

ANNUAL FINANCIAL REPORT

of the

City of Dalworthington Gardens, Texas

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

The City's 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension plan information 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 combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
March 16, 2017

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

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City of Dalworthington Gardens, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2016

As management of the City of Dalworthington Gardens, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

Financial Highlights

- The City's total combined net position was \$943,656 at September 30, 2016. Of this there is an unrestricted net position balance of negative \$2,572,769.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,919,307, a decrease of \$1,662,293.
- As of the end of the year, the unassigned fund balance of the general fund was \$651,537 or 21% of total general fund expenditures.
- The City had an overall decrease in net position of \$1,431,647.
- The City closed the year with a net pension liability of \$2,938,823.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for

City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and economic development. The business-type activities of the City include water and sewer, and solid waste operations.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

The City adopts an annual appropriated budget for its general and debt service funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their respective budget.

City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Proprietary Funds

The City's maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water distribution, wastewater collection/treatment, water construction operations and sanitation services. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$943,656 as of September 30, 2016, in the primary government.

The largest portion of the City's net position, \$2,768,532, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are 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 assets themselves cannot be used to liquidate these liabilities.

City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

The following table reflects the condensed Statement of Net Position:

	2016			2015		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 2,480,303	\$ (225,216)	\$ 2,255,087	\$ 3,851,665	\$ 363,161	\$ 4,214,826
Capital assets, net	2,904,317	1,371,368	4,275,685	2,253,657	1,500,419	3,754,076
Total Assets	5,384,620	1,146,152	6,530,772	6,105,322	1,863,580	7,968,902
Deferred Outflows of Resources	504,160	37,947	542,107	259,953	19,567	279,520
Other liabilities	733,586	219,305	952,891	443,164	362,639	805,803
Long-term liabilities	4,820,705	206,171	5,026,876	4,766,303	188,851	4,955,154
Total Liabilities	5,554,291	425,476	5,979,767	5,209,467	551,490	5,760,957
Deferred Inflows of Resources	138,994	10,462	149,456	104,311	7,851	112,162
Net Position:						
Net investment in capital assets	1,397,164	1,371,368	2,768,532	1,550,369	1,500,419	3,050,788
Restricted	747,893	-	747,893	677,142	-	677,142
Unrestricted	(1,949,562)	(623,207)	(2,572,769)	(1,176,014)	(176,613)	(1,352,627)
Total Net Position	\$ 195,495	\$ 748,161	\$ 943,656	\$ 1,051,497	\$ 1,323,806	\$ 2,375,303

City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

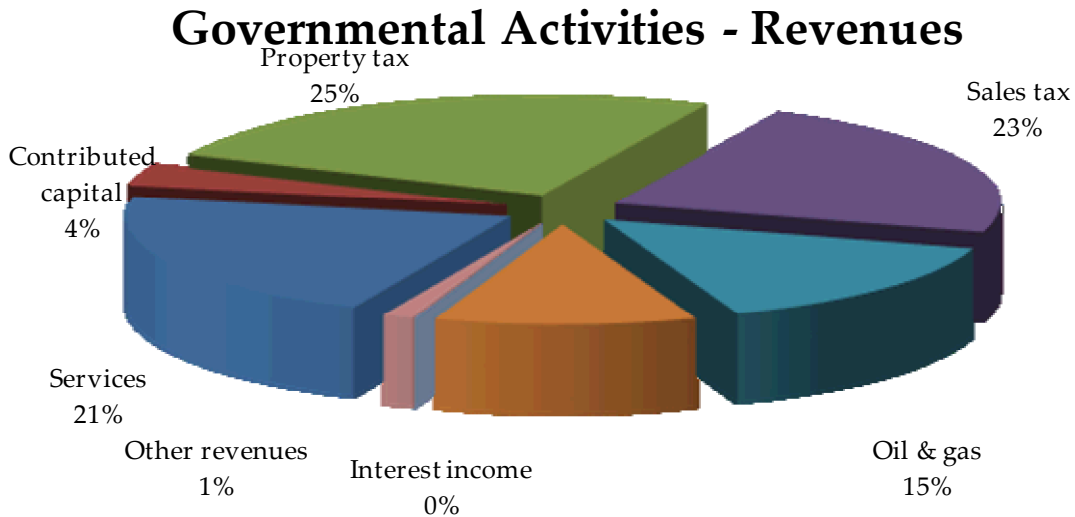
Statement of Activities:

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

	For the Year Ended September 30, 2016			For the Year Ended September 30, 2015		
	Governmental	Business-Type	Primary	Governmental	Business-Type	Primary
	Activities	Activities	Government	Activities	Activities	Government
Revenues						
Program rev:						
Services	\$ 726,582	\$ 1,330,579	\$ 2,057,161	\$ 809,173	\$ 1,236,177	\$ 2,045,350
Grants	120,000	-	120,000	-	-	-
General revenues:						
Property tax	857,678	-	857,678	848,431	-	848,431
Sales tax	768,334	-	768,334	784,902	-	784,902
Other taxes	371,677	-	371,677	378,440	-	378,440
O&G revenue	497,937	-	497,937	650,113	-	650,113
Interest income	1,313	182	1,495	102	100	202
Other revenues	43,201	-	43,201	54,051	-	54,051
Total Revenues	3,386,722	1,330,761	4,717,483	3,525,212	1,236,277	4,761,489
Expenses						
General	863,364	-	863,364	817,514	-	817,514
Public safety	2,184,652	-	2,184,652	2,109,499	-	2,109,499
Public works	1,000,728	-	1,000,728	693,551	-	693,551
Parks and rec.	114,229	-	114,229	-	-	-
Interest	79,751	-	79,751	66,443	-	66,443
Utilities	-	1,906,406	1,906,406	-	1,628,878	1,628,878
Total Expenses	4,242,724	1,906,406	6,149,130	3,687,007	1,628,878	5,315,885
Change in Net Position						
Before Transfers	(856,002)	(575,645)	(1,431,647)	(161,795)	(392,601)	(554,396)
Transfers	-	-	-	37,200	(37,200)	-
Total	-	-	-	37,200	(37,200)	-
Change in Net Position	(856,002)	(575,645)	(1,431,647)	(124,595)	(429,801)	(554,396)
Beginning Net Position	1,051,497	1,323,806	2,375,303	1,176,092	1,753,607	2,929,699
Ending Net Position	\$ 195,495	\$ 748,161	\$ 943,656	\$ 1,051,497	\$ 1,323,806	\$ 2,375,303

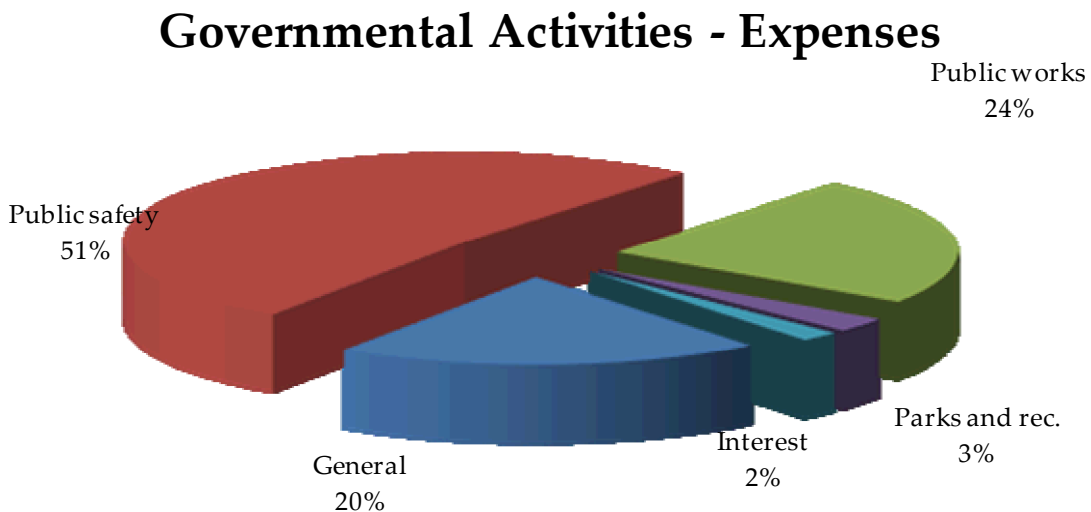
City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.



For the year ended September 30, 2016, revenues from governmental activities totaled \$3,386,722. Property tax, charges for services, and sales tax are the City's largest revenue sources. Overall revenue decreased by \$138,490 or 4%. Oil and gas mineral revenue decreased by \$152,176 or 23% due to declining production. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:



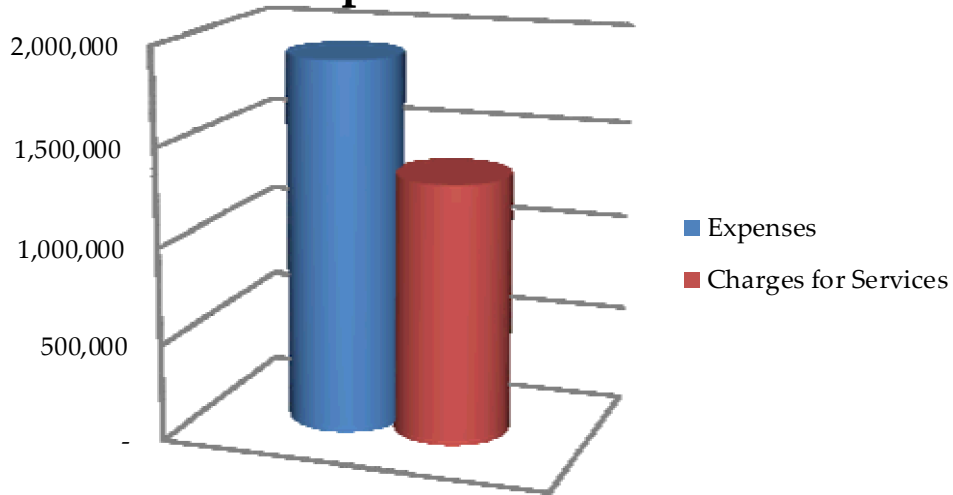
For the year ended September 30, 2016, expenses for governmental activities totaled \$4,242,724. This represents an increase of \$555,717 or 15% from the prior year. The City's largest functional expense is public safety of \$2,184,652 which increased by \$75,153 or 4% due to additional salary and contract expenditures. General government expenses increased by \$45,850 or 6% due to additional personnel and professional costs.

City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

Public works expenditures increased by \$307,177 or 44%, due to the City's spending on road maintenance and related infrastructure. All other expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

**Business-Type Activities - Revenues &
Expenses**



For the year ended September 30, 2015, charges for services and operating expenses for business-type activities remained relatively consistent. Charges for services totaled \$1,330,579. This is an increase of \$94,402, or 8%, from the previous year which is primarily due to an increase in garbage collection rates as well as increased water usage. Total operating expenses increased by \$277,528 or 17% during the year as a result to additional repairs and maintenance costs as well as increased costs from providers.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$652,037. Of this, \$500 is considered nonspendable due to prepaid assets. Unassigned fund balance totaled \$651,537 as of year-end.

The debt service fund had an ending fund balance of \$108,424 at yearend for an increase of \$14,043. Total principal and interest payments made during the year were \$90,000 and \$73,432, respectively.

City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

There was an overall decrease in governmental fund balance of \$1,662,293 from the prior year. The decrease was related to spending bond proceeds meant for capital improvement within the City.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total negative budget variance of \$282,401. The budget variance consists of a negative revenue variance of \$40,625 and a negative expenditure variance of \$241,776.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$2,904,317 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$1,371,368 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Several road rehabilitation and replacement projects, totaling \$868,495 in capitalized infrastructure projects.
- Purchase of a public safety jaws of life for \$26,800.
- The purchase of a pick up truck for \$23,238.

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds, issuance premiums and leases outstanding of \$2,254,142. During the year, the City made payments on the long-term debt of \$164,016. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

City of Dalworthington Gardens, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Dalworthington Gardens and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Dalworthington Gardens' finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Administrator, 2600 Roosevelt Drive, Dalworthington Gardens, Texas 76016.

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FINANCIAL STATEMENTS

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City of Dalworthington Gardens, Texas

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,552,215	\$ 335,170	\$ 1,887,385
Receivables, net	195,777	171,425	367,202
Prepays	500	-	500
Internal balances	731,811	(731,811)	-
Total Current Assets	2,480,303	(225,216)	2,255,087
Capital assets:			
Non-depreciable	601,810	109,201	711,011
Net depreciable capital assets	2,302,507	1,262,167	3,564,674
	2,904,317	1,371,368	4,275,685
Total Assets	5,384,620	1,146,152	6,530,772
<u>Deferred Outflows of Resources</u>			
Pension contributions	239,679	18,040	257,719
Pension investment earnings	264,481	19,907	284,388
Total Deferred Outflows of Resources	504,160	37,947	542,107
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	506,500	145,072	651,572
Accrued interest payable	12,192	-	12,192
Customer deposits	-	70,154	70,154
Long-term debt due within one year	214,894	4,079	218,973
Total Current Liabilities	733,586	219,305	952,891
Noncurrent liabilities:			
Due in more than one year	2,087,600	453	2,088,053
Net pension liability	2,733,105	205,718	2,938,823
	4,820,705	206,171	5,026,876
Total Liabilities	5,554,291	425,476	5,979,767
<u>Deferred Inflows of Resources</u>			
Pension (gains) losses	138,994	10,462	149,456
Total Deferred Inflows of Resources	138,994	10,462	149,456
<u>Net Position</u>			
Net investment in capital assets	1,397,164	1,371,368	2,768,532
Restricted	747,893	-	747,893
Unrestricted	(1,949,562)	(623,207)	(2,572,769)
Total Net Position	\$ 195,495	\$ 748,161	\$ 943,656

See Notes to Financial Statements.

City of Dalworthington Gardens, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 863,364	\$ 165,018	\$ -
Public safety	2,184,652	561,564	-
Public works	1,000,728	-	120,000
Parks and recreation	114,229	-	-
Interest and fiscal charges	79,751	-	-
Total Governmental Activities	4,242,724	726,582	120,000
Business-Type Activities			
Water, Sewer, & Sanitation	1,906,406	1,330,579	-
Total Business-Type Activities	1,906,406	1,330,579	-
Total Primary Government	\$ 6,149,130	\$ 2,057,161	120,000

General Revenues:

Taxes

Property tax

Sales tax

Franchise and local taxes

Oil and gas mineral rights

Interest income

Other revenues

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (698,346)	\$ -	\$ (698,346)
(1,623,088)	-	(1,623,088)
(880,728)	-	(880,728)
(114,229)	-	(114,229)
(79,751)	-	(79,751)
(3,396,142)	-	(3,396,142)
-	(575,827)	(575,827)
-	(575,827)	(575,827)
(3,396,142)	(575,827)	(3,971,969)
857,678	-	857,678
768,334	-	768,334
371,677	-	371,677
497,937	-	497,937
1,313	182	1,495
43,201	-	43,201
2,540,140	182	2,540,322
(856,002)	(575,645)	(1,431,647)
1,051,497	1,323,806	2,375,303
\$ 195,495	\$ 748,161	\$ 943,656

City of Dalworthington Gardens, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

	<u>General</u>	<u>Parks and Recreation Facility Development</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 751,758	\$ 352,728	\$ 307,677	\$ 47,292
Receivables, net	122,376	31,480	-	11,828
Prepays	500	-	-	-
Due from other funds	62,891	41,684	563,087	61,133
Total Assets	\$ 937,525	\$ 425,892	\$ 870,764	\$ 120,253
<u>Liabilities</u>				
Deficit pooled cash	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	242,821	1,027	245,567	-
Total Liabilities	242,821	1,027	245,567	-
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	42,667	-	-	11,829
<u>Fund Balances</u>				
Nonspendable:				
Prepaid items	500	-	-	-
Restricted for:				
Parks and recreation	-	424,865	-	-
Special revenue	-	-	-	-
Capital improvements	-	-	625,197	-
Debt service fund	-	-	-	108,424
Unassigned reported in:				
General fund	651,537	-	-	-
Total Fund Balances	652,037	424,865	625,197	108,424
Total Liabilities, Deferred Inflows of Resources, and Fund	\$ 937,525	\$ 425,892	\$ 870,764	\$ 120,253

See Notes to Financial Statements.

Crime Control and Prevention	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 92,760	\$ 1,552,215
30,093	-	195,777
-	-	500
-	133,801	862,596
<u>\$ 30,093</u>	<u>\$ 226,561</u>	<u>\$ 2,611,088</u>
\$ 130,785	\$ -	\$ 130,785
5,128	11,957	\$ 506,500
<u>135,913</u>	<u>11,957</u>	<u>637,285</u>
-	-	54,496
-	-	500
-	-	424,865
-	214,604	214,604
-	-	625,197
-	-	108,424
(105,820)	-	545,717
<u>(105,820)</u>	<u>214,604</u>	<u>1,919,307</u>
<u>\$ 30,093</u>	<u>\$ 226,561</u>	<u>\$ 2,611,088</u>

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City of Dalworthington Gardens, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2016

Fund Balances - Total Governmental Funds \$ 1,919,307

Adjustments for the Statement of Net Position:

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

Capital assets - non-depreciable 601,810

Capital assets - net depreciable 2,302,507

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

Property tax receivable 54,496

Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.

Pension contributions 239,679

Pension investment earnings 264,481

Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension (gains) losses (138,994)

Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.

Accrued interest (12,192)

Non-current liabilities due in one year (214,894)

Non-current liabilities due in more than one year (2,087,600)

Net pension liability (2,733,105)

Net Position of Governmental Activities \$ 195,495

See Notes to Financial Statements.

City of Dalworthington Gardens, Texas

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

For the Year Ended September 30, 2016

	General	Parks and Recreation Facility Development	Capital Projects	Debt Service
Revenues				
Property tax	\$ 674,873	\$ -	\$ -	\$ 177,468
Sales tax	387,978	193,953	-	-
Franchise and local taxes	371,677	-	-	-
License and permits	165,018	-	-	-
Fines and forfeitures	524,874	-	-	-
Oil and gas mineral rights	497,937	-	-	-
Interest income	1,131	175	-	7
Other revenues	42,953	-	-	-
Total Revenues	2,666,441	194,128	-	177,475
Expenditures				
Current:				
General government	850,674	-	-	-
Public safety	1,567,148	-	-	-
Public works	429,314	-	-	-
Parks and recreation	-	71,520	-	-
Capital outlay	171,824	-	1,095,954	-
Debt Service:				
Principal	74,016	-	-	90,000
Interest and fiscal charges	10,354	-	-	73,432
Total Expenditures	3,103,330	71,520	1,095,954	163,432
Excess of Revenues				
Over (Under) Expenditures	(436,889)	122,608	(1,095,954)	14,043
Other Financing Sources (Uses)				
Transfers in (out)	-	-	-	-
Sales of general capital assets	-	-	-	-
Total Other Financing (Sources)	-	-	-	-
Net Change in Fund Balances	(436,889)	122,608	(1,095,954)	14,043
Beginning fund balances	1,088,926	302,257	1,721,151	94,381
Ending Fund Balances	\$ 652,037	\$ 424,865	\$ 625,197	\$ 108,424

See Notes to Financial Statements.

Crime Control and Prevention	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 852,341
186,403	-	768,334
-	-	371,677
-	-	165,018
-	36,690	561,564
-	-	497,937
-	-	1,313
248	-	43,201
<u>186,651</u>	<u>36,690</u>	<u>3,261,385</u>
-	-	850,674
438,575	29,486	2,035,209
-	-	429,314
-	12,887	84,407
-	8,494	1,276,272
-	-	164,016
-	-	83,786
<u>438,575</u>	<u>50,867</u>	<u>4,923,678</u>
(251,924)	(14,177)	(1,662,293)
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
(251,924)	(14,177)	(1,662,293)
146,104	228,781	3,581,600
<u>\$ (105,820)</u>	<u>\$ 214,604</u>	<u>\$ 1,919,307</u>

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City of Dalworthington Gardens, Texas

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

For the Year Ended September 30, 2016

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

Net changes in fund balances - total governmental funds	\$ (1,662,293)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	850,016
Depreciation expense	(319,356)

The effect of capital assets contributed to the City during the current year.	120,000
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	5,337
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	2,815
Pension expense	(20,572)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	164,016
Amortization of premium	4,035

Change in Net Position of Governmental Activities	\$ (856,002)
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See Notes to Financial Statements.

City of Dalworthington Gardens, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2016

	Water, Sewer & Sanitation
<u>Assets</u>	
<u>Current Assets</u>	
Restricted cash	\$ 335,170
Receivables, net	171,425
Total Current Assets	506,595
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	109,201
Net depreciable capital assets	1,262,167
Total Noncurrent Assets	1,371,368
Total Assets	1,877,963
<u>Deferred Outflows of Resources</u>	
Pension contributions	18,040
Pension investment earnings	19,907
Total Deferred Outflows of Resources	37,947
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Deficit pooled cash	731,811
Accounts payable and accrued liabilities	145,072
Customer deposits	70,154
Long-term debt due within one year	4,079
Total Current Liabilities	951,116
<u>Noncurrent Liabilities</u>	
Due in more than one year	453
Net pension liability	205,718
Total Liabilities	1,157,287
<u>Deferred Inflows of Resources</u>	
Pension (gains) losses	10,462
Total Deferred Inflows of Resources	10,462
<u>Net Position</u>	
Net investment in capital assets	1,371,368
Unrestricted	(623,207)
Total Net Position	\$ 748,161

See Notes to Financial Statements.

City of Dalworthington Gardens, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2016

	Water, Sewer & Sanitation
<u>Operating Revenues</u>	
Water sales	\$ 787,083
Sewer revenue	361,943
Refuse collection	145,917
Other revenue	35,636
Total Operating Revenues	1,330,579
 <u>Operating Expenses</u>	
Cost of water	679,290
Personnel	198,478
Material and supplies	139,037
Contracted services	760,551
Depreciation	129,050
Total Operating Expenses	1,906,406
Operating Income (Loss)	(575,827)
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	182
Total Nonoperating Revenues (Expenses)	182
Income (Loss) Before Transfers	(575,645)
Transfers (out)	
Change in Net Position	(575,645)
Beginning net position	1,323,806
Ending Net Position	\$ 748,161

See Notes to Financial Statements.

City of Dalworthington Gardens, Texas

STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 1 of 2)
For the Year Ended September 30, 2016

	<u>Water, Sewer & Sanitation</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,383,496
Payments to suppliers and contractors	(994,679)
Payments to employees	(196,927)
Net Cash Provided (Used) by Operating Activities	<u>191,890</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer (out)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	182
Net Cash Provided by Investing Activities	<u>182</u>
Net Increase (Decrease) in Cash and Cash Equivalents	192,072
Beginning cash and cash equivalents	143,098
Ending Cash and Cash Equivalents	<u><u>\$ 335,170</u></u>

See Notes to Financial Statements.

City of Dalworthington Gardens, Texas

STATEMENT OF CASH FLOWS
PROPRIETARY FUND (Page 2 of 2)
For the Year Ended September 30, 2016

	<u>Water, Sewer & Sanitation</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash (Used) by Operating Activities</u>	
Operating Income (Loss)	\$ (575,827)
Adjustments to reconcile operating loss to net cash used:	
Depreciation	129,050
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	48,639
Customer deposits	4,278
Deferred Outflows of Resources:	
Pension contributions	(1,373)
Investment experience	(17,007)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(147,612)
Net pension liability	17,320
Deferred Inflows of Resources:	
Actual experience vs. assumption	2,611
Due to other funds	731,811
Net Cash Provided (Used) by Operating Activities	\$ 191,890

See Notes to Financial Statements.

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City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dalworthington Gardens, Texas, Texas (the "City") was incorporated on July 19, 1949 under Title 28, Revised Civil Statutes of Texas, 1928, Chapters 1-10, as amended, relating to cities and towns. The City operates under an aldermanic form of government and provides the following services as authorized by the general laws of the State of Texas as duly incorporated general law City and subsequent City ordinances; public safety (police and fire), highway and streets, sanitation, water and sewer, public improvements, planning and zoning, and general administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended component units. The City's Parks and Recreation Facility Development Corporation is governed by the City Council. Although it is legally separate from the City, the Parks and Recreation Facility Development Corporation is reported as a special revenue fund as if it were part of the primary government because its purpose is to promote economic development and operate, maintain, and finance the costs of the City's parks and recreation facilities using taxes collected under Section 4B of the Development Corporation Act of 1979.

The Dalworthington Gardens Crime Control District is a special purpose district that collects sales tax within its boundaries for the purpose of controlling and preventing crime. The District's board consists of the City Council and is reported as a special revenue fund as if it were part of the primary government.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the City's activities;

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets**—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the 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. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

expenditures or expenses, as appropriate. The government reports the following major governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government and public safety.

Parks and Recreation Facilities and Economic Development Corporation

The Parks and Recreation Facilities and Economic Development Corporation was incorporated on June 15, 1992 under the Development Corporation Act of 1979, Article 5190.6, Section 4B. It is funded by .5% sales tax and the funds are restricted for use in the promotion of economic development and maintenance and improvement of the parks and recreation facilities.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes.

Capital Projects Fund

The capital projects fund accounts for the acquisition and construction of the government's major capital projects, other than those financed by proprietary funds.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

The government reports the following major enterprise fund:

Water, Sewer, & Sanitation Fund

This fund is used to account for the provision of water, sewer & garbage services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems, and contract garbage services. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net position and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type and component units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

The statements of net position, statements of activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

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

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

Statewide investment pools

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as “due to/from component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. 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. Penalties are calculated after February 1 up to the date collected by the City. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 years
Furniture and equipment	5 to 10 years
Infrastructure	40 years
Water and sewer system	40 years
Buildings and improvements	40 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

7. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund Balance Flow Assumptions

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

9. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (City Council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

12. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS'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.

13. 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 revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. No budget appropriations or amendments were made during the year.

A. Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control and as follows:

General Fund:

General government	\$92,443
Public works	\$130,141
Capital outlay	\$23,825
Principal	\$16
Interest	\$354

Debt Service Fund

Interest	\$282
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The City has implemented procedures to ensure budgetary compliance. No expenditure can be made unless there is a budget available or an approved budget amendment has been submitted. Department head and management will review the budget variances on a regular basis and the budget will be amended if necessary.

B. Deficit Fund Equity

At September 30, 2016, the Crime Control and Prevention District, a nonmajor fund, has a deficit fund balance of \$104,786. The deficit will be eliminated in the future with sales tax revenue that is received through the District.

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As stated in I.D.1., the City’s cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The City’s investments in 2a7-like pools such as TexStar are included in this category. Although the City’s investments in TexStar are available for immediate withdrawal, disclosure of the pool’s weighted average maturity and bond rating are required. The City had the following deposits considered to be cash and cash equivalents at year end:

Investment Type	Fair Value	Weighted Average Maturity Days
TexStar	365	41
Total fair value	\$ 365	

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed one year; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2016, the City’s investment in TexSTAR was rated AAAM by Standard & Poor’s.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2016, the market values of pledged securities and FDIC exceeded bank balances.

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexSTAR

The Texas Short Term Asset Reserve Fund ("TexSTAR") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR uses amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in TexSTAR are the same as the value of TexSTAR shares.

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

B. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Parks and Recreation Facility Development</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Water, Sewer & Sanitation</u>	<u>Total</u>
Taxes						
Property taxes	\$ 42,667	\$ -	\$ 11,828	\$ -	\$ -	\$ 54,495
Sales taxes	62,772	31,480	-	30,094	-	124,346
Franchise tax	10,647	-	-	-	-	10,647
Accounts	6,290	-	-	-	230,556	236,846
Allowance	-	-	-	-	(59,131)	(59,131)
Total	\$ 122,376	\$ 31,480	\$ 11,828	\$ 30,094	\$ 171,425	\$ 367,203

C. Interfund Receivables and Deficit Cash Balances

Two of the City's funds had deficit pooled cash balances at year end. The amounts are eliminated on the Statement of Net Position. The amount due to the other funds has been allocated based on the positive cash balance within those funds as follows:

<u>Interfund Receivables</u>	<u>Deficit Cash Balances</u>
General	
\$ 62,891	\$
Parks and Recreation Facility Development	
41,684	
Capital projects	
563,087	
Debt service	
61,133	Crime Control and Prevention
Nonmajor	\$ 130,785
133,801	Water and sewer
731,811	
Total	Total
\$ 862,596	\$ 862,596

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

D. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 291,438	\$ -	\$ -	\$ 291,438
Construction in progress	-	310,372	-	310,372
Total capital assets not being depreciated	<u>291,438</u>	<u>310,372</u>	<u>-</u>	<u>601,810</u>
Capital assets, being depreciated:				
Buildings and improvements	623,069	-	-	623,069
Vehicles and equipment	2,062,742	101,521	-	2,164,263
Infrastructure	3,119,055	558,123	-	3,677,178
Total capital assets being depreciated	<u>5,804,866</u>	<u>659,644</u>	<u>-</u>	<u>6,464,510</u>
Less accumulated depreciation				
Buildings and improvements	391,154	17,685	-	408,839
Vehicles and equipment	1,562,692	147,340	-	1,710,032
Infrastructure	1,888,801	154,331	-	2,043,132
Total accumulated depreciation	<u>3,842,647</u>	<u>319,356</u>	<u>-</u>	<u>4,162,003</u>
Net capital assets being depreciated	<u>1,962,219</u>	<u>340,288</u>	<u>-</u>	<u>2,302,507</u>
Total capital assets	<u><u>\$ 2,253,657</u></u>	<u><u>\$ 650,660</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,904,317</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 9,604
Public safety	136,418
Public works	143,512
Parks and recreation	29,822
Total Governmental Activities Depreciation Expense	<u><u>\$ 319,356</u></u>

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 109,201	\$ -	\$ -	\$ 109,201
Total capital assets not being depreciated	109,201	-	-	109,201
Capital assets, being depreciated:				
Buildings and improvements	1,118	-	-	1,118
Water and sewer system	4,489,524	-	-	4,489,524
Vehicles and equipment	379,131	-	-	379,131
Total capital assets being depreciated	4,869,773	-	-	4,869,773
Less accumulated depreciation				
Buildings and improvements	1,118	-	-	1,118
Water and sewer system	3,159,936	108,257	-	3,268,193
Vehicles and equipment	317,502	20,793	-	338,295
Total accumulated depreciation	3,478,556	129,050	-	3,607,606
Net capital assets being depreciated	1,391,217	(129,050)	-	1,262,167
Total capital assets	\$ 1,500,418	\$ (129,050)	\$ -	\$ 1,371,368

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

E. Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Refunding Bonds	\$ 325,000	\$ -	\$ (40,000)	\$ 285,000	\$ 25,000
Combination Tax and Revenue Certificate of Obligation	1,710,000	-	(50,000)	1,660,000	70,000
Deferred amounts:					
For issuance premiums	76,657	-	(4,035)	72,622	-
	2,111,657	-	(94,035)	2,017,622	95,000
Other liabilities:					
Capital lease	310,536	-	(74,016)	236,520	76,377
Compensated absences	51,167	48,352	(51,167)	48,352	43,517
Total Governmental Activities	\$ 2,473,360	\$ 48,352	\$ (219,218)	\$ 2,302,494	\$ 214,894
Long-term liabilities due in more than one year				\$ 2,087,600	
Business-Type Activities:					
Other liabilities:					
Compensated absences	\$ 4,532	\$ 4,400	\$ (4,400)	\$ 4,532	\$ 4,079
Total Business-Type Activities	\$ 4,532	\$ 4,400	\$ (4,400)	\$ 4,532	\$ 4,079
Long-term liabilities due in more than one year				\$ 453	

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

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

Long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities	Total
General Obligation Bonds:			
\$360,000 General Obligation Refunding Bond, Series 2006, due in installments through 2024, interest at 4.7-10%	\$ 285,000	\$ -	\$ 285,000
Total General Obligation bonds	\$ 285,000	\$ -	\$ 285,000
Certificates of Obligation:			
\$1,755,000 Certificates of Obligation, Series 2014, due in annual installments through 2034, interest at 2-4%	\$ 1,660,000	\$ -	\$ 1,660,000
Total Certificates of Obligation	\$ 1,660,000	\$ -	\$ 1,660,000
Deferred amounts:			
Issuance premium	\$ 72,622	\$ -	\$ 72,622
Total Deferred Amounts	\$ 72,622	\$ -	\$ 72,622
Capital lease	236,520	-	236,520
Compensated absences	48,352	3,380	51,732
Total Debt	\$ 2,302,494	\$ 3,380	\$ 2,305,874

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Governmental Activities			
	2006 G.O. Bond		2014 C.O. Bond	
	Principal	Interest	Principal	Interest
2017	\$ 25,000	\$ 13,395	\$ 70,000	\$ 56,875
2018	25,000	26,000	55,000	55,475
2019	30,000	23,500	55,000	54,375
2020	35,000	20,500	55,000	53,275
2021	35,000	17,000	60,000	51,625
2022	40,000	13,500	60,000	49,825
2023	45,000	9,500	60,000	48,025
2024	50,000	10,000	60,000	46,225
2025	-	-	100,000	44,125
2026	-	-	105,000	40,625
2027	-	-	105,000	36,950
2028	-	-	110,000	33,275
2029	-	-	115,000	29,425
2030	-	-	120,000	25,400
2031	-	-	125,000	21,200
2032	-	-	130,000	16,200
2033	-	-	135,000	11,000
2034	-	-	140,000	5,600
	\$ 285,000	\$ 133,395	\$ 1,660,000	\$ 679,500

General Obligation Bond, Series 2006; due in annual installments through August 1, 2024, bearing interest ranging from 4.7% to 10% payable February 1 and August 1.

Certificate of Obligation Bond, Series 2014; due in annual installments through August 1, 2034, bearing interest ranging from 2% to 4% payable February 1 and August 1.

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

E. Fund Equity

The City records fund balance/net position restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balances/net position restricted by law or the City:

	<u>Restricted</u>
Parks and recreation	\$ 424,865
Municipal court security	46,416 *
Municipal court automation	138,965 *
Park donations	18,812
Public safety seizures	10,411 *
Debt service fund	108,424
Capital improvements	625,197
Total	<u><u>\$ 1,373,090</u></u>

* Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation,

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Dalworthington Gardens, Texas 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.tmrs.com.

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

2. 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.

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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.

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

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100%	100%
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2015</u>	<u>2014</u>
Inactive employees or beneficiaries currently receiving benefits	6	5
Inactive employees entitled to but not yet receiving benefits	21	19
Active employees	24	27
Total	51	51

3. 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

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Dalworthington Gardens, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Dalworthington Gardens, Texas were 22.43% and 21.95% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$346,656, and were equal to the required contributions.

4. Net Pension Liability (Asset)

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

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5 to 10.50% per year including inflation
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2013, 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 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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 (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

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

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

1% Decrease	Current Single Rate	1% Increase
5.75%	Assumption 6.75%	7.75%
\$ 4,278,474	\$ 2,938,823	\$ 1,870,686

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/14	\$ 7,312,379	\$ 4,620,972	\$ 2,691,407
Changes for the year:			
Service cost	277,028	-	277,028
Interest	513,667	-	513,667
Difference between expected and actual experience	(94,934)	-	(94,934)
Changes of assumptions	18,672	-	18,672
Contributions – employer	-	354,059	(354,059)
Contributions – employee	-	110,496	(110,496)
Net investment income	-	6,820	(6,820)
Benefit payments, including refunds of emp. contributions	(225,598)	(225,598)	-
Administrative expense	-	(4,153)	4,153
Other changes	-	(205)	205
Net changes	488,835	241,419	247,416
Balance at 12/31/15	\$ 7,801,214	\$ 4,862,391	\$ 2,938,823

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.

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

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

For the year ended September 30, 2016, the City recognized pension expense of \$395,807.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	\$ 284,388	\$ -
Differences between expected and actual economic experience	-	(149,456)
Contributions subsequent to the measurement date	257,719	-
Total	\$ 542,107	\$ (149,456)

The City reported \$257,719 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that 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:

Plan year ended December 31:		
2016	\$	34,718
2017		34,718
2018		34,720
2019		33,988
2020		(3,212)
Thereafter		-
Total	\$	134,932

Supplemental Death Benefits Fund

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

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

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.

The City offers supplemental death to:	Plan Year 2016	Plan Year 2015
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

The City's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$2,511, \$2,350 and \$511, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates
(*RETIREE-only portion of the rate*)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.01%	0.01%	100.0%
2015	0.02%	0.02%	100.0%
2016	0.02%	0.02%	100.0%

E. Subsequent Events

There were no material subsequent events through March 10, 2017, the date the financial statements were issued.

F. New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) issued Statement No. 72, entitled *Fair Value Measurement and Application*; The provisions of GASB Statement No. 72 are effective for reporting periods beginning after June 15, 2015. GASB Statement No. 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to

City of Dalworthington Gardens, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

transfer a liability in an orderly transaction between participants at the measurement date. The City has adopted this statement during the current fiscal year, but it had no material effect on these accompanying financial statements.

The GASB issued Statement No. 74 titled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, titled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 78, titled, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which will require adoption in the future, if applicable. These statements may or will have a material effect on the City's financial statements once implemented. The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Dalworthington Gardens, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2016

	Original and Final Budget	General	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 731,400	\$ 674,873	\$ (56,527)
Sales tax	354,000	387,978	33,978
Franchise and local taxes	397,456	371,677	(25,779)
License and permits	67,510	165,018	97,508
Municipal court	702,300	524,874	(177,426)
Oil and gas mineral rights	450,000	497,937	47,937
Interest income	1,000	1,131	131
Other revenues	3,400	42,953	39,553
Total Revenues	2,707,066	2,666,441	(40,625)
<u>Expenditures</u>			
Current:			
General government	749,245	850,674	(101,429) *
Public safety	1,581,136	1,567,148	13,988
Public works	299,173	429,314	(130,141) *
Capital outlay	148,000	171,824	(23,824) *
Debt service			
Principal	74,000	74,016	(16) *
Interest and fiscal charges	10,000	10,354	(354) *
Total Expenditures	2,861,554	3,103,330	(241,776)
Net Change in Fund Balance	\$ (154,488)	(436,889)	\$ (282,401)
Beginning fund balance		1,088,926	
Ending Fund Balance		\$ 652,037	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting
2. *Expenditures exceeded appropriations at the legal level of control.

City of Dalworthington Gardens, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
PARKS AND RECREATION FACILITY DEVELOPMENT FUND
For the Year Ended September 30, 2016

	<u>Original and Final Budget</u>	<u>Parks and Recreation Facility Development</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Sales tax	\$ 178,000	\$ 193,953	\$ 15,953
Interest income	100	175	75
Total Revenues	<u>178,100</u>	<u>194,128</u>	<u>16,028</u>
<u>Expenditures</u>			
Current:			
Parks and recreation	365,914	71,520	294,394
Total Expenditures	<u>365,914</u>	<u>71,520</u>	<u>294,394</u>
Revenues Over (Under)	<u>(187,814)</u>	<u>122,608</u>	<u>310,422</u>
Net Change in Fund Balance	<u>\$ (187,814)</u>	122,608	<u>\$ 310,422</u>
Beginning fund balance		302,257	
Ending Fund Balance		<u>\$ 424,865</u>	

Notes to Required Supplementary Information

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

City of Dalworthington Gardens, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2016

	Original and Final Budget	Debt Service	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 163,150	\$ 177,468	\$ 14,318
Interest income	-	7	7
Total Revenues	163,150	177,475	14,325
<u>Expenditures</u>			
Current:			
Debt service			
Principal	90,000	90,000	-
Interest and fiscal charges	73,150	73,432	(282) *
Total Expenditures	163,150	163,432	(282)
Revenues Over (Under)	-	14,043	14,043
Net Change in Fund Balance	\$ -	14,043	\$ 14,043
Beginning fund balance		94,381	
Ending Fund Balance		\$ 108,424	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting
2. *Expenditures exceeded appropriations at the legal level of control.

City of Dalworthington Gardens, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS ¹

September 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 277,028	\$ 265,704
Interest	513,667	481,756
Changes in benefit terms	-	-
Differences between expected and actual experience	(94,934)	(136,520)
Changes of assumptions	18,672	-
Benefit payments, including refunds of participant contributions	(225,598)	(95,888)
Net change in total pension liability	488,835	515,052
Total pension liability - beginning	7,312,379	6,797,327
Total pension liability - ending (a)	7,801,214	7,312,379
Plan fiduciary net position		
Contributions - employer	\$ 354,059	\$ 325,816
Contributions - members	110,496	107,327
Net investment income	6,820	232,020
Benefit payments, including refunds of participant contributions	(225,598)	(95,888)
Administrative expenses	(4,153)	(2,421)
Other	(205)	(199)
Net change in plan fiduciary net position	241,419	566,655
Plan fiduciary net position - beginning	4,620,972	4,054,317
Plan fiduciary net position - ending (b)	\$ 4,862,391	\$ 4,620,972
Fund's net pension liability (asset) - ending (a) - (b)	\$ 2,938,823	\$ 2,691,407
 Plan fiduciary net position as a percentage of the total pension	 62.33%	 63.19%
 Covered employee payroll	 \$ 1,578,510	 \$ 1,516,714
 Fund's net position as a percentage of covered employee payroll	 186.18%	 177.45%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

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***COMBINING STATEMENTS AND
INDIVIDUAL FUND SCHEDULES***

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NONMAJOR GOVERNMENTAL FUNDS

MUNICIPAL COURT SECURITY FUND

The Municipal Court Security Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for municipal court security.

DALWORTHINGTON GARDENS CRIME CONTROL AND PREVENTION DISTRICT

The Dalworthington Gardens Crime Control and Prevention District is a blended component unit. The District is funded by sales tax and its expenditures are legally restricted to crime control and prevention within the District.

MUNICIPAL COURT AUTOMATION FUND

The Municipal Court Automation Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for municipal court automation.

PARK DONATIONS FUND

The Park Donations Fund accounts for grants restricted for City parks.

PUBLIC SAFETY SEIZURES FUND

The Public Safety Seizures Fund accounts for police seizures that are still involved in the court system.

City of Dalworthington Gardens, Texas

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2016

	Municipal Court Security	Municipal Court Automation	Park Donations	Public Safety Seizures
<u>Assets</u>				
Cash and cash equivalents	\$ 16,401	\$ 53,034	\$ 19,642	\$ 3,683
Due from other funds	30,015	97,058	-	6,728
Total Assets	\$ 46,416	\$ 150,092	\$ 19,642	\$ 10,411
 <u>Liabilities</u>				
Accounts payable and accrued liabilities	-	11,127	830	-
Total Liabilities	-	11,127	830	-
 <u>Fund Balances</u>				
Restricted	46,416	138,965	18,812	10,411
Unassigned	-	-	-	-
Total Fund Balances	46,416	138,965	18,812	10,411
Total Liabilities and Fund Balances	\$ 46,416	\$ 150,092	\$ 19,642	\$ 10,411

Total

\$	92,760
	133,801
\$	226,561

	11,957
	11,957

	214,604
	-
	214,604
\$	226,561

City of Dalworthington Gardens, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	<u>Municipal Court Security</u>	<u>Municipal Court Automation</u>	<u>Park Donations</u>	<u>Public Safety Seizures</u>
<u>Revenues</u>				
Fines and forfeitures	\$ 9,841	\$ 13,109	\$ 13,740	\$ -
Total Revenues	<u>9,841</u>	<u>13,109</u>	<u>13,740</u>	<u>-</u>
<u>Expenditures</u>				
Public safety	6,188	23,146	-	152
Parks and recreation	-	-	12,887	-
Capital outlay	-	8,494	-	-
Total Expenditures	<u>6,188</u>	<u>31,640</u>	<u>12,887</u>	<u>152</u>
Net Change in Fund Balances	3,653	(18,531)	853	(152)
Beginning fund balances	42,763	157,496	17,959	10,563
Ending Fund Balances	<u>\$ 46,416</u>	<u>\$ 138,965</u>	<u>\$ 18,812</u>	<u>\$ 10,411</u>

Total

\$ 36,690
36,690

29,486
12,887
8,494
50,867

(14,177)

228,781
\$ 214,604

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