

CITY OF TULIA, TEXAS

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Table of Contents

	<u>Exhibit No.</u>	<u>Page No.</u>
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis (Required Supplementary Information)		3
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position	A-1	10
Statement of Activities	B-1	11
Fund Financial Statements:		
Balance Sheet – Governmental Funds	C-1	12
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position	C-2	13
Statement of Revenues, Expenditures and Changes in		
Fund Balance – Governmental Funds	C-3	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balance of Governmental Funds to the Statement of Activities	C-4	15
Statement of Net Position – Proprietary Funds	D-1	16
Statement of Revenues, Expenses and Changes in Fund Net Position –		
Proprietary Funds	D-2	17
Statement of Cash Flows – Proprietary Funds	D-3	18
Notes to Financial Statements		20
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedule - General Fund	E-1	48
Schedule of Changes in Net Pension Liability and Related Ratios	E-2	49
Schedule of Employer Contributions	E-3	50
Notes to Required Supplementary Information		51
<u>Other Supplementary Information:</u>		
Combining Statement of Net Position - Internal Service Funds	F-1	53
Combining Statement of Revenues, Expenses, and Changes in		
Net Position - Internal Service Funds	F-2	54
Combining Statement of Cash Flows - Internal Service Funds	F-3	55
COMPLIANCE SECTION		
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		56

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tulia, Texas (the City) as of and for the year ended September 30, 2015, 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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the basic financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, during the year ended September 30, 2015, which requires recognition of its net pension liability and a more comprehensive measure of pension expense. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Contributions on pages 3 through 9 and pages 48 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2016, 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 the City's internal control over financial reporting and compliance.

Dennis Kenard & Co., PC
Certified Public Accountants

Plainview, Texas
March 3, 2016

Management's Discussion and Analysis



Management's Discussion and Analysis City of Tulia, Texas

In this section of the Annual Financial and Compliance Report we, the City Management of the City of Tulia, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2015. Please read it in conjunction with the independent auditors' report and the City's Basic Financial Statements.

Background Information

The City of Tulia was incorporated in 1909, under the Statutes of the State of Texas. The City operates under a mayor/councilman form of government and provides the services of administration, building maintenance, financial administration, legislative, municipal court, code enforcement, fire protection, police, sanitation (collection and disposal), streets, parks and recreation, water and sewer, electric, and a revolving loan fund

Financial Highlights:

The City's assets exceeded its liabilities by \$4,002,225 (net position) for the fiscal year reported.

Total net position are comprised of the following:

1. Net investment in capital assets of \$1,259,842; includes property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
2. Net position restricted for debt service totaled \$368,343.
3. Unrestricted net position of \$2,374,030 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
4. Net position restricted for tourism totaled \$10.

The City's governmental funds reported total ending fund balances of \$281,532 this year. \$281,522 is unreserved.

The City's net position increased by \$214,426 during the fiscal year. Governmental activities increased by \$98,479, and business-type activities increased by \$115,947.

Using this Annual Report

Management's Discussion and Analysis introduces the City's basic financial statements. The Basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

The City also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements:

The City's annual report includes two *government-wide financial statements*. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these government-wide statements is the *statement of net position*. This City-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deterioration. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City's infrastructure in addition to the financial information provided in this report.

Table 1
City's Net Position (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Component Unit	
	2015	2014	2015	2014	2015	2014	2015	2014
Assets								
Current and other assets	\$ 798	\$ 666	\$ 3,775	\$ 3,845	\$ 4,573	\$ 4,511	399	\$ 357
Capital assets	542	589	3,936	4,216	4,478	4,805	-	-
Total assets	1,340	1,255	7,711	8,061	9,051	9,316	399	357
Deferred outflow of resources								
	134	-	164	106	298	106	-	-
Liabilities								
Current liabilities	84	57	418	887	502	944	2	-
Long-term liabilities	258	25	4,465	4,324	4,723	4,349	-	-
Total liabilities	342	82	4,883	5,211	5,225	5,293	2	-
Deferred inflow of resources								
	79	-	44	-	123	-	-	-
Net position								
Net investment in capital assets	509	589	750	598	1,259	1,187	-	-
Restricted	-	4	368	368	368	372	-	-
Unrestricted	544	580	1,830	1,990	2,374	2,570	397	357
Total net position	\$ 1,053	\$ 1,173	\$ 2,948	\$ 2,956	\$ 4,001	\$ 4,129	397	\$ 357

The largest portion of the City's net position (73.7%) reflects the net position of the business-type activities. In addition 31.5% of net position represents the City's investment in capital assets (e.g., land, buildings, equipment, furnishings, infrastructure, and water rights); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position \$2,374,030 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for the government as a whole.

The second government-wide statement is the *statement of activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the *statement of activities* is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

	Governmental Activities		Business-Type Activities		Total		Component Unit	
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues:								
Program revenues								
Charges for services	\$ 34	\$ 71	\$ 4,723	\$ 5,000	\$ 4,757	\$ 5,071	\$ -	\$ -
Operating grants	116	176	-	-	116	176	-	-
General revenues								
Property taxes	359	344	-	-	359	344	-	-
Sales taxes	214	207	-	-	214	207	107	103
Other taxes	511	492	-	-	511	492	-	-
Other revenues	40	62	101	299	141	361	1	1
Total revenues	<u>1,274</u>	<u>1,352</u>	<u>4,824</u>	<u>5,299</u>	<u>6,098</u>	<u>6,651</u>	<u>108</u>	<u>104</u>
Expenses:								
Administration	274	287	-	-	274	287	60	65
Building maintenance	37	34	-	-	37	34	-	-
Financial administration	118	117	-	-	118	117	-	-
Legislative	134	125	-	-	134	125	-	-
Municipal court	35	36	-	-	35	36	-	-
Code enforcement	2	1	-	-	2	1	-	-
Fire protection	60	77	-	-	60	77	-	-
Police	946	1,088	-	-	946	1,088	-	-
Street department	281	249	-	-	281	249	-	-
Parks and recreation	165	161	-	-	165	161	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Water and sewer	-	-	975	1,288	975	1,288	-	-
Electric	-	-	2,554	2,812	2,554	2,812	-	-
Revolving loan	-	-	-	33	-	33	-	-
Sanitation	-	-	312	356	312	356	-	-
Total expenses	<u>2,052</u>	<u>2,175</u>	<u>3,841</u>	<u>4,489</u>	<u>5,893</u>	<u>6,664</u>	<u>60</u>	<u>65</u>
Change in net position before other items	(778)	(823)	983	810	205	(13)	48	39
Transfers (net)	876	943	(867)	(934)	9	9	(9)	(9)
Change in net position after other items	98	120	116	(124)	214	(4)	39	30
Net position, beg. of year								
- previously reported	1,173	1,053	2,956	3,080	4,129	4,133	357	327
Prior period adjustments	(218)	-	(123)	-	(341)	-	-	-
Net position, beg. of year - as restated	955	1,053	2,833	3,080	3,788	4,133	357	327
Net position, end of year	<u>\$ 1,053</u>	<u>\$ 1,173</u>	<u>\$ 2,949</u>	<u>\$ 2,956</u>	<u>\$ 4,002</u>	<u>\$ 4,129</u>	<u>\$ 396</u>	<u>\$ 357</u>

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and parks and recreation. Business-type activities include water, sewer and electric utilities and sanitation.

Fund Financial Statements:

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's individual funds rather than the City as a whole.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The city has three proprietary funds, the Water and Sewer Fund, the Electric Fund, and the Sanitation Fund. Proprietary funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$281,532, an increase of \$27,492 in comparison with the prior year. 99.9% of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remaining fund balance is restricted for special purposes in the hotel/motel special revenue fund. The general fund is the chief operating fund of the City. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Both unassigned and total fund balance represents 14.3% of total general fund expenditures. A general rule of thumb is for governments to maintain an unassigned fund balance of approximately 25 to 30% of total general fund expenditures.

Budgetary Highlights

Budgets reflect the same pattern as seen in the revenue and expenditures of the City. To enhance the process of developing a budget, the City utilizes goals and objectives defined by the mayor and city aldermen, community input, long-term plans and input from various staff groups. City priorities are well defined through this process.

The General Fund is the only major budgetary fund.

The following table examines the summary budget performance of the General Fund for the fiscal year ending September 30, 2015. Detail budget performance is examined through the Budgetary Comparison Schedule on page 48.

Table 3
CITY OF TULIA, TEXAS
FUNDS EXPENDITURE BUDGET PERFORMANCE

	Final Amended Budget	Actual Amounts Budgetary Basis	Variance
General Fund	\$ 2,131,454	\$ 1,965,752	\$ 165,702

Capital Asset and Debt Administration

Capital assets: The City's investment in capital assets as of September 30, 2015, amounts to \$4,478,538 (net of accumulated depreciation of \$14,298,955). Capital additions totaling \$194,845 were made during the year, with \$75,801 in governmental activities and \$119,044 in business-type activities.

Table 4
City's Capital Assets
(net of depreciation, in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 189	\$ 189	\$ 220	\$ 220	\$ 409	\$ 409
Construction in progress	-	-	495	506	495	506
Buildings and land improvements	142	134	254	280	396	414
Equipment	79	126	676	754	755	880
Infrastructure	-	-	1,060	1,111	1,060	1,111
Vehicles	128	135	47	78	175	213
Other	4	5	-	-	4	5
Water rights	-	-	1,184	1,267	1,184	1,267
Total	\$ 542	\$ 589	\$ 3,936	\$ 4,216	\$ 4,478	\$ 4,805

Long-term Debt: The City had five separate bond issuances outstanding as of September 30, 2015. Details on the City's debt obligations can be found in the notes to the financial statements.

Table 5
CITY OF TULIA, TEXAS
LONG-TERM LIABILITIES

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Landfill closure & post-closure liability	\$ -	\$ -	\$ 81	\$ 80	\$ 81	\$ 80
Accrued vacation	33	25	14	14	47	39
Bonds payable, net	-	-	4,232	4,776	4,232	4,776
Capital lease payable	33	-	24	-	57	-
Net pension liability	225	-	128	-	353	-
Total	\$ 291	\$ 25	\$ 4,479	\$ 4,870	\$ 4,770	\$ 4,895

Notes to the Financial Statements:

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Summary and Future Outlook:

This past year has been positive for municipal finances and the state of the city. The city continues to rely on its business or enterprise funds to finance not only the services provided by its electric, water distribution, sanitary sewer collection, wastewater treatment plant, and solid waste collection and landfill operations but also to subsidize the operations and services usually funded by property taxes, sales taxes, and other revenue sources. This will continue to be the trend in the coming years until additional or new economic growth occurs in the city and Swisher County.

Charges and fees for services such as the electric utility and water utility will need to be monitored on a close basis to continue the positive revenue position that allows the continued success of the PILOT (payments in lieu of taxes) program established several years ago within the city's financial and revenue structure. To this end, the City of Tulia along with other cities in the West Texas Municipal Power Agency are now engaged in finding a competitive and financially sound electric power generation company that will enter into a new contract for power in 2019 when the current power contract expires. The wholesale cost of power is important to the city and to the customers we serve because of the changes in federal and state regulations regarding the electric utility industry. The days of long term contracts with known costs and fees for 20 or 30 years is over. It is the goal of this city to find the best and most reliable deal per kilowatt hour possible after 2019 and beyond. The current electric system rebuild project is entering its 11th year and will continue for at least another 3 years. Additional funding may need to be acquired to finish out the project.

Water is also another utility that will continue to merit increased attention in the Texas Panhandle, the State of Texas, and the nation. The city is completing a water resource supply study and will undoubtedly look at acquiring some additional supply for its future water bank. A close examination of the city's water utility distribution system will also be a focus of attention in the next year. This will include a review of the city's metering system for water consumption and electricity consumption.

In addition to system improvements to the electric utility and water utility, the city is also beginning the work on the capital improvement program for the next 5 to 10 years to include results from the recently completed street assessment study and the upcoming municipal swimming pool improvement report. Improving the city's street system was listed as the number one priority in the city's 2014 Strategic Plan. An often overlooked asset is the city/county airport. The City of Tulia and Swisher County will receive funding from the Aviation Division of the Texas Department of Transportation to rehabilitate the runway and taxiway at the Tulia/Swisher County Airport. This improvement will allow the two governmental entities to consider other upgrades for aviation services at the airport in the next 10 years. Unfortunately the project will not begin until 2017 because of funding limitations caused by national politics.

The city's economic development tax will be examined to determine what the greatest benefit can be gained through its use as a job generator by developing additional acreage the EDC owns on Interstate 27 and by using it to improve the quality of life for current and future residents in Tulia.

Not only is the condition of the city's infrastructure (streets, parks, utility lines, landfill) important but also the organization's people are crucial as well since they answer the calls for service (police officers, volunteer firefighters, and public works personnel) and deliver the service directly to the citizens. The city's employees need to be trained on a regular and scheduled basis to keep their skills up while adopting new technology and doing it in a safe way. Providing city services using new skills and up to date equipment in a safe manner will bring benefit to not only the organization but also to the citizens and taxpayers.

The future of many small Texas cities will be influenced by how well we plan now and implement those plans for a safe and sufficient water supply, reliable and safe utility services delivered at affordable rates, a transportation system with emphasis on preventive maintenance, and a well-trained and skilled workforce responsive to the community's needs and citizen requests for service.

Contacting the City's Financial Management:

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact City Hall at City of Tulia, P.O. Box 847, Tulia, Texas 79088.

Additional Component Unit Information:

Separately issued financial statements for the City's component unit can be obtained by writing to: Tulia Economic Development Corporation, P.O. Box 847, Tulia, Texas 79088.

Basic Financial Statements

CITY OF TULIA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Primary Government			Component
	Governmental	Business		Unit
		Activities	Type	Total
		Activities		Development
				Corporation
ASSETS				
Cash and cash equivalents	\$ 524,205	\$ 1,676,713	\$ 2,200,918	\$ 314,876
Receivables (net of allowances)	89,806	479,276	569,082	-
Internal balances	45,000	(45,000)	-	-
Intergovernmental receivables	35,915	-	35,915	27,593
Prepaid items	-	-	-	4,750
Notes receivable - current portion	-	42,306	42,306	6,077
Notes receivable - long term portion	-	90,371	90,371	45,541
Restricted cash and cash equivalents	-	1,531,762	1,531,762	-
Investment in joint venture	103,267	-	103,267	-
Capital assets:				
Land	189,298	219,970	409,268	-
Construction in progress	-	494,664	494,664	-
Buildings and land improvements, net	141,689	254,310	395,999	-
Equipment, net	79,429	675,588	755,017	-
Infrastructure, net	-	1,060,277	1,060,277	-
Vehicles, net	127,529	47,168	174,697	-
Other, net	4,189	-	4,189	-
Water rights, net	-	1,184,427	1,184,427	-
TOTAL ASSETS	<u>1,340,327</u>	<u>7,711,832</u>	<u>9,052,159</u>	<u>398,837</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges for refunding	-	88,240	88,240	-
Deferred outflows-pension	133,648	75,887	209,535	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>133,648</u>	<u>164,127</u>	<u>297,775</u>	<u>-</u>
LIABILITIES				
Accounts payable	50,974	207,184	258,158	2,129
Accrued interest payable	-	14,526	14,526	-
Due to other governments	-	-	-	-
Customer meter deposits	-	181,594	181,594	-
Accrued vacation	33,323	14,404	47,727	-
Noncurrent liabilities				
Due within one year	10,203	559,491	569,694	-
Due in more than one year	22,587	3,777,629	3,800,216	-
Net pension liability	224,696	127,588	352,284	-
TOTAL LIABILITIES	<u>341,783</u>	<u>4,882,416</u>	<u>5,224,199</u>	<u>2,129</u>
DEFERRED INFLOWS OF RESOURCES	78,778	44,732	123,510	-
NET POSITION				
Net investment in capital assets	509,344	750,498	1,259,842	-
Restricted for tourism	10	-	10	-
Restricted for debt service	-	368,343	368,343	-
Unrestricted	544,060	1,829,970	2,374,030	396,708
TOTAL NET POSITION	<u>\$ 1,053,414</u>	<u>\$ 2,948,811</u>	<u>\$ 4,002,225</u>	<u>\$ 396,708</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF TULIA, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015**

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Administrative	\$ 273,666	\$ 12,188	\$ -
Building maintenance	36,837	-	-
Financial administration	118,407	-	-
Legislative	133,806	-	-
Municipal court	34,754	14,634	-
Code enforcement	2,485	-	-
Fire protection	60,269	-	30,000
Police	946,310	270	86,480
Street department	280,454	-	-
Parks and recreation	164,858	7,363	-
Total Governmental Activities	<u>2,051,846</u>	<u>34,455</u>	<u>116,480</u>
Business-Type Activities			
Water and sewer	975,241	1,265,122	-
Electric	2,554,257	2,892,152	-
Revolving loan fund	-	3,151	-
Sanitation	311,893	562,624	-
Total Business-Type Activities	<u>3,841,391</u>	<u>4,723,049</u>	<u>-</u>
Total Primary Government	\$ <u>5,893,237</u>	\$ <u>4,757,504</u>	\$ <u>116,480</u>
Component unit:			
Tulia Economic Development Corporation	\$ <u>59,530</u>	\$ -	\$ -

General Revenues and Transfers

Property taxes, levied for general purposes
Sales tax
Other taxes
Penalty and interest
Miscellaneous revenues
Sale of assets
Investment income
Transfers In (Out)
Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position - Ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Tulia Economic Development Corporation
\$ (261,478)	\$ -	\$ (261,478)	\$ -
(36,837)	-	(36,837)	-
(118,407)	-	(118,407)	-
(133,806)	-	(133,806)	-
(20,120)	-	(20,120)	-
(2,485)	-	(2,485)	-
(30,269)	-	(30,269)	-
(859,560)	-	(859,560)	-
(280,454)	-	(280,454)	-
(157,495)	-	(157,495)	-
<u>(1,900,911)</u>	<u>-</u>	<u>(1,900,911)</u>	<u>-</u>
-	289,881	289,881	-
-	337,895	337,895	-
-	3,151	3,151	-
-	250,731	250,731	-
<u>-</u>	<u>881,658</u>	<u>881,658</u>	<u>-</u>
<u>(1,900,911)</u>	<u>881,658</u>	<u>(1,019,253)</u>	<u>-</u>
-	-	-	(59,530)
358,833	-	358,833	-
213,629	-	213,629	106,814
438,044	-	438,044	-
72,886	-	72,886	-
31,357	96,083	127,440	950
7,780	-	7,780	-
586	4,981	5,567	434
876,275	(866,775)	9,500	(9,500)
<u>1,999,390</u>	<u>(765,711)</u>	<u>1,233,679</u>	<u>98,698</u>
98,479	115,947	214,426	39,168
1,173,282	2,955,729	4,129,011	357,540
<u>(218,347)</u>	<u>(122,865)</u>	<u>(341,212)</u>	<u>-</u>
<u>\$ 1,053,414</u>	<u>\$ 2,948,811</u>	<u>\$ 4,002,225</u>	<u>\$ 396,708</u>

CITY OF TULIA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Hotel/Motel Tax Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 186,356	\$ 1,987	\$ 188,343
Taxes receivable (net)	28,457	-	28,457
Receivables (net)	59,602	1,747	61,349
Intergovernmental receivables	35,915	-	35,915
Due from other funds	49,993	-	49,993
TOTAL ASSETS	<u>\$ 360,323</u>	<u>\$ 3,734</u>	<u>\$ 364,057</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 47,250	\$ 3,724	\$ 50,974
Total liabilities	<u>47,250</u>	<u>3,724</u>	<u>50,974</u>
Deferred Inflows of Resources			
Unavailable revenue - property tax	28,457	-	28,457
Unavailable revenue - fines	3,094	-	3,094
Total deferred inflows of resources	<u>31,551</u>	<u>-</u>	<u>31,551</u>
Fund balances:			
Restricted	-	10	10
Unassigned	281,522	-	281,522
Total fund balances	<u>281,522</u>	<u>10</u>	<u>281,532</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 360,323</u>	<u>\$ 3,734</u>	<u>\$ 364,057</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TULIA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total fund balances - Governmental Funds	\$	281,532
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		542,134
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. As a result, these liabilities decrease net position:		
Compensated absences payable		(33,323)
The City uses internal service funds to charge costs of certain activities, such as the workers compensation insurance fund and the capital replacement fund, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of these consolidations is to increase net position.		298,079
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability in the amount of \$224,696, a deferred outflow of resources of \$133,648 and a deferred inflow of resources of \$78,778. The net effect is to decrease net position.		(169,826)
Other adjustments are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. Net property taxes receivable of \$28,457 and net court fines receivable of \$3,094 were unavailable to pay for the current period expenditures and are deferred in the governmental funds but included in the statement of net position.		31,551
The City's investment in joint venture is not reported in the governmental funds but is included in the statement of net position.		<u>103,267</u>
Net Position of Governmental Activities	\$	<u><u>1,053,414</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF TULIA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Hotel/Motel Tax Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property taxes	\$ 358,522	\$ -	\$ 358,522
Sales taxes	213,629	-	213,629
Other taxes	423,831	14,213	438,044
Penalty and interest on taxes	72,886	-	72,886
Licenses and permits	7,923	-	7,923
Intergovernmental revenues and grants	116,480	-	116,480
Charges for services	13,322	-	13,322
Fines	23,027	-	23,027
Investment earnings	128	-	128
Other revenue	31,357	-	31,357
Total revenues	<u>1,261,105</u>	<u>14,213</u>	<u>1,275,318</u>
EXPENDITURES			
Current:			
Administrative	250,706	-	250,706
Building maintenance	36,837	-	36,837
Financial administration	119,015	-	119,015
Legislative	133,806	-	133,806
Municipal court	34,754	-	34,754
Code enforcement	2,485	-	2,485
Fire protection	51,967	-	51,967
Police	896,064	-	896,064
Street department	279,502	-	279,502
Parks and recreation	132,387	18,415	150,802
Capital outlay	28,229	-	28,229
Total expenditures	<u>1,965,752</u>	<u>18,415</u>	<u>1,984,167</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(704,647)</u>	<u>(4,202)</u>	<u>(708,849)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,004,083	1,977	1,006,060
Sale of assets	7,780	-	7,780
Transfers out	(277,499)	-	(277,499)
Total other financing sources (uses)	<u>734,364</u>	<u>1,977</u>	<u>736,341</u>
NET CHANGE IN FUND BALANCES	29,717	(2,225)	27,492
FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED	<u>251,805</u>	<u>2,235</u>	<u>254,040</u>
FUND BALANCES AT END OF YEAR	<u>\$ 281,522</u>	<u>\$ 10</u>	<u>\$ 281,532</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TULIA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015

Total net changes in fund balances - Governmental Funds	\$	27,492
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(122,267)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. For the year ended September 30, 2015, the amount of capital outlays was \$75,801. The net effect of including the 2015 capital outlays is to increase net position.		75,801
Changes in long-term liabilities for compensated absences are not reported in the governmental funds but are included in the statement of activities.		(8,743)
Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of revenues. Contributions made after the measurement date caused the change in net position to decrease in the amount of \$35,600. The District's share of the unrecognized deferred inflows and outflows for TMRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to increase in the amount of \$82,154. The net effect is an increase in net position.		46,554
The City uses internal service funds to charge costs of certain activities, such as the workers compensation insurance fund and the capital replacement fund, to appropriate functions in other funds. The net income of the internal service funds are reported in governmental activities. The net effect of these consolidations is to decrease net position.		100,868
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue. The net effect of all the other reclassifications and eliminations was to increase net position.		(9,506)
The net decrease for the year in the investment in joint venture is not reported in the governmental funds but is included in the statement of activities.		<u>(11,720)</u>
Change in Net Position of Governmental Activities	\$	<u>98,479</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TULIA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Sanitation Fund
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 192,354	\$ 1,387,711	\$ 1,035
Receivables (net of allowances)	133,204	296,184	49,888
Notes Receivable - current	-	-	-
Total current assets	<u>325,558</u>	<u>1,683,895</u>	<u>50,923</u>
Non-current assets:			
Restricted assets:			
Cash and cash investments	875,898	655,864	-
Notes receivable - long-term	-	-	-
Capital assets:			
Land	152,354	67,616	-
Land improvements	2,242,849	416,775	17,364
Equipment	4,983,414	1,745,308	341,342
Infrastructure	-	2,247,052	-
Vehicles	146,683	438,508	326,986
Construction in progress	-	494,664	-
Accumulated depreciation	(6,605,542)	(3,653,411)	(609,985)
Water supply contracts	3,310,000	-	-
Accumulated amortization	(2,125,573)	-	-
Total noncurrent assets	<u>2,980,083</u>	<u>2,412,376</u>	<u>75,707</u>
TOTAL ASSETS	<u>3,305,641</u>	<u>4,096,271</u>	<u>126,630</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges for refunding	-	88,240	-
Deferred outflows-pension	19,287	42,855	13,745
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>19,287</u>	<u>131,095</u>	<u>13,745</u>
LIABILITIES			
Current liabilities:			
Accounts payable	36,956	161,077	9,151
Accrued interest payable	7,770	5,816	940
Current portion of long-term debt	375,875	176,164	7,452
Due to other funds	-	-	45,000
Customer meter deposits	55,725	125,869	-
Total current liabilities	<u>476,326</u>	<u>468,926</u>	<u>62,543</u>
Noncurrent liabilities:			
Accrued landfill closure/postclosure costs	-	-	81,149
Accrued vacation	1,769	9,277	3,358
Capital lease payable	-	-	-
Long-term debt due after one year	2,106,057	1,574,191	16,232
Net pension liability	32,428	72,051	23,109
Total noncurrent liabilities	<u>2,140,254</u>	<u>1,655,519</u>	<u>123,848</u>
TOTAL LIABILITIES	<u>2,616,580</u>	<u>2,124,445</u>	<u>186,391</u>
DEFERRED INFLOWS OF RESOURCES	11,369	25,261	8,102
NET POSITION			
Net investment in capital assets	278,309	420,166	52,023
Restricted for debt service	164,117	204,226	-
Unrestricted net position	254,553	1,453,268	(106,141)
TOTAL NET POSITION	<u>\$ 696,979</u>	<u>\$ 2,077,660</u>	<u>\$ (54,118)</u>

The accompanying notes are an integral part of these financial statements.

<u>Revolving Loan Fund</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities: Internal Service Fund</u>
\$ 95,613	\$ 1,676,713	\$ 335,862
-	479,276	-
42,306	42,306	-
<u>137,919</u>	<u>2,198,295</u>	<u>335,862</u>
-	1,531,762	-
90,371	90,371	-
-	219,970	-
-	2,676,988	-
-	7,070,064	-
-	2,247,052	-
-	912,177	-
-	494,664	-
-	(10,868,938)	-
-	3,310,000	-
-	(2,125,573)	-
<u>90,371</u>	<u>5,558,537</u>	<u>-</u>
<u>228,290</u>	<u>7,756,832</u>	<u>335,862</u>
-	88,240	-
-	75,887	-
<u>-</u>	<u>164,127</u>	<u>-</u>
-	207,184	-
-	14,526	-
-	559,491	-
-	45,000	4,993
-	181,594	-
<u>-</u>	<u>1,007,795</u>	<u>4,993</u>
-	81,149	-
-	14,404	-
-	-	32,790
-	3,696,480	-
-	127,588	-
<u>-</u>	<u>3,919,621</u>	<u>32,790</u>
<u>-</u>	<u>4,927,416</u>	<u>37,783</u>
-	44,732	-
-	750,498	-
-	368,343	-
228,290	1,829,970	298,079
<u>\$ 228,290</u>	<u>\$ 2,948,811</u>	<u>\$ 298,079</u>

CITY OF TULIA, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Electric Fund	Sanitation Fund
OPERATING REVENUES:			
Charges for water and sewer services	\$ 1,265,122	\$ -	\$ -
Charges for electric services	-	2,892,152	-
Charges for sanitation services	-	-	562,624
Interest received on notes receivable	-	-	-
Employee contributions	-	-	-
Employer contributions	-	-	-
Miscellaneous	-	69,223	26,860
Total operating revenues	<u>1,265,122</u>	<u>2,961,375</u>	<u>589,484</u>
OPERATING EXPENSES:			
Personal services	149,394	341,798	130,025
Supplies and materials	44,536	38,867	66,544
Maintenance	196,086	43,642	35,147
Contractual services	302,856	1,935,172	12,823
Other expenses	27,571	8,416	13,290
Depreciation and amortization	180,265	127,957	53,124
Claims paid	-	-	-
Insurance premiums paid	-	-	-
Total operating expenses	<u>900,708</u>	<u>2,495,852</u>	<u>310,953</u>
OPERATING INCOME (LOSS)	364,414	465,523	278,531
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	1,411	3,335	127
Interest expense and bond issuance costs	(74,533)	(58,405)	(940)
Total nonoperating revenue (expenses)	<u>(73,122)</u>	<u>(55,070)</u>	<u>(813)</u>
Income before other financing sources (uses)	<u>291,292</u>	<u>410,453</u>	<u>277,718</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	161,552	51,582	49,160
Transfers out	(355,552)	(430,791)	(342,726)
Total other financing sources (uses)	<u>(194,000)</u>	<u>(379,209)</u>	<u>(293,566)</u>
CHANGES IN NET POSITION	<u>97,292</u>	<u>31,244</u>	<u>(15,848)</u>
TOTAL NET POSITION - BEGINNING AS PREVIOUSLY REPORTED	630,914	2,115,800	(16,016)
PRIOR PERIOD ADJUSTMENT	<u>(31,227)</u>	<u>(69,384)</u>	<u>(22,254)</u>
TOTAL NET POSITION - BEGINNING - AS RESTATED	<u>599,687</u>	<u>2,046,416</u>	<u>(38,270)</u>
TOTAL NET POSITION - ENDING	<u>\$ 696,979</u>	<u>\$ 2,077,660</u>	<u>\$ (54,118)</u>

The accompanying notes are an integral part of these financial statements.

<u>Revolving Loan Fund</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities: Internal Service Fund</u>
\$ -	\$ 1,265,122	\$ -
-	2,892,152	-
-	562,624	-
3,151	3,151	-
-	-	58,195
-	-	105,442
-	96,083	-
<u>3,151</u>	<u>4,819,132</u>	<u>163,637</u>
-	621,217	-
-	149,947	-
-	274,875	-
-	2,250,851	-
-	49,277	-
-	361,346	-
-	-	11,441
-	-	154,502
<u>-</u>	<u>3,707,513</u>	<u>165,943</u>
3,151	1,111,619	(2,306)
108	4,981	458
-	(133,878)	-
<u>108</u>	<u>(128,897)</u>	<u>458</u>
<u>3,259</u>	<u>982,722</u>	<u>(1,848)</u>
-	262,294	371,799
-	(1,129,069)	(269,083)
-	(866,775)	102,716
<u>3,259</u>	<u>115,947</u>	<u>100,868</u>
225,031	2,955,729	197,211
-	(122,865)	-
<u>225,031</u>	<u>2,832,864</u>	<u>197,211</u>
<u>\$ 228,290</u>	<u>\$ 2,948,811</u>	<u>\$ 298,079</u>

CITY OF TULIA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities		
	Water and Sewer Fund	Electric Fund	Sanitation Fund
Cash flows from operating activities:			
Cash received from user charges	\$ 1,333,202	\$ 2,906,510	\$ 575,866
Interest received on notes receivable	-	-	-
City contributions	-	-	-
Employee contributions	-	-	-
Other revenue received	-	69,223	26,860
Cash payments to employees for services	(156,579)	(355,997)	(134,615)
Cash payments for goods and services	(543,249)	(2,021,563)	(117,375)
Payments for employee claims	-	-	-
Payments for insurance premiums	-	-	-
Net cash provided by (used in) operating activities	<u>633,374</u>	<u>598,173</u>	<u>350,736</u>
Cash flows from noncapital financing activities:			
Change in customer deposits	5,263	13,188	-
Transfers from other funds	161,552	51,582	49,160
Transfers to other funds	(355,552)	(430,791)	(342,726)
Net cash used in noncapital financing activities	<u>(188,737)</u>	<u>(366,021)</u>	<u>(318,566)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	-	-	(22,362)
Payments received on notes receivable	-	-	-
Interest and amortization on capital debt	(74,533)	(46,651)	-
Investment in construction in progress	-	(26,239)	-
Payments on bonds payable	(367,270)	(170,000)	-
Payments on capital lease payable	-	-	(8,900)
Net cash provided by (used in) capital and related financing activities	<u>(441,803)</u>	<u>(242,890)</u>	<u>(31,262)</u>
Cash flows from investing activities:			
Interest and investment income received	1,411	3,335	127
Net cash provided by investing activities	<u>1,411</u>	<u>3,335</u>	<u>127</u>
Net change in cash and cash equivalents	4,245	(7,403)	1,035
Cash and cash equivalents, beginning of period	<u>1,064,007</u>	<u>2,050,978</u>	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 1,068,252</u>	<u>\$ 2,043,575</u>	<u>\$ 1,035</u>

Revolving Loan Fund	Total Business-Type Activities	Governmental Activities: Internal Service Funds
\$ -	\$ 4,815,578	\$ -
3,151	3,151	-
-	-	105,442
-	-	58,195
-	96,083	-
-	(647,191)	-
-	(2,682,187)	-
-	-	(13,651)
-	-	(154,502)
<u>3,151</u>	<u>1,585,434</u>	<u>(4,516)</u>
-	18,451	-
-	262,294	371,798
-	(1,129,069)	(230,455)
-	<u>(873,324)</u>	<u>141,343</u>
-	(22,362)	-
48,432	48,432	-
-	(121,184)	-
-	(26,239)	-
-	(537,270)	-
-	<u>(8,900)</u>	<u>(12,208)</u>
<u>48,432</u>	<u>(667,523)</u>	<u>(12,208)</u>
108	4,981	458
<u>108</u>	<u>4,981</u>	<u>458</u>
51,691	49,568	125,077
<u>43,922</u>	<u>3,158,907</u>	<u>210,785</u>
<u>\$ 95,613</u>	<u>\$ 3,208,475</u>	<u>\$ 335,862</u>

CITY OF TULIA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2015

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	<u>Sanitation Fund</u>
Reconciliation of operating income to net cash flows from operating activities:			
Operating income (loss)	\$ 364,414	\$ 465,523	\$ 278,531
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	180,265	127,957	53,124
Landfill closure / postclosure costs	-	-	1,278
Effect of increase and decrease in current assets and liabilities:			
Decrease (increase) in receivables	68,080	14,358	13,242
Decrease (increase) in deferred outflows	(6,906)	(15,346)	(4,922)
Increase (decrease) in accounts payable	27,829	4,534	9,151
Increase (decrease) in accrued expenses	-	-	-
Increase (decrease) in customer meter deposits	-	-	-
Increase (decrease) in compensated absences	(468)	728	198
Increase (decrease) in deferred inflows	11,369	25,261	8,102
Increase (decrease) in net pension liability	(11,209)	(24,842)	(7,968)
Total adjustments	<u>268,960</u>	<u>132,650</u>	<u>72,205</u>
Net cash provided by operating activities	<u>\$ 633,374</u>	<u>\$ 598,173</u>	<u>\$ 350,736</u>
Reconciliation of cash and cash equivalents:			
Cash and cash equivalents are reported on the fund financial statements under the following categories:			
Cash and cash equivalents	\$ 192,354	\$ 1,387,711	\$ 1,035
Restricted cash and cash equivalents	875,898	655,864	-
Total cash and cash equivalents reported	<u>\$ 1,068,252</u>	<u>\$ 2,043,575</u>	<u>\$ 1,035</u>
Noncash transactions			
Acquisition of capital assets through capital lease	\$ -	\$ -	\$ 32,584
Transfer of leased assets to city departments	-	-	-

The accompanying notes are an integral part of these financial statements.

Revolving Loan Fund	Total Business-Type Activities	Governmental Activities: Internal Service Funds
\$ 3,151	\$ 1,111,619	\$ (2,306)
-	361,346	-
-	1,278	-
-	95,680	-
-	(27,174)	-
-	41,514	(2,210)
-	-	-
-	-	-
-	458	-
-	44,732	-
-	(44,019)	-
-	473,815	(2,210)
\$ 3,151	\$ 1,585,434	\$ (4,516)
\$ 95,613	\$ 1,676,713	\$ 335,862
-	1,531,762	-
\$ 95,613	\$ 3,208,475	\$ 335,862
\$ -	\$ 32,584	\$ 44,998
-		44,998

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies

The City of Tulia, Texas (the “City”), was incorporated as a town in 1909 and is governed by a five member City Council (the “Council”) elected by registered voters of the City. The present population is approximately 4,903. The City provides the services of administration, building maintenance, financial administration, legislative, municipal court, code enforcement, fire protection, police, sanitation (collection and disposal), streets, parks and recreation, water and sewer, electric, and a revolving loan fund. The City’s primary sources of revenue come from property taxes, investment earnings, and charges for services. The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City’s reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Reporting Entity

The City, for financial purposes, includes all of the funds relevant to the operations of the City. As required by generally accepted accounting principles, these financial statements present the City and all component units, when applicable, for which the City is considered to be financially accountable. The criteria for including organizations as component units within the City’s reporting entity, as set forth in GAAP include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporation powers of the organization
- the City appoints a voting majority of the organization’s board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated any legally separate tax-exempt organizations whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GAAP requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, while the City is not a component unit of any other reporting entity as defined by GAAP, the City has the following component unit:

Discretely Presented Component Unit

The Tulia Economic Development Corporation (TEDC), a non-profit corporation, was created in 2009 a separate non-profit organization under the Texas Revised Civil Statutes Annotated, Article 5190.6 in order to promote future economic development in Tulia, Texas. The TEDC is included in the reporting entity because the City council appoints the seven-member Board of Directors and approves its annual budget. Accordingly, the City is financially accountable and is able to impose its will on the organization. The TEDC is reported as a governmental fund type component unit. Significant transactions between the City and TEDC included the City’s disbursement of TEDC’s share of sales tax revenues, amounting to \$106,814 for the year, to TEDC. Separate TEDC financial information can be obtained by writing to Tulia Economic Development Corporation, 127 SW Second St. #300, Tulia, TX 79088.

B. Government-wide and fund financial statements

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies – continued

B. Government-wide and fund financial statements – continued

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund: This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Hotel and Motel Tax Fund: This fund accounts for the tax revenue from hotels and motels in the City.

The City reports the following major enterprise funds:

Water and Sewer Fund: This fund accounts for the water supply and distribution activities and for the sanitary sewer, storm water, and waste water treatment of the City.

Electric Fund: This fund accounts for the electricity supply and distribution activities of the City.

Sanitation Fund: This fund accounts for the solid waste and disposal activities of the City, including the activities of the City of Tulia Municipal Solid Waste Landfill.

Revolving Loan Fund: This fund accounts for loans made to area businesses within the City in order to help grow the local economy

In addition, the City reports the following fund types:

Internal Service Fund: This fund is used to account for revenues and expenses related to services provided to parties inside the City on a cost reimbursement basis. The City's Internal Service Funds are: the Flexible Benefit Fund, the Medical Insurance Fund, the Capital Replacement Fund and the Workers Compensation Insurance Fund. Because the principal users of the internal services are the City's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies – continued

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

The City has established a Flexible Benefit Plan for its employees in accordance with Section 125 of the Internal Revenue Code. Employees elect to set aside a portion of their salary before taxes and the City uses this money to pay for medical and other expenses for the employee as allowed by the Plan. The City contributes to the Plan to pay for third party administration. Any funds not required to be paid out for employees revert to the City.

The City has established a medical insurance program for its employees. The purpose of the medical insurance fund is to collect premiums from employees and the operating departments of the City and forward those monies to the insurance company.

The City has established a Capital Replacement Fund (CRF) to pay for capital expenditures of the City. The operating departments transfer to the CRF an amount equal to the department's capital expenditure budget. All capital expenditures, as well as some expenditures for major repairs and supplies, are made out of the CRF. The capital expenditure is then recorded in the appropriate fund by showing it as a transfer out of the CRF and a transfer in to the fund for which the purchase was made. Any amounts not spent are credited to the department and may be used in future years without impacting the department's budget.

The City has established a Worker's Compensation Insurance Fund. The Worker's Compensation Insurance Fund receives money from the General Fund and Proprietary Funds and pays all of the premiums on the worker's compensation insurance policy. The excess monies accumulated by the fund will be used to pay any worker's compensation claims the City is required to pay because of the deductible under its insurance policy (currently \$25,000).

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

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the *economic resources measurement focus*. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the *current financial resources measurement focus* and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies – continued

D. Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less when purchased.

Equity in Pooled Cash and Investments

Cash balances for most of the City's funds are consolidated in pooled cash and investment accounts. Pooled balances include balances in demand deposits, local government investment pools and certificates of deposit. Interest earnings are then allocated to each fund based on ending monthly pooled equity balances. Separate cash and investment accounts are maintained for interest and sinking funds (debt service).

Restricted Assets

Restricted assets include capital recovery fees (impact fees) that are, by law, restricted for future capital improvements; customer deposits; and assets set aside for construction of future debt funded capital improvements.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Long-term Obligations

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

Pension

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

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Deferred Inflows of Resources

The City reports deferred inflows of resources on its governmental funds balance sheet. Deferred inflows of resources arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in current period. Deferred inflows of resources also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the deferred inflows of resources is removed from the balance sheet and revenue is recognized.

The City has deferred inflows of resources for unavailable revenue from property tax and fines and for its proportionate share of TMRS’s deferred inflow related to pension as described in Note 14. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City only has one deferred outflow of resources, for its proportionate share of TMRS’s deferred outflow related to pensions as described in Note 14.

Inventories

Inventories are stated at cost which approximates market. Inventories are accounted for using the first-in, first-out basis. On the electric fund, inventory has been reported as construction in progress, and represents items purchased for the electrical infrastructure system that will be used to replace existing components or expand the system as future needs arise.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. The City has adopted a capitalization threshold of \$5,000.

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

<u>Asset Class</u>	<u>Years</u>
Buildings and land improvements	7 to 50
Equipment (including infrastructure)	5 to 50
Vehicles	5 to 15
Other	5 to 20

Receivable and Payable Balances

The City believes that sufficient detail of payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. Details of receivable balances are presented in Note 4.

Compensated Absences

Accumulated earned but unused vacation, which is expected to be liquidated with expendable available financial resources, is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of accumulated vacation leave within governmental funds that are not expected to be liquidated with expendable available financial resources are reported as a long-term liability on the statement of net position. No expenditure is reported for these amounts in the fund financial statements. Accumulated vacation leave of proprietary fund types are recorded as an expense and liability of those funds as the benefits accrue to employees.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Sick Leave:

All full-time eligible employees accumulate sick leave at the rate of 8 hours per month of service and may accumulate a maximum of 720 hours. However, since no payment for accumulated unused sick leave days is made upon termination of employment and, therefore does not vest, no liability for such accumulated unused sick leave is recorded.

Vacation Leave:

Vacation leave is accrued to employees of the City based upon length of employment in the following manner:

Years of service	Maximum hours that may be accumulated
1 to 10	80
10 to 20	120
Over 20	160

The estimated current portion of the liability for vested vacation leave attributable to the City’s governmental funds is recorded as an expenditure and liability in the respective funds, while the non-current portion is not reflected in the governmental fund financial statements, but is reflected as a liability and expense in the Government-wide financial statements. Both the current and non-current amounts attributable to proprietary funds are charged to expense and a corresponding liability is recorded in the applicable funds.

Fund Balance – In the fund financial statements, governmental funds are required to report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as Nonspendable at September 30, 2015 are nonspendable in form. The City has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts that are constrained to specific purposes externally imposed by creditors (such as through debt covenants), grantor and contributors, or laws, or regulations of other governments, or through constitutional provisions, or by enabling legislation. As of September 30, 2015, the City had restricted funds of \$10 for tourism.

Committed – includes amounts that can be used only for the specific purposes as established by the City Council’s resolution. The City Council 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 City’s Council at the City Council’s board meeting. As of September 30, 2015, the City had no committed funds.

Assigned – includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City’s Council has authorized the City Manager to assign fund balance to a specific purpose.

Unassigned – is the residual classification for the City’s general fund and includes all spendable amounts not contained in the other classifications. The City’s general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 1: Summary of Significant Accounting Policies – continued

D. Assets, Liabilities, and Net Position or Equity – continued

When the City incurs an expenditure for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Minimum fund balance policy – The City Council directs that fiscal policies should achieve and maintain a minimum balance in the general operating fund in which the total fund balance as of October 1 of each year equals 5% of that year’s budgeted revenues for the general fund.

Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans 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 or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single “Transfers” line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single “Interfund Balances” line on the government-wide statement of net position.

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

Note 2: Stewardship, Compliance, and Accountability

Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them. Work sessions are conducted to obtain Council Members’ comments, and public hearings are conducted to obtain citizens’ comments. The budget is legally enacted by the City Council through the adoption of an ordinance prior to the beginning of the fiscal year. The City Manager is authorized to transfer budgeted amounts of operation and maintenance line items between departments within a fund. Any revisions that alter the total expenditures or the capital outlays of any fund must be approved by the City Council.

Formal budgetary integration is employed as a management control device during the year for all governmental and proprietary fund types. The budgets for all funds are adopted on a basis consistent with generally accepted accounting principles. Appropriations lapse at yearend.

Note 3: Deposits and Investments

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits

State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law for the year ended September 30, 2015, it had no custodial credit risk for deposits.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 3: Deposits and Investments – continued

City Policies and Legal and Contractual Provisions Governing Deposits – continued

Discretely Presented Component Unit Deposits

At September 30, 2015 and during the year ended September 30, 2015, the deposits of TEDC were underinsured with federal deposit insurance. At September 30, 2015, the deposits of TEDC were underinsured with federal deposit insurance by \$64,876.

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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 a governmental entity 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 entity 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 entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Management believes that the City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2015 the City had no investments.

Note 4: Receivables

The receivables detailed below are reported net of allowances for doubtful accounts on the Government-wide Statement of Net Position as of September 30, 2015:

	Governmental Funds		Proprietary Funds			Component Unit
	General	Water and Sewer Fund	Electric Fund	Sanitation Fund	Total	Tulia EDC
Receivables:						
Refuse Collections	\$ -	\$ -	\$ -	\$ 111,782	\$ 111,782	\$ -
Utilities	-	250,836	446,143	-	696,979	-
Fines, fees and court costs	30,945	-	-	-	-	-
Intergovernmental	-	-	-	-	-	27,593
Gross receivables	30,945	250,836	446,143	111,782	808,761	27,593
Less: allowance for uncollectibles	(27,851)	(117,632)	(149,959)	(61,894)	(329,485)	-
Net total receivables	\$ 3,094	\$ 133,204	\$ 296,184	\$ 49,888	\$ 479,276	\$ 27,593

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 4: Receivables – continued

Taxes receivable for the General and Other Governmental Funds as of September 30, 2015 consist of the following tax categories and are considered fully collectible, except for the delinquent property taxes.

	Receivable Amount	Allowance Amount	Net Taxes Receivable
Intergovernmental / Sales \$	35,915	\$ -	\$ 35,915
Occupancy Tax	1,747	-	1,747
Franchise Taxes	23,883	-	23,883
Property Taxes	39,243	(10,786)	28,457
Other	32,625	-	32,625
	<u>\$ 133,413</u>	<u>\$ (10,786)</u>	<u>\$ 122,627</u>

Note 5: Interfund Balances and Activity

Due To and From Other Funds

Balances due to and due from other funds for the year ended September 30, 2015, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General fund	Sanitation Fund	\$ 45,000	Supplement fund operations
General fund	Internal Service Fund	4,993	Reimbursement of capital expenditures
	Total	<u>\$ 49,993</u>	

All amounts due are scheduled to be repaid within one year.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 5: Interfund Balances and Activity – continued

Transfers To and From Other Funds

Transfers to and from other funds for the year ended September 30, 2015 consisted of the following:

Transfers from	Transfers to	Amount	Reason
Electric fund	General fund	\$ 394,335	General fund operations
General fund	Water and sewer fund	21,249	To supplement fund operations
Water and sewer fund	General fund	232,000	General fund operations
Sanitation fund	General fund	333,626	General fund operations
General fund	Capital replacement fund	202,691	Capital expenditures
Water and sewer fund	Capital replacement fund	123,552	Capital expenditures
Electric fund	Capital replacement fund	36,456	Capital expenditures
Sanitation fund	Capital replacement fund	9,100	Capital expenditures
Capital replacement fund	Governmental activities	44,998	Capital expenditures
Capital replacement fund	General fund	34,622	Capital expenditures
Capital replacement fund	Water and sewer fund	140,303	Capital expenditures
Capital replacement fund	Sanitation fund	49,160	Capital expenditures
Component Unit	General fund	9,500	Reimbursement
General fund	Hotel/Motel Tax Fund	1,977	Reimbursement
General fund	Electric fund	51,582	To supplement fund operations
	Total	<u>\$ 1,685,151</u>	

Note 6: Restricted Assets

Restricted cash and cash equivalents consisted of the following at September 30, 2015:

Description	Amount
Business-type activities:	
Water and Sewer Fund (restricted for customer utility deposits)	\$ 55,725
Water and Sewer Fund (restricted for construction and debt service)	820,173
Electric Fund (restricted for customer utility deposits)	125,869
Electric Fund (restricted for construction and debt service)	529,995
Total	<u>\$ 1,531,762</u>

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 7: Notes Receivable

The City and the TEDC had the following activity on notes receivable for the year ended September 30, 2015 as shown below:

	Original Note Amount	Interest Rate	Beginning Balance	Notes Issued	Principal Payments Received	Ending Balance	Due Within One Year
Revolving Loan Fund:							
Swisher Tire	\$ 50,000	3.00%	\$ 20,955	\$ -	\$ (5,236)	\$ 15,719	\$ 5,396
Lone Star Feeds	25,000	1.25%	5,848	-	(5,848)	-	-
Top Shelf Land & Equipment	100,000	1.25%	28,256	-	(14,658)	13,598	13,598
Top Shelf Land & Equipment No. 2	80,000	10.00%	47,286	-	(7,961)	39,325	8,121
Highland RV Park, LLC	37,500	2.00%	12,919	-	(7,700)	5,219	5,129
Tucky's Auto Parts	75,000	2.00%	65,845	-	(7,029)	58,816	7,170
Station, LLC	31,400	2.25%	-	31,400	-	31,400	2,892
Total Notes Receivable			<u>\$ 181,109</u>	<u>\$ 31,400</u>	<u>\$ (48,432)</u>	<u>\$ 164,077</u>	<u>\$ 42,306</u>
Less Allowance for Uncollectibles						<u>(31,400)</u>	
Total Notes Receivable						<u>\$ 132,677</u>	
Tulia Economic							
Development Corporation:							
Top Shelf Land & Equipment	\$ 20,000	2.00%	\$ 11,821	\$ -	\$ (1,990)	\$ 9,831	\$ 2,063
Asian Wok	5,000	5.00%	3,786	-	(965)	2,821	1,014
Tulia Well Service	30,000	N/A	30,000	-	(10,000)	20,000	-
Tucky's Auto Parts	22,500	N/A	15,000	-	(7,500)	7,500	-
Cecil & Ray's Garage	15,000	10.00%	15,000	-	(3,000)	12,000	3,000
			<u>75,607</u>	<u>-</u>	<u>(23,455)</u>	<u>52,152</u>	<u>6,077</u>
Less Allowance for Uncollectibles						<u>(534)</u>	
Total Notes Receivable						<u>\$ 51,618</u>	

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 8: Capital Assets

Capital asset activity for the period ended September 30, 2015 was as follows:

Governmental activities:	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 189,298	\$ -	\$ -	\$ 189,298
Total capital assets not being depreciated	<u>189,298</u>	<u>-</u>	<u>-</u>	<u>189,298</u>
Capital assets being depreciated				
Buildings and land improvements	1,573,699	30,803	-	1,604,502
Equipment	1,034,415	-	-	1,034,415
Vehicles	1,087,537	44,998	-	1,132,535
Other	11,400	-	-	11,400
Total capital assets being depreciated	<u>3,707,051</u>	<u>75,801</u>	<u>-</u>	<u>3,782,852</u>
Less accumulated depreciation for:				
Buildings and land improvements	1,439,873	22,940	-	1,462,813
Equipment	908,185	46,801	-	954,986
Vehicles	952,779	52,227	-	1,005,006
Other	6,912	299	-	7,211
Total accumulated depreciation	<u>3,307,749</u>	<u>122,267</u>	<u>-</u>	<u>3,430,016</u>
Total capital assets being depreciated, net	<u>399,302</u>	<u>(46,466)</u>	<u>-</u>	<u>352,836</u>
Total Governmental activities capital assets, net	<u>\$ 588,600</u>	<u>\$ (46,466)</u>	<u>\$ -</u>	<u>\$ 542,134</u>

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 8: Capital Assets – continued

Business-type activities:	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets not being depreciated:					
Land	\$ 219,970	\$ -	\$ -	\$ -	\$ 219,970
Construction in progress	506,282	26,240	(37,858)	-	494,664
Total capital assets not being depreciated	<u>726,252</u>	<u>26,240</u>	<u>(37,858)</u>	<u>-</u>	<u>714,634</u>
Capital assets being depreciated					
Buildings and land improvements	2,676,988	-	-	-	2,676,988
Equipment	7,047,702	22,362	-	-	7,070,064
Infrastructure	2,209,194	37,858	-	-	2,247,052
Vehicles	879,594	32,584	-	-	912,178
Total capital assets being depreciated	<u>12,813,478</u>	<u>92,804</u>	<u>-</u>	<u>-</u>	<u>12,906,282</u>
Less accumulated depreciation for:					
Buildings and land improvements	2,396,679	25,999	-	-	2,422,678
Equipment	6,293,247	101,229	-	-	6,394,476
Infrastructure	1,098,407	88,368	-	-	1,186,775
Vehicles	802,038	62,972	-	-	865,010
Total accumulated depreciation	<u>10,590,371</u>	<u>278,568</u>	<u>-</u>	<u>-</u>	<u>10,868,939</u>
Total capital assets being depreciated, net	<u>2,223,107</u>	<u>(185,764)</u>	<u>-</u>	<u>-</u>	<u>2,037,343</u>
Business-type activities capital assets, net	<u>\$ 2,949,359</u>	<u>\$ (159,524)</u>	<u>\$ (37,858)</u>	<u>\$ -</u>	<u>\$ 2,751,977</u>

Depreciation was charged to functions as follows:

Governmental activities:	
Administration	\$ 12,904
Fire protection	10,876
Police	79,100
Streets department	4,141
Parks and recreation	<u>15,246</u>
Total depreciation expense - governmental activities	<u>\$ 122,267</u>
Business-type activities:	
Water and sewer fund	97,487
Electric fund	127,957
Sanitation fund	<u>53,124</u>
Total depreciation expense - business-type activities	<u>\$ 278,568</u>

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 9: Operating Lease

The City leases office space under an operating (non-capitalized) lease agreement. During the year ended September 30, 2015 the City paid \$8,400 for office space under the lease, which was reported in the General Fund under the building maintenance expenditure category. The following is the City's future minimum lease payments under the lease agreement:

General Fund:

Fiscal Year Ending: <u>September 30,</u>	<u>Minimum</u> <u>Payments</u>
2016	\$ 8,400
2017	8,400
2018	8,400
2019	9,100
2020	9,600
2021-2024	<u>32,800</u>
	<u>\$ 76,700</u>

Note 10: Deferred Inflows of Resources

Deferred inflows of resources reported on the Balance Sheet-Governmental Funds consisted of the following at year end:

<u>Description</u>	<u>Fund</u>	<u>Unavailable</u> <u>Amount</u>
Property taxes	General	\$ 28,457
Fines	General	<u>3,094</u>
		<u>\$ 31,551</u>

Note 11: Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets consisted of the following as of September 30, 2015:

<u>Description</u>	<u>Amount</u>
Business-type activities:	
Water Fund	
Customer deposits	\$ 55,725
Electric Fund	
Customer deposits	<u>125,869</u>
 Total	 <u>\$ 181,594</u>

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 12: Long-Term Obligations

General Obligation Bonds and Certificates of Obligation are direct obligations and pledged by the full faith and credit of the City, and the principal thereof and interest thereon are typically payable from the proceeds of a continuing, direct annual ad valorem tax levied upon all taxable property within the City. Revenue Bonds also constitute direct obligations of the City, and are typically payable from an annual ad valorem tax levied against all taxable property in the City, and are secured by lien on and pledge of the surplus net revenues derived from the operation and ownership of the City's Waterworks and Sewer System or are secured by lien on and pledge of the surplus net revenues derived from the operation and ownership of the City's Electric System, both of which are after payment of operation and maintenance expenses of these systems.

In October 2010, the City issued \$1,275,000 of General Obligation Refunding Bonds, Series 2010, (the "2010 Refunding Bonds"), that were used for refunding \$1,205,000 of the City's Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 1997, (the "1997 Obligations") and to pay the cost of issuance associated with the sale of the 2010 Refunding Bonds. Cash and securities sufficient to fund the 1997 Obligations were transferred into an irrevocable trust, and therefore, an in-substance defeasance of these obligations occurred.

The 2010 Refunding Bonds bear interest at a rate of 1.98% payable on February 15 and August 15 of each year. The 1997 Obligations refunded were the 2011 through the 2017 maturities, with interest rates ranging from 4.30% to 4.55%. As a result of the advance refunding, the City reduced its total general obligation debt service requirements by \$64,249, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt when refunded) of \$52,498, which was recognized in a prior year. The remaining unamortized issuance costs pertaining to the 2010 Refunding Bonds and the 1997 Obligations of \$46,473 were written off during fiscal year 2013 due to the implementation of a new accounting pronouncement. The outstanding balance of the 2010 Refunding Bonds as of September 30, 2015 was \$380,000.

In March 2012, the City issued \$2,075,000 of General Obligation Refunding Bonds, Series 2012, (the "2012 Refunding Bonds"), that were used for refunding \$1,990,000 of the City's Combination Tax and Power and Light System Surplus Revenue Certificates of Obligation, Series 2003, (the "2003 Obligations") and to pay the cost of issuance associated with the sale of the 2012 Refunding Bonds. The 2012 Refunding Bonds were issued at a premium of \$52,856, net of the underwriter's discount which is being amortized over the life of the 2012 Refunding Bonds using the effective interest method. Cash and securities sufficient to fund the 2003 Obligations were transferred into an irrevocable trust, and therefore, an in-substance defeasance of these obligations occurred.

The 2012 Refunding Bonds bear interest at rates ranging from 2.0% to 3.0%, payable on February 15 and August 15 of each year. The 2003 Obligations refunded were the 2014 through the 2024 maturities, with interest rates ranging from 3.75% to 4.70%. As a result of the advance refunding, the City incurred a loss on the refunding of \$153,651 (the difference between the amount paid to the fiscal agent to refund the bonds less the outstanding balance of the existing bonds), which has been deferred and is being amortized over the life of the 2012 Refunding Bonds using the effective interest method. The remaining unamortized issuance costs pertaining to the 2012 Refunding Bonds of \$70,519 were written off during fiscal year 2013 due to the implementation of a new accounting pronouncement. The outstanding balance of the 2012 Refunding Bonds as of September 30, 2015 was \$1,720,000.

In October 2013, the City issued \$735,000 of Combination Tax and Waterworks and Sewer System Limited Pledge Surplus Revenue Certificates of Obligation, Series 2013, (the "2013 Obligations"), that will be used for improvements and renovations to the City's Waterworks and Sewer System. Issuance of the 2013 Obligations was approved by the City Council in a public meeting held in September, 2013. Cost of issuance of the bonds was approximately \$35,000. The net proceeds from the issuance in the amount of \$700,000 were deposited into a project construction fund account held by the City.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 12: Long-Term Obligations – continued

The 2013 Revenue Certificates of Obligation bear an interest rate of 2.8%, payable on February 15 and August 15 of each year and have a maturity date of September 30, 2022. The outstanding balance of the 2013 Refunding Bonds as of September 30, 2015 was \$707,000.

In October 2013, the City issued \$810,000 of General Obligation Refunding Bonds, Series 2013A (the “2013A Refunding Bonds”), that will be used to refund the City’s proportionate share of certain obligations of the Mackenzie Municipal Water Authority (MMWA). Specifically, the 2013A Refunding Bonds were issued to refund \$255,000 of Mackenzie Municipal Water Authority Contract Revenue Bonds Series 1982 and \$640,000 of Mackenzie Municipal Water Authority Contract Revenue Bonds Series 2011. The 2013A Refunding Bonds were issued in order to achieve debt service savings for the City. As a result of the advance refunding, the City reduced its total general obligation debt service requirements by \$254,375, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt when refunded) of \$64,201. The 2013A Refunding Bonds were issued at a cost of \$30,040. Proceeds from the 2013A Refunding Bonds along with a payment of \$131,835 from the MMWA were transferred to a fiscal agent to be held until the MMWA bonds being refunded are paid.

The 2013A Refunding Bonds bear an interest rate of 2.88%, payable on February 15 and August 15 of each year and have a maturity date of September 30, 2022. The outstanding balance of the 2013A Refunding Bonds as of September 30, 2015 was \$800,000.

In October 2013, the City issued \$462,000 of General Obligation Refunding Bonds, Series 2013B (the “2013B Refunding Bonds”), that will be used to refund the City’s proportionate share of certain obligations of the MMWA described above. Specifically, the 2013B Refunding Bonds were issued to refund \$450,000 of Mackenzie Municipal Water Authority Contract Revenue Bonds Series 1982. The 2013B Refunding Bonds were issued in order to achieve debt service savings for the City. The 2013B Refunding Bonds were issued in order to achieve debt service savings for the City. As a result of the advance refunding, the City reduced its total general obligation debt service requirements by \$24,957, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt when refunded) of \$(52,637). The 2013B Refunding Bonds were issued at a cost of \$20,743. Proceeds from the 2013B Refunding Bonds along with a payment of \$66,286 from the MMWA were transferred to a fiscal agent to be held until the MMWA bonds being refunded are paid.

The 2013B Refunding Bonds bear an interest rate of 2.55%, payable on February 15 and August 15 of each year and have a maturity date of September, 30 2017. The outstanding balance of the 2013B Refunding Bonds as of September 30, 2015 was \$234,000.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 12: Long-Term Obligations – continued

A. Changes in long-term obligations for the period ended September 30, 2015 are as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental Activities:					
Compensated absences	\$ 24,580	\$ 8,743	\$ -	\$ 33,323	\$ -
Capital Lease	-	44,998	(12,208)	32,790	10,203
Net pension liability	302,169	37,426	(114,899)	224,696	-
	<u>\$ 326,749</u>	<u>\$ 91,167</u>	<u>\$ (127,107)</u>	<u>\$ 290,809</u>	<u>\$ 10,203</u>
Business-type Activities:					
Series 2010 Bonds	\$ 565,000	\$ -	\$ (185,000)	\$ 380,000	\$ 190,000
Series 2012 Bonds	1,890,000	-	(170,000)	1,720,000	170,000
Series 2013 Bonds	719,000	-	(12,000)	707,000	11,000
Series 2013A Bonds	803,000	-	(3,000)	800,000	4,000
Series 2013B Bonds	348,000	-	(114,000)	234,000	116,000
Unamortized bond premiums, net of underwriter's discounts	36,518	-	(6,163)	30,355	6,164
Water tank/tower renovation	414,202	-	(53,270)	360,932	54,875
Capital lease	-	32,584	(8,900)	23,684	7,452
Net pension liability	171,582	21,256	(65,250)	127,588	-
Landfill closure/postclosure	79,871	1,278	-	81,149	-
Compensated absences	13,946	458	-	14,404	-
Total business-type activities	<u>\$ 5,041,119</u>	<u>\$ 55,576</u>	<u>\$ (617,583)</u>	<u>\$ 4,479,112</u>	<u>\$ 559,491</u>

The funds typically used to liquidate compensated absences in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General Fund
Compensated absences	Business-type	Water and Sewer Fund
Compensated absences	Business-type	Electric Fund
Compensated absences	Business-type	Sanitation Fund

See Note 1 for additional information about compensated absences. The liability for Landfill Closure/Postclosure Costs will be liquidated by the Sanitation Fund (Business-type Activity). See Note 20 for more information. The Water Tower Renovation obligation will be liquidated by the Water Fund (Business-type Activity).

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 12: Long-Term Obligations – continued

B. Business-type activities debt service requirements for outstanding bonds:

Debt service requirements for Business-type Activity long-term general obligation bonds as of September 30, 2015 are as follows:

Year Ended September 30, 2015	Principal	Interest	Total
2016	\$ 491,000	\$ 97,386	\$ 588,386
2017	508,000	86,648	594,648
2018	373,000	74,750	447,750
2019	383,000	65,530	448,530
2020	390,000	55,169	445,169
2021-2024	1,696,000	100,874	1,796,874
Total	<u>\$ 3,841,000</u>	<u>\$ 480,357</u>	<u>\$ 4,321,357</u>

C. Interest costs incurred:

The total long-term debt interest cost incurred for the City's Business-type Activities for the year ended September 30, 2015 was \$133,878, none of which was capitalized and all of which was charged to expense.

D. Water tank/tower renovation obligation

The City is contractually obligated for the cost of certain water tower and water tank renovations. The total cost of the renovations was \$526,457. The obligations, which carry a 3% imputed rate of interest, are payable in non-cancellable eight (8) and ten (10) annual payments ranging from \$15,324 to \$39,114, including principal and interest. Total maintenance portion is \$725,622. A summary of the renovation obligations as of September 30, 2015 is as follows:

Description	Maturity	Interest Rate	Balance
500,000 GST Railroad Tank	12/21/2020	3%	\$ 114,241
250,000 GST North Donley Tank	12/21/2022	3%	66,501
400,000 GST West I-27 Tank	12/21/2022	3%	20,961
500,000 GST South Booster Tank	12/21/2022	3%	101,998
500,000 GST North Bowie Tower	12/21/2022	3%	57,231
Total			<u>\$ 360,932</u>

Debt service requirements for Business-type Activity long-term debt related to water tank renovations as of September 30, 2015 are as follows:

Year Ended September 30, 2015	Principal	Interest	Total
2016	\$ 54,875	\$ 10,224	\$ 65,099
2017	56,551	8,548	65,099
2018	58,266	6,833	65,099
2019	60,033	5,066	65,099
2020	55,378	3,248	58,626
2021-2022	75,829	2,579	78,408
Total	<u>\$ 360,932</u>	<u>\$ 36,498</u>	<u>\$ 397,430</u>

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 12: Long-Term Obligations – continued

E. Water Tank/Tower Maintenance Contracts

During the year ended September 30 2013, the City entered into five long-term contracts with a utility service company to provide professional services to renovate and maintain the City's four water tanks and one water tower. Each contract is described below.

The first contract is related to the 500,000 GST Railroad Tank and requires annual payments of \$39,114 for the first eight (8) years, of which \$25,895 is allocated to payment of the long-term renovation obligation and \$13,219 is allocated to maintenance expense. For contract years 9 through 11 the annual payments are reduced to \$13,219 and are allocated entirely to maintenance expense. In contract year 12 and each third anniversary thereafter, the annual maintenance fee is adjusted to reflect the current cost of service. The adjustment to the annual fee is limited to a maximum of 5% per annum.

The second contract is related to the 200,000 GST North Donley Tank and requires annual payments of \$22,561 for the first ten (10) years, of which \$10,568 is allocated to payment of the long-term renovation obligation and \$11,993 is allocated to maintenance expense. For contract years 11 through 13 the annual payments are reduced to \$11,993 and are allocated entirely to maintenance expense. In contract year 14 and each third anniversary thereafter, the annual maintenance fee is adjusted to reflect the current cost of service. The adjustment to the annual fee is limited to a maximum of 5% per annum.

The third contract is related to the 400,000 GST West I-27 Tank and requires annual payments of \$15,324 for the first ten (10) years, of which \$3,331 is allocated to payment of the long-term renovation obligation and \$11,993 is allocated to maintenance expense. For contract years 11 through 13 the annual payments are reduced to \$11,993 and are allocated entirely to maintenance expense. In contract year 14 and each third anniversary thereafter, the annual maintenance fee is adjusted to reflect the current cost of service. The adjustment to the annual fee is limited to a maximum of 5% per annum.

The fourth contract is related to the 500,000 GST South Booster Tank and requires annual payments of \$30,999 for the first ten (10) years, of which \$16,210 is allocated to payment of the long-term renovation obligation and \$14,789 is allocated to maintenance expense. For contract years 11 through 13 the annual payments are reduced to \$14,789 and are allocated entirely to maintenance expense. In contract year 14 and each third anniversary thereafter, the annual maintenance fee is adjusted to reflect the current cost of service. The adjustment to the annual fee is limited to a maximum of 5% per annum.

The fifth contract is related to the 500,000 Gallon North Bowie Tower and requires annual payments of \$32,307 for the first ten (10) years, of which \$9,095 is allocated to payment of the long-term renovation obligation and \$23,212 is allocated to maintenance expense. For contract years 11 through 13 the annual payments are reduced to \$23,212 and are allocated entirely to maintenance expense. In contract year 14 and each third anniversary thereafter, the annual maintenance fee is adjusted to reflect the current cost of service. The adjustment to the annual fee is limited to a maximum of 5% per annum.

Note 13: Water Rights

The City has a long-term contract with the Mackenzie Municipal Water Authority (MMWA) for the purchase of treated water. Mackenzie Municipal Water Authority was created by an Act of the Texas Legislature in 1965 with the purpose to furnish water to the municipalities of Floydada, Lockney, Silverton, and Tulia. MMWA is located in Briscoe County, Texas, and has a conservative storage capacity of 45,500 acre-feet. The dam site and transmission system are the property of MMWA, however the water rights are owned by the aforementioned Cities. The minimum requirements under the contract are approximately \$190,000 per year. For the year ended September 30, 2015, the City made payments to MMWA in the amount of \$59,496.

In conjunction with the water contracts above, the capitalized costs of constructing the transmission system have been recorded in the accompanying financial statements as water rights in the Water Enterprise Fund and are being amortized over the estimated useful life of the transmission system, which is 40 years. For the year ended September 30, 2015, \$82,750 was recorded as current year amortization expense.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 13: Water Rights – continued

Water rights activity for the year ended September 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water rights	\$ 3,310,000	\$ -	\$ -	\$ 3,310,000
Accumulated amortization	(2,042,823)	(82,750)	-	(2,125,573)
Water rights, net	\$ 1,267,177	\$ (82,750)	\$ -	\$ 1,184,427

Note 14: Employee Retirement Benefits

Texas Municipal Retirement System

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest. A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City has adopted annuity increases as a rate equal to 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. The City has elected that members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The City does not provide supplemental death benefits. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 14: Employee Retirement Benefits – continued

Texas Municipal Retirement System – continued

Employees covered by benefit terms: At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	26
Active employees	35
Total	86

Contributions

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

Employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The City did not change its employee contribution rate during the year. The contribution rates for the City were 13.81% and 13.34% in calendar years 2014 and 2015, respectively. The City’s contributions to TMRS for the year ended September 30, 2015, were \$174,450, and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality 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, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 14: Employee Retirement Benefits – continued

Texas Municipal Retirement System – continued

The long-term expected rate of return on pension plan investments is 7.0%. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.04%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the Total Pension Liability was 7.0%. 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.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 14: Employee Retirement Benefits – continued

Texas Municipal Retirement System -- continued

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 8,361,172	\$ 7,887,421	\$ 473,751
Changes for the year:			
Service Cost	179,065	-	179,065
Interest	576,521	-	576,521
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(171,204)	-	(171,204)
Changes of assumptions	-	-	-
Contributions - employer	-	180,149	(180,149)
Contributions - employee	-	79,595	(79,595)
Net investment income	-	451,201	(451,201)
Benefit payments, including refunds of employee contributions	(429,379)	(429,379)	-
Administrative expense	-	(4,709)	4,709
Other changes	-	(387)	387
Net changes	155,003	276,470	(121,467)
Balance at 12/31/2014	<u>\$ 8,516,175</u>	<u>\$ 8,163,891</u>	<u>\$ 352,284</u>

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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$ 1,513,988	\$ 352,284	\$ (603,078)

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

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

For the year ended September 30, 2015, the City recognized pension expense of \$101,460.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 14: Employee Retirement Benefits – continued

Texas Municipal Retirement System – continued

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 123,510
Changes in actual assumptions	-	-
Difference between projected and actual investment earnings	80,734	-
Contributions subsequent to the measurement date	128,801	-
Total	\$ 209,535	\$ 123,510

\$128,801 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	
2016	\$ (27,510)
2017	(27,510)
2018	(7,938)
2019	20,182
2020	-
Thereafter	-
	<u>\$ (42,776)</u>

Supplemental Death Benefits Fund

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

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

Contributions to SDBF

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

The City’s retiree portion of contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$1,264, \$1,290, and \$1,505, respectively, which equaled the required contributions each year.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 14: Employee Retirement Benefits – continued

Other Retirement and Miscellaneous Benefits

The City makes available to all of its full-time employees a custom benefit plan (cafeteria plan) under Internal Revenue Code Section 125 and a deferred compensation plan under Internal Revenue Code Section 457. The City does not contribute to these plans. All contributions are made by employees who elect to participate in the plans. The City remits employee contributions to the plan trustees on a regular basis. The City does not administer the Section 457 plan, nor does it provide investment advice to the plan. Accordingly, the Section 457 plan is not a part of the City's reporting entity.

Note 15: Health Care Coverage

The City provided health insurance benefits to eligible employees who chose to participate. The City paid \$241.80 per month per employee for employee health insurance coverage. Additionally, eligible and participating employees electing spouse and dependent coverage paid the cost of such coverage. The Texas Municipal League Intergovernmental Employee Benefits Pool, a licensed insurer, provided the health insurance coverage.

Note 16: Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, error and omission, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for the aforementioned insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Note 17: Commitments and Contingencies

The City participates in grant programs which are governed by various regulations and rules of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Note 18: Litigation

There was no litigation pending against the City at September 30, 2015 that management believes could have a material adverse effect on the financial condition of the City.

Note 19: Related Party Transaction

The City had the following transactions with related parties during the year:

The Tulia City Council appoints two members to the eight-person board of the Mackenzie Municipal Water Authority, which is under contract to sell water to the City. See Note 12.

The Mayor of the City appoints five members to the Tulia Housing Authority Board, which has no related transactions with the City. The City has no authority to terminate appointed board members without cause.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 20: Investment in Joint Venture

The Tulia/Swisher County Airport is under equal joint ownership by the City of Tulia and the County of Swisher. General administration is accomplished by an Airport Board composed of seven members. Three members are appointed by the City and three members are appointed by the County. The seventh board member is selected by the other six board members and is approved by both the City and County. The degree of control of each government consists of its representation on the Board. Swisher County is the fiscal agent for the joint venture. General airport operations are funded by user charges and typically require support for major improvements only.

Condensed financial information of the airport as of September 30, 2015, and for the year then ended, is as follows:

Year Ending Date	<u>9/30/2015</u>
Total current assets	\$ 7,902
Total property and equipment	200,283
Total current liabilities	1,650
Net position invested in capital assets	200,283
Unrestricted net position	6,252
Total net position	206,535
Total operating revenues	12,480
Total operating expenses	(35,921)
Net increase (decrease) in net position	(23,441)
City's 50% share of decrease in net position	(11,721)

Complete financial statements for the joint venture can be obtained from:

Tricia Speed, County Treasurer
County of Swisher
119 South Maxwell
Tulia, TX 79088

Transactions with the Tulia/Swisher County Airport for the year ended September 30, 2015 included those related to routine water, sewer and solid waste utility services. The City's interest in the joint venture is accounted for using the equity method.

Note 21: Municipal Landfill Closure and Postclosure Care Costs

The City currently operates a municipal solid waste landfill under a permit granted by the Texas Commission on Environmental Quality (TCEQ) known as landfill permit number 1009A. The landfill covers an area approximately 21.2 acres in size (final contours area) with an estimated 9.2 acres (infiltration layer). The City contracted with an outside engineer to estimate the total capacity of the landfill in compacted solid waste, which is estimated to be 1,627,930 compacted cubic yards. In addition to the TCEQ, the landfill is also regulated by the United States Environmental Protection Agency.

In response to criteria adopted by the U.S. Environmental Protection Agency which established closure requirements for all municipal solid waste landfills that receive solid waste after October 9, 1993, GASB issued Statement No. 18 Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs. State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure.

Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, GASB Statement 18 requires the City to report a portion of these closure and post-closure care costs as an operating expense in each period the landfill is open based on landfill capacity used as of each balance sheet date in addition to operating expenses related to current activities of the landfill. These closure and post-closure costs are updated annually based upon what it would cost to perform all closure and post-closure care in 2014.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 21: Municipal Landfill Closure and Postclosure Care Costs – continued

The recognition of these landfill closure and post-closure care costs is based on the amount of the landfill used during the year. The City’s engineer prepared an updated estimate of the closure and post-closure costs for the landfill which was done in June 2014. The current estimated closure costs for the landfill are \$349,959, and the current estimated post-closure costs for the landfill are \$215,700; however, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The City’s engineer, along with City personnel, has estimated that the total amount of compacted waste that has been added from the inception of the landfill through September 30, 2015 to be 233,540 compacted cubic yards.

Based upon the guidance in GASB No. 18, the total landfill closure and post-closure liability recognized through September 30, 2015 is \$81,149, as shown below:

	Total Estimated Costs	Ratio filled to date	Recognized Costs to Date
Closure costs	\$ 349,959	14.35%	\$ 50,205
Post-closure costs	215,700	14.35%	30,944
 Total estimated costs	 \$ 565,659		 \$ 81,149
	 Compacted Cubic Yards		
Estimated capacity used through September 30, 2015	233,540 =	14.35%	
Total estimated capacity	1,627,930		

It is the policy of the City to satisfy the EPA financial assurance requirements using the financial test method. The City has demonstrated financial assurance by use of the financial test. The City guarantees through the guarantee specified in 31 Texas Administrative Code, 330.285(g), the closure, post- closure care, and/or corrective action care of the landfill owned and operated by the City. Specifically, the City’s management believes the City meets the following tests:

- The City has a ratio of cash plus marketable securities to total expenditures greater than or equal to 0.05; and
- The City has a ratio of annual debt service to total expenditures less than or equal to 0.20; and
- The City does not have a rating lower than Baa issued by Moody’s or BBB issued by Standard & Poor’s; and
- The City prepares its annual financial statements in conformity with governmental GAAP and has its financial statements audited by an independent certified public accountant; and
- The City has not operated at a deficit equal to 5.0% or more of total annual revenue in each of the past two fiscal years; and
- The City is not currently in default on any outstanding general obligation bonds; and
- The City has not received an adverse opinion; disclaimer of opinion; or other qualified opinion from the independent certified public accountant auditing its financial statements.

CITY OF TULIA, TEXAS
Notes to Financial Statements
September 30, 2015

Note 22: Prior Period Adjustments

During fiscal year 2015, it was determined that revenue was overstated in prior year due to hotel motel tax revenue. The amount of the prior period adjustment is a decrease in net position and fund balance of the Hotel/Motel Tax Fund of \$1,967.

During fiscal year 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Upon adoption of GASB No. 68, the City must assume its proportionate share of the net pension liability or asset of the Texas Municipal Retirement System. Adoption of GASB No. 68 required a prior period adjustment to report the effect of GASB No. 68 retroactively. The amount of the prior period adjustment is an increase in net position of \$341,212.

	As Previously Reported	Prior Period Adjustment	As Restated
Net position of:			
Governmental activities	\$ 1,173,282	\$ (218,347)	\$ 954,935
Business-type activities			
Water and Sewer Fund	630,914	(31,227)	599,687
Electric fund	2,115,800	(69,384)	2,046,416
Sanitation fund	(16,016)	(22,254)	(38,270)
Total	\$ 3,903,980	\$ (341,212)	\$ 3,562,768

Required Supplementary Information

CITY OF TULIA, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 360,341	\$ 360,341	\$ 358,522	\$ (1,819)
Sales taxes	300,000	300,000	213,629	(86,371)
Other taxes	439,666	439,666	423,831	(15,835)
Penalty and interest on taxes	55,500	55,500	72,886	17,386
Licenses and permits	3,400	3,400	7,923	4,523
Intergovernmental revenues and grants	114,200	114,200	116,480	2,280
Charges for services	18,030	18,030	13,322	(4,708)
Fines	30,000	30,000	23,027	(6,973)
Investment earnings	175	175	128	(47)
Other revenue	10,200	10,200	31,357	21,157
Total revenues	<u>1,331,512</u>	<u>1,331,512</u>	<u>1,261,105</u>	<u>(70,407)</u>
EXPENDITURES				
Current				
Administrative	263,156	263,156	250,706	12,450
Building maintenance	33,946	33,946	36,837	(2,891)
Financial administration	112,707	112,707	119,015	(6,308)
Legislative	226,378	226,378	133,806	92,572
Municipal court	37,510	37,510	34,754	2,756
Code enforcement	1,000	1,000	2,485	(1,485)
Fire protection	63,233	63,233	51,967	11,266
Police	953,829	953,829	896,064	57,765
Street department	297,076	297,076	279,502	17,574
Parks and Recreation	142,619	142,619	132,387	10,232
Capital outlay	-	-	28,229	(28,229)
Total expenditures	<u>2,131,454</u>	<u>2,131,454</u>	<u>1,965,752</u>	<u>165,702</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(799,942)</u>	<u>(799,942)</u>	<u>(704,647)</u>	<u>95,295</u>
Other financing sources (uses)				
Transfers in	353,871	353,871	1,004,083	650,212
Sale of assets	5,000	5,000	7,780	2,780
Transfers out	144,670	144,670	(277,499)	(422,169)
Total other financing sources (uses)	<u>503,541</u>	<u>503,541</u>	<u>734,364</u>	<u>230,823</u>
Change in fund balance	(296,401)	(296,401)	29,717	326,118
Fund balance - October 1	<u>251,805</u>	<u>251,805</u>	<u>251,805</u>	<u>-</u>
Fund balance - September 30 (ending)	<u>\$ (44,596)</u>	<u>\$ (44,596)</u>	<u>\$ 281,522</u>	<u>\$ 326,118</u>

CITY OF TULIA, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Year Ended December 31, <u>2014</u>
Total Pension Liability	
Service cost	\$ 179,065
Interest on total pension liability	576,521
Changes of benefit terms	-
Differences between expected and actual experience	(171,204)
Change of assumptions	-
Benefit payments/refunds of contributions	<u>(429,379)</u>
Net change in total pension liability	155,003
Total pension liability, beginning	<u>8,361,172</u>
Total pension liability, ending (a)	<u><u>\$ 8,516,175</u></u>
Fiduciary Net Position	
Contributions - Employer	\$ 180,149
Contributions - Employee	79,595
Net investment income	451,201
Benefit payments/refunds of contributions	(429,379)
Administrative expenses	(4,709)
Other	<u>(387)</u>
Net change in fiduciary net position	276,470
Fiduciary net position, beginning	<u>7,887,421</u>
Fiduciary net position, ending (b)	<u><u>\$ 8,163,891</u></u>
Net pension liability / (asset), ending = (a) - (b)	<u><u>352,284</u></u>
Fiduciary net position as a percentage of total pension liability	95.86 %
Pensionable covered payroll	\$ 1,326,577
Net pension liability as a percentage of covered payroll	26.56 %

**CITY OF TULIA, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR FISCAL YEAR 2015**

<u>Year Ending September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contribution as a Percentage of Covered Payroll</u>
2015	\$ 176,574	\$ 187,873	\$ (11,299)	\$ 1,323,642	14.2 %

CITY OF TULIA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Budgetary Process

The official budget was prepared for adoption for the General Fund. The following procedures are followed in establishing the budgetary data reflected in the required supplementary information:

- 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 Council is then called for the purpose of adopting the proposed budget. At least ten 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 Council.
- d. Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council.
- e. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end.
- f. No significant budget amendments occurred during the year ended September 30, 2015.
- g. All budget appropriations lapse at year end.

Excess of actual expenditures over budgeted amounts

- a. Actual expenditures for building maintenance exceeded budgeted amounts by \$2,891 due to higher than expected operating costs.
- b. Actual expenditures for financial administration exceeded budgeted amounts by \$6,308 due to higher than expected operating costs.
- c. Actual expenditures for code enforcement exceeded budgeted amounts by \$1,485 due to higher than expected operating costs.

CITY OF TULIA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Note A: Net Pension Liability – Texas Municipal Retirement System

Assumptions

The following methods and assumptions were used to determine contribution rates:

Valuation date	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years
Asset valuation method	10-year smoothed market; 15% soft corridor
Inflation	3.00%
Salary increases	3.50% to 12.00%, including inflation
Investment rate of return	7.00%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the 2005 – 2009.
Mortality	RP-2000 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.

Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes in the Size or Composition of the Population Covered by the Benefit Terms

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

Other Supplementary Information

CITY OF TULIA, TEXAS
COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2015

	<u>Flexible Benefit Plan Fund</u>	<u>Medical Self Insurance Fund</u>	<u>Capital Replacement Fund</u>	<u>Workers Compensation Fund</u>	<u>Total Internal Service Funds</u>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 9,888	\$ 73,643	\$ 243,903	\$ 8,428	\$ 335,862
Total assets	<u>9,888</u>	<u>73,643</u>	<u>243,903</u>	<u>8,428</u>	<u>335,862</u>
Liabilities:					
Current liabilities:					
Due to other funds	-	-	4,993	-	4,993
Total current liabilities	-	-	4,993	-	4,993
Noncurrent liabilities:					
Capital lease payable	-	-	32,790	-	32,790
Total noncurrent liabilities	-	-	32,790	-	32,790
Total liabilities	-	-	37,783	-	37,783
Net position:					
Unrestricted	<u>9,888</u>	<u>73,643</u>	<u>206,120</u>	<u>8,428</u>	<u>298,079</u>
Total net position	<u>\$ 9,888</u>	<u>\$ 73,643</u>	<u>\$ 206,120</u>	<u>\$ 8,428</u>	<u>\$ 298,079</u>

CITY OF TULIA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Flexible Benefit Plan Fund	Medical Self Insurance Fund	Capital Replacement Fund	Workers Compensation Fund	Total Internal Service Funds
Operating revenues:					
Employee contributions	\$ 10,052	\$ 48,143	\$ -	\$ -	\$ 58,195
Employer contributions	411	105,031	-	-	105,442
Miscellaneous	-	-	-	-	-
Total operating revenues	<u>10,463</u>	<u>153,174</u>	<u>-</u>	<u>-</u>	<u>163,637</u>
Operating expenses:					
Claims paid	8,590	-	-	2,851	11,441
Insurance premiums paid	-	154,502	-	-	154,502
Total operating expenses	<u>8,590</u>	<u>154,502</u>	<u>-</u>	<u>2,851</u>	<u>165,943</u>
Operating income (loss)	1,873	(1,328)	-	(2,851)	(2,306)
Non-operating revenues:					
Investment earnings	<u>13</u>	<u>95</u>	<u>335</u>	<u>15</u>	<u>458</u>
(Loss) income before other financing sources and uses	<u>1,886</u>	<u>(1,233)</u>	<u>335</u>	<u>(2,836)</u>	<u>(1,848)</u>
Other financing sources (uses)					
Transfers in	-	-	371,799	-	371,799
Transfers out	-	-	(269,083)	-	(269,083)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>102,716</u>	<u>-</u>	<u>102,716</u>
Change in net position	1,886	(1,233)	103,051	(2,836)	100,868
Total net position - beginning of year	<u>8,002</u>	<u>74,876</u>	<u>103,069</u>	<u>11,264</u>	<u>197,211</u>
Total net position - end of year	<u>\$ 9,888</u>	<u>\$ 73,643</u>	<u>\$ 206,120</u>	<u>\$ 8,428</u>	<u>\$ 298,079</u>

**CITY OF TULIA, TEXAS
COMBINING STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	Flexible Benefit Plan Fund	Medical Self Insurance Fund
Cash flows from operating activities:		
City contributions	\$ 411	\$ 105,031
Employee contributions	10,052	48,143
Other revenue received	-	-
Payments for employee claims	(8,590)	-
Payments for insurance premiums	-	(154,502)
Net cash (used in) provided by operating activities	<u>1,873</u>	<u>(1,328)</u>
Cash flows from noncapital financing activities:		
Transfers from other funds	-	-
Transfers to other funds	-	-
Net cash used in noncapital financing activities	<u>-</u>	<u>-</u>
Cash flows from capital financing activities:		
Payments on capital lease	-	-
Net cash provided by capital activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest and investment income received	<u>13</u>	<u>95</u>
Net cash provided by investing activities	<u>13</u>	<u>95</u>
Net change in cash and cash equivalents	1,886	(1,233)
Cash and cash equivalents, beginning of period	<u>8,002</u>	<u>74,876</u>
Cash and cash equivalents, end of period	<u>\$ 9,888</u>	<u>\$ 73,643</u>
Reconciliation of operating income to net cash flows from operating activities:		
Operating (loss) income	\$ <u>1,873</u>	\$ <u>(1,328)</u>
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities		
Changes in assets & liabilities:		
Increase (decrease) in accounts payable	<u>-</u>	<u>-</u>
Total adjustments	<u>-</u>	<u>-</u>
Net cash (used in) provided by operating activities	<u>\$ 1,873</u>	<u>\$ (1,328)</u>
Noncash transactions		
Acquisition of capital assets through capital lease	\$ -	\$ -
Transfer of leased assets to city departments	-	-

Capital Replacement Fund	Workers Compensation Fund	Total Internal Service Funds
\$ -	\$ -	\$ 105,442
-	-	58,195
-	-	-
-	(5,061)	(13,651)
-	-	(154,502)
<u>-</u>	<u>(5,061)</u>	<u>(4,516)</u>
371,798	-	371,798
(230,455)	-	(230,455)
<u>141,343</u>	<u>-</u>	<u>141,343</u>
(12,208)	-	(12,208)
<u>(12,208)</u>	<u>-</u>	<u>(12,208)</u>
335	15	458
<u>335</u>	<u>15</u>	<u>458</u>
129,470	(5,046)	125,077
<u>114,433</u>	<u>13,474</u>	<u>210,785</u>
<u>\$ 243,903</u>	<u>\$ 8,428</u>	<u>\$ 335,862</u>
\$ -	\$ (2,851)	\$ (2,306)
-	(2,210)	(2,210)
-	(2,210)	(2,210)
<u>\$ -</u>	<u>\$ (5,061)</u>	<u>\$ (4,516)</u>
\$ 44,998	\$ -	\$ 44,998
44,998	-	44,998

INTERNAL CONTROL AND COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S 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**

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tulia, Texas (the City) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

Finding 2015-001: Management Review and Approval of Transactions - During our audit testwork, we noted that the City has various policies and procedures in place pertaining to the review and approval of transactions; however, we also noted that much of the review and approval processes that are performed are not formally documented. Specifically, we noted there is a lack of documentation of the review and approval of the following: 1) general disbursement transactions; 2) journal entries.

For all of the City's monthly accounting functions, we recommend that an appropriate level of management review and approve, and that the process be formally documented in writing. We also recommend that the City examine its current policies and procedures in place to determine if any one employee has control over an entire transaction cycle from inception through the processing and reporting processes. To the extent possible, the City should have multiple employees involved in these processes to have a sufficient level of segregation of duties and a good system of internal control. This will help to ensure that errors, whether intentional or unintentional, will be detected in a timely manner by the City's management.

Management's Response to Finding 2015-001:

The City plans to implement formal documentation procedures to require the respective department heads to formally approve disbursements and employees time cards.

Finding 2015-002: Utility Billing

In testing the utility revenue billing system, we encountered discrepancies in the billing calculations. The calculations for water, sewer, electric, and sanitation charges did not agree with the latest approved city ordinance. The discrepancies resulted in both over and under billing citizens of Tulia, Texas. We determined together with management of the City, that the incorrect billing was caused due to certain rates not being correctly entered in the software setup.

We recommend that management examine all existing accounts for appropriate rates. We also recommend that management review new accounts for appropriate rates. This will help ensure that customers are billed accurately based on City ordinance.

Management's Response to Finding 2015-002:

The City's utility billing department is currently reviewing all current accounts to determine the accuracy of the bills being delivered to customers. The utility billing staff is reviewing the February 2016 bills that include a consumption period of approximately the middle of December through the middle of January. This process is being documented and signed off on by the appropriate party. There will also be a final review by the Finance Department. From this point going forward, all new accounts will be subjected to this review process to verify the accuracy of all bills being sent out to customers.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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*.

City of Tulia, Texas' Response to Finding

The City's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entities 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.

Dennis Kinard & Co., PC
Certified Public Accountants

Plainview, Texas
March 3, 2016