FUND	42,484.69	
534-6100.1	NEW CAPITAL EXP-SEWER		42,484.69
Total		<u>42,484.69</u>	<u>42,484.69</u>
Adjusting Journal Entries JE # 3			
To record FY 2016 depreciation expense on water/sewer fund			
531-7050.1	DEPRECIATION EXPENSE	332,980.40	
1403.1	WATER SYS DEPREC-WATER		69,487.00
1405.1	WATERLINE REJUV - DEPREC		85,253.56
1406.1	WASTEWATER TR PLANT DEPR		79,367.71
1412.1	AUTO DEPRECIATION - WATER		17,310.58
1423.1	EQUIPT DEPRECIATION - WATER		59,507.90
1441.1	SEWER SYS DEPR - WATER		22,053.65
Total		<u>332,980.40</u>	<u>332,980.40</u>
Adjusting Journal Entries JE # 4			
To correct property taxes receivable to reflect amounts owed as of 09/30/2016.			
1203.11	DELINQUENT TAX REC - I/S	866.78	
1203.3	DELINQUENT TAX REC - I/S	5,163.93	
1213.8	STREET RECEIVABLE	728.97	
1221.2	BAD DEBT ALLOWANCE - TAXES	679.56	
1222.8	ALLOWANCE BAD DEBT - TAXES	12,226.15	
1270.11	DEFERRED TAX REV-I&S	1,209.78	
1270.3	DEFERRED TAX REV - I & S	498.53	
1203.2	DELINQUENT TAX REC - CEMETERY		580.58
1203.8	DELINQUENT TAX REC - GEN		12,955.11
1220.11	ALLOW FOR UNCOLL.TAXES I&S		2,076.56
1220.3	ALLOW FOR UNCOLL. TAXES I/S		5,662.47
1270.2	DEFERRED TAX REV - CEMETERY		98.98
Total		<u>21,373.70</u>	<u>21,373.70</u>

Client: **76090 - City of Slaton**
Engagement: **2016 City of Slaton**
Period Ending: **9/30/2016**
Trial Balance: **Trial Balance**
Workpaper: **Adjusting Journal Entries Report - City of Slaton**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 5			
To record amounts due from appraisal district at end of year in 2016.			
1299.8	DUE FROM APPRAISAL DISTRICT	11,155.00	
1995.11	DUE FROM GENERAL FUND	411.66	
1995.3	DUE FROM GENERAL FUND	711.92	
2999.2	DUE TO GENERAL / CEMETERY	205.83	
2993.8	DUE TO I&S 2005		1,329.41
400-4001.11	PROPERTY TAX CURRENT - I/S		411.66
400-4001.3	PROPERTY TAX CURRENT - I/S		711.92
400-4001.8	CURRENT TAX REV - GEN		9,825.59
435-4001.2	CURRENT TAX REVENUE - CEM		205.83
Total		12,484.41	12,484.41
Adjusting Journal Entries JE # 6			
To record additional allowance for doubtful accounts based on current year amounts uncollected.			
531-7000.1	MISC EXP WATER DEPT	31,000.00	
1220.1	ALLOW. FOR BAD DEBTS W/S		31,000.00
Total		31,000.00	31,000.00
Adjusting Journal Entries JE # 7			
To true up long term payable to CRMWA as of 09302016.			
531-4501.1	CRMWA WATER O & M	11,864.80	
2344.1	NOTE PAYABLE-'CRMWA O&M		11,864.80
Total		11,864.80	11,864.80
Adjusting Journal Entries JE # 8			
To adjust net pension liability.			
531-1400.1	TMRS - WATER	27,214.90	
532-1400.1	TMRS - PIPELINE	25,515.81	
534-1400.1	TMRS - SEWER	14,036.29	
2900.1	NET PENSION LIABILITY		66,767.00
Total		66,767.00	66,767.00
Adjusting Journal Entries JE # 9			
To adjust nine month contribution deferral.			
531-1400.1	TMRS - WATER	833.43	
532-1400.1	TMRS - PIPELINE	781.40	
534-1400.1	TMRS - SEWER	429.85	
1800.1	FEFER OUTFL OF RESOR-ER CONTRI		2,044.68
Total		2,044.68	2,044.68

Client: **76090 - City of Slaton**
Engagement: **2016 City of Slaton**
Period Ending: **9/30/2016**
Trial Balance: **Trial Balance**
Workpaper: **Adjusting Journal Entries Report - City of Slaton**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 10			
To adjust deferred outflows and inflows related to actuarial differences.			
1801.1	DEF OTFL RESOR-OTHER ACT DIFFE	72,280.39	
2800.1	AUDITORS SUSPENSE		17,480.82
531-1400.1	TMRS - WATER		22,336.86
532-1400.1	TMRS - PIPELINE		20,942.31
534-1400.1	TMRS - SEWER		11,520.40
Total		72,280.39	72,280.39

Adjusting Journal Entries JE # 11

To record additional accounts payable.

500-4012.8	CITY OF SLATON / CELL PHONES	5,435.54	
520-2100.8	SUPPLIES & MAINT ACCT/FINANCE	75.00	
520-2100.8	SUPPLIES & MAINT ACCT/FINANCE	193.97	
523-1501.8	EDUCATION - CODE ENF	74.00	
523-3100.8	GASOLINE - CODE ENF	47.10	
524-2100.8	SUPPLIES & MAINT - BLDG OPER	12.57	
524-2100.8	SUPPLIES & MAINT - BLDG OPER	252.50	
525-2100.8	SUPPLIES & MAINT STREET/SAN	1,238.78	
527-1503.8	TRAVEL EXPENSE ADMIN/COUNCIL	241.16	
527-1503.8	TRAVEL EXPENSE ADMIN/COUNCIL	259.90	
528-1601.8	DUES, LICENSES, ETC - FIRE DEP	383.95	
531-2100.1	SUPPLY & MAINT - WATER	65.00	
531-6181.1	WATER SYSTEM EXPENSE	175.00	
532-2100.1	SUPPLIES & MAINT - PIPE CREW	40.98	
532-2100.1	SUPPLIES & MAINT - PIPE CREW	139.95	
534-6100.1	NEW CAPITAL EXP-SEWER	5,000.00	
2000.1	A/P PENDING - WATER		5,420.93
2000.8	A/P PENDING - GENERAL FUND		8,214.47
Total		13,635.40	13,635.40

Adjusting Journal Entries JE # 12

To record new capital leases in FY 2016

1411.1	AUTOMOBILES - WATER FUND	55,450.32	
525-6100.8	NEW CAPITAL EXPENDITURES	74,294.50	
529-6100.8	NEW CAPITAL EXP - GEN	112,804.24	
2307.1	CAPITAL LEASE PAYABLE		55,450.32
400-4605.8	LOAN PROCEEDS		187,098.74
Total		242,549.06	242,549.06

Adjusting Journal Entries JE # 13

To record FY2016 amortization expense on investments in water rights

531-7090.1	AMORTIZATION OF WATER RIGHTS	319,893.88	
1144.1	AMORTIZATION OF WATER RIGHTS		319,893.88
Total		319,893.88	319,893.88

Client: **76090 - City of Slaton**
 Engagement: **2016 City of Slaton**
 Period Ending: **9/30/2016**
 Trial Balance: **Trial Balance**
 Workpaper: **Adjusting Journal Entries Report - City of Slaton**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 14			
To adjust accrued wages.			
517-1100.8	SALARIES - LIBRARY	125.18	
520-1100.8	SALARIES - ACCT & FIN	34.96	
520-1100.8	SALARIES - ACCT & FIN	302.53	
523-1100.8	SALARIES - CODE ENF	267.62	
523-1101.8	OVERTIME - CODE ENF	2.49	
525-1100.8	SALARIES - STREET & SANIT	503.88	
527-1100.8	SALARIES - ADMIN	770.60	
527-7000.8	MISC EXPENSE ADMIN/EMER MGMT	11.87	
528-1100.8	SALARIES - FIRE DEPT	540.22	
529-1100.8	SALARIES - POLICE DEPT	2,012.77	
529-1600.8	UNIFORMS - POLICE DEPT	1.70	
531-1100.1	SALARIES - WATER	714.41	
531-1101.1	OVERTIME - WATER	75.13	
531-1600.1	UNIFORMS - WATER	3.59	
532-1100.1	SALARIES - PIPELINE	723.43	
532-1101.1	OVERTIME - PIPELINE	65.61	
532-1600.1	UNIFORMS - PIPELINE	3.59	
534-1100.1	SALARIES - SEWER	367.70	
534-1101.1	OVERTIME - SEWER	156.75	
535-1100.2	SALARIES - CEMETERY	299.37	
2304.1	ACCRUED PAYROLL - WATER FUND		2,110.22
2304.2	ACCRUED PAYROLL - CEMETERY		299.37
2304.8	ACCRUED PAYROLL - GEN FUND		4,573.81
Total		6,983.40	6,983.40

Adjusting Journal Entries JE # 15

To reclass insurance expense.

1995.3	DUE FROM GENERAL FUND	59,780.81	
2993.8	DUE TO I&S 2005	733.94	
2999.2	DUE TO GENERAL / CEMETERY	9,377.42	
400-4001.11	PROPERTY TAX CURRENT - I/S	69,892.17	
529-1300.8	HEALTH INSURANCE - POLICE DE	35,782.60	
1995.11	DUE FROM GENERAL FUND		69,892.17
400-4001.3	PROPERTY TAX CURRENT - I/S		59,780.81
400-4001.8	CURRENT TAX REV - GEN		9,377.42
435-4001.2	CURRENT TAX REVENUE - CEM		733.94
529-1100.8	SALARIES - POLICE DEPT		32,799.78
529-1101.8	OVERTIME - POLICE DEPT		2,982.82
Total		175,566.94	175,566.94