

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
CONVERSE, TEXAS**

For the Year Ended  
September 30, 2015

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# CITY OF CONVERSE, TEXAS

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September 30, 2015

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## ***INDEPENDENT AUDITORS' REPORT***

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Converse, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *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 statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
February 26, 2016

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

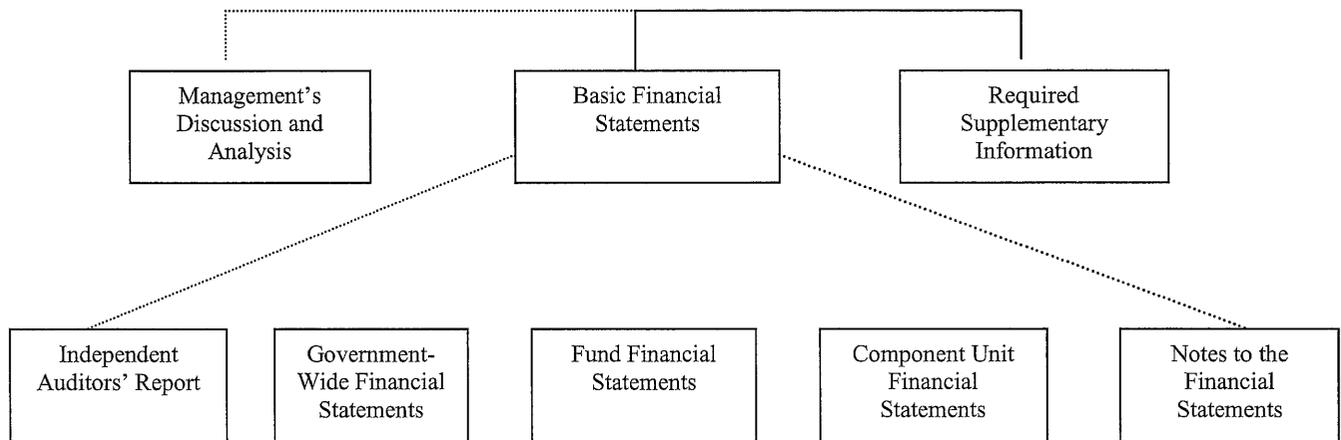
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**CITY OF CONVERSE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended September 30, 2015

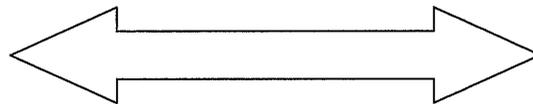
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Converse, Texas (the "City") for the year ending September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

**THE STRUCTURE OF OUR ANNUAL REPORT**

**Components of the Financial Section**



Summary



Detail

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

**Government-Wide Statements**

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

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

**CITY OF CONVERSE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the Year Ended September 30, 2015**

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities report the City as two classes of activities:

1. Governmental Activities – The City's basic services are reported here including general government, public safety, municipal court, fire and emergency services, and public works. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's water distribution, garbage, drainage, and wastewater collection/treatment operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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

## **FUND FINANCIAL STATEMENTS**

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

### **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 year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains eight 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, debt service fund, and the capital projects fund, which are considered to be major funds. The City adopts an annual appropriated budget for its general fund. A budget is prepared for management

**CITY OF CONVERSE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the Year Ended September 30, 2015**

purposes for the debt service fund. Budgetary comparison schedules have been provided for the general and debt service funds to demonstrate compliance with these budgets.

**Proprietary Funds**

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, garbage, drainage, and wastewater collection/treatment operations. The proprietary fund financial statements provide separate information for the respective enterprise funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

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

**Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of funding progress for the City's other post employment benefits. RSI can be found after the notes to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows exceed liabilities and deferred inflows by \$58,006,895 as of September 30, 2015. The largest portion of the City's net position, 87 percent, reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. 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 CONVERSE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
For the Year Ended September 30, 2015

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2015			2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Current and other assets	\$ 10,275,343	\$ 6,487,700	\$ 16,763,043	\$ 8,873,043	\$ 5,044,421	\$ 13,917,464
Capital assets, net	38,925,221	16,761,005	55,686,226	39,468,233	16,518,901	55,987,134
<b>Total Assets</b>	<b>49,200,564</b>	<b>23,248,705</b>	<b>72,449,269</b>	<b>48,341,276</b>	<b>21,563,322</b>	<b>69,904,598</b>
Deferred outflows - pension	693,781	109,172	802,953	505,047	79,474	584,521
<b>Total Deferred Outflows of Resources</b>	<b>693,781</b>	<b>109,172</b>	<b>802,953</b>	<b>505,047</b>	<b>79,474</b>	<b>584,521</b>
Long-term liabilities	11,139,200	2,460,053	13,599,253	10,683,046	2,471,364	13,154,410
Other liabilities	682,748	695,585	1,378,333	1,278,154	725,224	2,003,378
<b>Total Liabilities</b>	<b>11,821,948</b>	<b>3,155,638</b>	<b>14,977,586</b>	<b>11,961,200</b>	<b>3,196,588</b>	<b>15,157,788</b>
Deferred inflows - pension	231,338	36,403	267,741	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>231,338</b>	<b>36,403</b>	<b>267,741</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position:</b>						
Net investment in capital assets	35,662,012	14,948,669	50,610,681	36,229,475	14,476,272	50,705,747
Restricted	1,457,347	4,785,417	6,242,764	1,297,547	3,959,242	5,256,789
Unrestricted	721,700	431,750	1,153,450	(641,899)	10,694	(631,205)
<b>Total Net Position</b>	<b>\$ 37,841,059</b>	<b>\$ 20,165,836</b>	<b>\$ 58,006,895</b>	<b>\$ 36,885,123</b>	<b>\$ 18,446,208</b>	<b>\$ 55,331,331</b>

A portion of the City's net position, \$6,242,764 or 11 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$1,153,450 or three percent, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved primarily due to the increases in charges for services, tax collections, and other revenue which consisted of a substantial contractual settlement.

There was a decrease in the beginning net position of \$2,705,543 for governmental activities and \$426,406 for business-type activities due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III.G to the financial statements.

In the current fiscal year, GASB Statement Nos. 68 and 71 requires the City to recognize a net pension liability and deferred outflows/inflows of resources as discussed in note IV.C. to the financial statements. The net pension liability increased net position by \$139,075 for governmental activities and \$21,885 for business-type activities during the current fiscal year. The net change in deferred outflows/inflows increased net position by \$42,604 for governmental activities and \$6,705 for business-type activities.

**CITY OF CONVERSE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
For the Year Ended September 30, 2015

**Statement of Activities:**

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

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,244,396	\$ 8,453,670	\$ 10,698,066	\$ 1,667,662	\$ 7,349,848	\$ 9,017,510
Operating grants and contributions	12,028	-	12,028	1,187,672	206,182	1,393,854
General revenues:						
Ad valorem taxes	5,355,849	-	5,355,849	5,053,094	-	5,053,094
Sales taxes	2,037,185	-	2,037,185	1,874,601	-	1,874,601
Franchise taxes	1,336,910	-	1,336,910	1,278,166	-	1,278,166
Investment earnings	28,312	4,414	32,726	10,674	2,928	13,602
Other revenues	496,746	-	496,746	119,673	48,328	168,001
<b>Total Revenues</b>	<b>11,511,426</b>	<b>8,458,084</b>	<b>19,969,510</b>	<b>11,191,542</b>	<b>7,607,286</b>	<b>18,798,828</b>
<b>Expenses</b>						
General government	1,543,111	-	1,543,111	1,833,419	-	1,833,419
Municipal court	209,691	-	209,691	191,681	-	191,681
Public safety	3,456,001	-	3,456,001	3,331,744	-	3,331,744
Fire and emergency services	2,476,296	-	2,476,296	2,374,360	-	2,374,360
Public works	2,145,087	-	2,145,087	1,969,317	-	1,969,317
Parks and recreation	359,924	-	359,924	357,572	-	357,572
Library	192,102	-	192,102	184,142	-	184,142
Water and sewer	-	6,672,988	6,672,988	-	6,486,518	6,486,518
Interest and fiscal agent fees	173,278	65,468	238,746	146,588	66,480	213,068
<b>Total Expenses</b>	<b>10,555,490</b>	<b>6,738,456</b>	<b>17,293,946</b>	<b>10,388,823</b>	<b>6,552,998</b>	<b>16,941,821</b>
<b>Increase in Net Position Before Transfers</b>	<b>955,936</b>	<b>1,719,628</b>	<b>2,675,564</b>	<b>802,719</b>	<b>1,054,288</b>	<b>1,857,007</b>
Transfers in (out)	-	-	-	127,167	(127,167)	-
<b>Change in Net Position</b>	<b>955,936</b>	<b>1,719,628</b>	<b>2,675,564</b>	<b>929,886</b>	<b>927,121</b>	<b>1,857,007</b>
Beginning net position, as restated	36,885,123	18,446,208	55,331,331	35,955,237	17,519,087	53,474,324
<b>Ending Net Position</b>	<b>\$ 37,841,059</b>	<b>\$ 20,165,836</b>	<b>\$ 58,006,895</b>	<b>\$ 36,885,123</b>	<b>\$ 18,446,208</b>	<b>\$ 55,331,331</b>

For the year ended September 30, 2015, revenues from governmental activities totaled \$11,511,426. Overall governmental revenues increased by three percent mainly due to an increase in tax collections, charges for services, and other revenues which consisted of a contractual settlement agreement.

For the year ended September 30, 2015, expenses for governmental activities totaled \$10,555,490. This represents a slight increase of two percent compared to last year mainly due to small increases in salaries across all departments.

For the year ended September 30, 2015, revenues from business-type activities totaled \$8,458,084. Overall business-type revenues had an increase of 11 percent which was primarily due to an increase in charges for services related to an increase in water rates and an increase in impact fee revenues for future use. Expenses for business-type activities increased by three percent compared to last year mainly due to increases in maintenance and water supplies.

**CITY OF CONVERSE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
For the Year Ended September 30, 2015

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

The City's governmental funds reflect a combined fund balance of \$9,244,171. Of this, \$5,199,677 is restricted for various purposes and \$4,044,494 is unassigned.

The general fund is the chief operating fund of the City. At the end of the current year, the general fund balance was \$4,160,649. \$4,083,096 of the general fund balance was unassigned and \$77,553 was restricted for police and crime prevention. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Total fund balance represented 45 percent and unassigned fund balance represented 44 percent of total general fund expenditures. The general fund demonstrated an overall increase of \$1,158,040 primarily due to more tax collections and other revenues than operating expenditures.

The debt service fund reports a deficit in fund balance of \$38,602. The net increase in fund balance during the current year was \$95,085. This increase can be attributed to less debt principal and interest paid than property tax revenue.

The capital projects fund recorded a decrease of \$262,739 in fund balance due to expenditures for capital outlay.

**Proprietary Funds** – The City's proprietary funds had operating revenues over operating expenses by \$1,780,682 which was primarily due to more revenue from charges for services and impact fees for development than operating expenses. Net position after nonoperating activity and contributions of capital assets was \$20,165,836. Of this amount, \$431,750 is unrestricted, \$4,785,417 is restricted for future capital projects and future debt service payments, and the remaining \$14,948,669 is the net investment in capital assets.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The original and amended budgets adopted anticipated a decrease in fund balance. However, the net change in fund balance was an increase by \$1,158,040, which was primarily due to greater sales and franchise tax revenues than expected, combined with fewer expenditures overall.

Actual general fund revenues were greater than amended budgeted revenues by \$729,261 during fiscal year 2015. This net positive variance includes the positive variance of \$487,252 for franchise and sales tax revenues. Actual expenditures were less than the final amended budget across all municipal functions by \$714,403 for the fiscal year. This net positive variance was primarily due to less minor capital outlay and maintenance than expected.

**CAPITAL ASSETS**

At the end of year 2015, the City's governmental activities funds had invested \$38,925,221 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of \$543,012.

**CITY OF CONVERSE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**  
**For the Year Ended September 30, 2015**

Major capital asset events during the year included the following:

- Patrol vehicles for \$112,125
- Vehicles and equipment for the fire and emergency service department for \$339,000
- Street sweeper for the public works department for \$189,692
- FM1516 TxDOT road improvement \$276,400
- Court technology package \$33,292

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

**LONG-TERM DEBT**

At the end of the current year, the City's governmental funds had total certificates of obligation of \$3,945,000, general obligation bonds of \$1,835,000, tax anticipation notes of \$600,000, and capital leases of \$547,595 outstanding. The City issued capital leases for an ambulance for the fire and emergency services department and a street sweeper for public works.

At the end of the current year, the City's business-type funds has total certificates of obligation of \$1,575,000 and tax anticipation notes of \$195,000 outstanding.

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City Council approved a \$9.6 million budget for the 2015/2016 year. The property tax rate for 2016 decreased to \$0.540198.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Sandy Paulos, Director of Finance, 407 S. Seguin, Converse, TX, 78109 and (210)-658-5356 or for general City information, visit the City's website at <http://www.conversetx.net/>.

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF CONVERSE, TEXAS

## STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 9,128,033	\$ 470,753	\$ 9,598,786	\$ 2,325,406
Receivables, net of allowances	1,147,310	955,404	2,102,714	177,468
Prepays and other assets	-	276,126	276,126	-
Restricted assets:				
Cash and cash equivalents	-	4,785,417	4,785,417	-
Capital assets:				
Non-depreciable capital assets	14,398,102	2,959,534	17,357,636	2,978,898
Depreciable capital assets, net	24,527,119	13,801,471	38,328,590	13,817
<b>Total Assets</b>	49,200,564	23,248,705	72,449,269	5,495,589
<b><u>Deferred Outflows of Resources</u></b>				
Deferred outflows - pension	693,781	109,172	802,953	22,272
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	612,987	360,564	973,551	46,636
Customer deposits	43,128	324,775	367,903	-
Accrued interest	26,633	10,246	36,879	263
Noncurrent liabilities:				
Due within one year	1,086,928	521,264	1,608,192	33,756
Due in more than one year	10,052,272	1,938,789	11,991,061	181,383
<b>Total Liabilities</b>	11,821,948	3,155,638	14,977,586	262,038
<b><u>Deferred Inflows of Resources</u></b>				
Deferred inflows - pension	231,338	36,403	267,741	7,427
<b><u>Net Position</u></b>				
Net investment in capital assets	35,662,012	14,948,669	50,610,681	2,902,714
Restricted for:				
Capital projects	-	4,439,439	4,439,439	-
Debt service	-	345,978	345,978	-
Public safety	-	-	-	2,345,682
Special revenue projects	1,457,347	-	1,457,347	-
Unrestricted	721,700	431,750	1,153,450	-
<b>Total Net Position</b>	\$ 37,841,059	\$ 20,165,836	\$ 58,006,895	\$ 5,248,396

See Notes to Financial Statements.

# CITY OF CONVERSE, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
General government	\$ 1,543,111	\$ 1,697,060	\$ -
Municipal court	209,691	547,336	-
Public safety	3,456,001	-	-
Fire and emergency services	2,476,296	-	-
Public works	2,145,087	-	12,028
Parks and recreation	359,924	-	-
Library	192,102	-	-
Interest and fiscal agent fees	173,278	-	-
<b>Total Governmental Activities</b>	<b>10,555,490</b>	<b>2,244,396</b>	<b>12,028</b>
<b>Business-Type Activities:</b>			
Water and sewer	6,738,456	8,453,670	-
<b>Total Business-Type Activities</b>	<b>6,738,456</b>	<b>8,453,670</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 17,293,946</b>	<b>\$ 10,698,066</b>	<b>\$ 12,028</b>
<b>Component Unit:</b>			
Economic Development Corporation	\$ 590,109	\$ -	\$ -

**General Revenues:**

- Ad valorem taxes
- Sales taxes
- Franchise taxes
- Investment earnings
- Other revenues

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

Ending Net Position

See Notes to Financial Statements.

<u>Net (Expense) Revenue and Changes in Net Position</u>			<u>Component Unit</u>
<u>Government Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Economic Development Corporation</u>
\$ 153,949	\$ -	\$ 153,949	\$ -
337,645	-	337,645	-
(3,456,001)	-	(3,456,001)	-
(2,476,296)	-	(2,476,296)	-
(2,133,059)	-	(2,133,059)	-
(359,924)	-	(359,924)	-
(192,102)	-	(192,102)	-
(173,278)	-	(173,278)	-
<u>(8,299,066)</u>	<u>-</u>	<u>(8,299,066)</u>	<u>-</u>
-	1,715,214	1,715,214	-
-	1,715,214	1,715,214	-
<u>(8,299,066)</u>	<u>1,715,214</u>	<u>(6,583,852)</u>	<u>-</u>
-	-	-	(590,109)
5,355,849	-	5,355,849	-
2,037,185	-	2,037,185	1,013,672
1,336,910	-	1,336,910	-
28,312	4,414	32,726	1,972
496,746	-	496,746	-
<u>9,255,002</u>	<u>4,414</u>	<u>9,259,416</u>	<u>1,015,644</u>
955,936	1,719,628	2,675,564	425,535
36,885,123	18,446,208	55,331,331	4,822,861
<u>\$ 37,841,059</u>	<u>\$ 20,165,836</u>	<u>\$ 58,006,895</u>	<u>\$ 5,248,396</u>

# CITY OF CONVERSE, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2015

	General	Debt Service	Capital Projects	Nonmajor Governmental
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 4,116,821	\$ 1,336	\$ 3,742,330	\$ 1,267,546
Receivables, net	1,027,694	11,640	-	107,976
Due from other funds	39,938	-	-	4,555
<b>Total Assets</b>	<b>\$ 5,184,453</b>	<b>\$ 12,976</b>	<b>\$ 3,742,330</b>	<b>\$ 1,380,077</b>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 612,704	\$ -	\$ -	\$ 283
Due to other funds	4,555	39,938	-	-
Permit deposits	43,128	-	-	-
<b>Total Liabilities</b>	<b>660,387</b>	<b>39,938</b>	<b>-</b>	<b>283</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenue - property taxes	363,417	11,640	-	-
<b>Total Deferred Inflows of Resources</b>	<b>363,417</b>	<b>11,640</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>				
Restricted:				
Capital projects funds	-	-	3,742,330	-
Public safety	77,553	-	-	-
Municipal court	-	-	-	101,881
Communication	-	-	-	316,976
Special services	-	-	-	960,937
Unassigned	4,083,096	(38,602)	-	-
<b>Total Fund Balances</b>	<b>4,160,649</b>	<b>(38,602)</b>	<b>3,742,330</b>	<b>1,379,794</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 5,184,453</b>	<b>\$ 12,976</b>	<b>\$ 3,742,330</b>	<b>\$ 1,380,077</b>

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

---

\$	9,128,033
	1,147,310
	44,493
\$	<u>10,319,836</u>

\$	612,987
	44,493
	43,128
	<u>700,608</u>

	375,057
	<u>375,057</u>

	3,742,330
	77,553
	101,881
	316,976
	960,937
	<u>4,044,494</u>
	<u>9,244,171</u>

\$	<u>10,319,836</u>
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**CITY OF CONVERSE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
September 30, 2015

Total fund balances for governmental funds		\$ 9,244,171
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets - non-depreciable	14,398,102	
Capital assets - net depreciable	<u>24,527,119</u>	38,925,221
Deferred outflows and deferred inflows related to pension activity are not reported in the governmental funds.		
Deferred outflows - pension	693,781	
Deferred inflows - pension	<u>(231,338)</u>	462,443
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		
		375,057
Some liabilities, including bonds payable, net pension liabilities, other post employment benefits, and compensated absences, are not reported as liabilities in the governmental funds.		
Accrued interest	(26,633)	
Non-current liabilities due in one year	(1,086,928)	
Non-current liabilities due in more than one year	<u>(10,052,272)</u>	(11,165,833)
<b>Net Position of Governmental Activities</b>		<u><u>\$ 37,841,059</u></u>

See Notes to Financial Statements.

# CITY OF CONVERSE, TEXAS

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

For the Year Ended September 30, 2015

	General	Debt Service	Capital Projects	Nonmajor Governmental
<b>Revenues</b>				
Ad valorem taxes	\$ 4,421,576	\$ 843,973	\$ -	\$ -
Sales taxes	2,037,185	-	-	-
Franchise taxes	1,284,067	-	-	52,843
Permits, licenses, and fees	686,341	-	-	-
Fines and forfeitures	527,596	-	-	19,740
Charges for services	1,010,719	-	-	-
Grants and contributions	12,028	-	-	-
Investment earnings	12,462	-	13,701	2,149
Other revenue	357,948	-	-	138,798
<b>Total Revenues</b>	10,349,922	843,973	13,701	213,530
<b>Expenditures</b>				
Current:				
General government	1,294,450	-	-	-
Municipal court	173,218	-	-	55,760
Public safety	3,195,628	-	-	-
Fire and emergency services	2,266,053	-	-	-
Public works	1,440,040	-	-	-
Parks and recreation	266,797	-	-	-
Library	178,826	-	-	-
Capital outlay	189,834	-	276,440	-
Debt service:				
Principal	140,678	620,000	-	-
Interest and fiscal agent fees	46,358	128,888	-	-
<b>Total Expenditures</b>	9,191,882	748,888	276,440	55,760
<b>Net Change in Fund Balances</b>	1,158,040	95,085	(262,739)	157,770
Beginning fund balances	3,002,609	(133,687)	4,005,069	1,222,024
<b>Ending Fund Balances</b>	\$ 4,160,649	\$ (38,602)	\$ 3,742,330	\$ 1,379,794

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

---

\$ 5,265,549  
2,037,185  
1,336,910  
686,341  
547,336  
1,010,719  
12,028  
28,312  
496,746  

---

11,421,126

1,294,450  
228,978  
3,195,628  
2,266,053  
1,440,040  
266,797  
178,826  
466,274

760,678  
175,246  

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10,272,970

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1,148,156

8,096,015  

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\$ 9,244,171

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**CITY OF CONVERSE, 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, 2015**

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

Net changes in fund balances - total governmental funds \$ 1,148,156

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	1,020,629
Depreciation expense	(1,563,641)

The issuance of long-term debt (e.g., bonds, 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 debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal payments	665,000
Capital leases paid	95,678
Capital leases issued	(526,492)
Accrued interest	(2,134)
Amortization of premiums	4,102

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This adjustment reflects the net change in interest payable on the accrual basis of accounting and the net changes in other post employment benefits, pension activity, and compensated absences.

Other post employment benefits	(23,866)
Compensated absences	(48,267)
Deferred outflows	188,734
Deferred inflows	(231,338)
Net pension liability	139,075

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.

	90,300
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 955,936</b>

See Notes to Financial Statements.

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# CITY OF CONVERSE, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

September 30, 2015

	<u>Water and Sewer</u>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 470,753
Receivables, net	955,404
Inventory	276,126
<b>Total Current Assets</b>	<u>1,702,283</u>
<b>Restricted Assets</b>	
Cash and cash equivalents	4,785,417
<b>Total Restricted Assets</b>	<u>4,785,417</u>
<b>Noncurrent Assets</b>	
Capital assets:	
Non-depreciable	2,959,534
Depreciable capital assets	22,026,222
Accumulated depreciation	(8,224,751)
<b>Total Noncurrent Assets</b>	<u>16,761,005</u>
<b>Total Assets</b>	<u>23,248,705</u>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred outflows - pension	<u>109,172</u>
<b><u>Liabilities</u></b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	360,564
Accrued interest	10,246
Customer deposits	324,775
<b>Total Current Liabilities</b>	<u>695,585</u>
<b>Noncurrent Liabilities</b>	
Due within one year	521,264
Due in more than one year	1,938,789
<b>Total Liabilities</b>	<u>3,155,638</u>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred inflows - pension	<u>36,403</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	14,948,669
Restricted for:	
Capital projects	4,439,439
Debt service	345,978
Unrestricted	431,750
<b>Total Net Position</b>	<u>\$ 20,165,836</u>

See Notes to Financial Statements.

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# CITY OF CONVERSE, TEXAS

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

For the Year Ended September 30, 2015

	<u>Water and Sewer</u>
<b><u>Operating Revenues</u></b>	
Water charges	\$ 2,780,176
Wastewater charges	1,578,375
Garbage charges	1,612,935
Stormwater charges	283,974
Water acquisition fees	948,132
Impact fees	804,476
Other services	445,602
<b>Total Operating Revenues</b>	<b><u>8,453,670</u></b>
<b><u>Operating Expenses</u></b>	
Administration	1,603,885
Garbage collection	1,590,568
Water billing and meter reading	390,265
Water distribution	523,519
Water wells	246,699
Wastewater treatment	1,045,751
Wastewater collection	258,474
Stormwater	86,290
Facility maintenance	173,544
Depreciation	753,993
<b>Total Operating Expenses</b>	<b><u>6,672,988</u></b>
<b>Operating Income</b>	<b><u>1,780,682</u></b>
<b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment income	4,414
Interest expense	(65,468)
<b>Total Nonoperating Expense</b>	<b><u>(61,054)</u></b>
<b>Change in Net Position</b>	<b>1,719,628</b>
Beginning net position	<u>18,446,208</u>
<b>Ending Net Position</b>	<b><u>\$ 20,165,836</u></b>

See Notes to Financial Statements.

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# CITY OF CONVERSE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUND

For the Year Ended September 30, 2015

	<u>Water and Sewer</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 8,388,504
Payments to suppliers	(4,611,339)
Payments to employees	(1,047,692)
<b>Net Cash Provided by Operating Activities</b>	<u>2,729,473</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Purchasing of capital assets	(996,097)
Principal payments on debt	(230,293)
Interest payments	(60,960)
<b>Net Cash (Used) by Capital and Financing Activities</b>	<u>(1,287,350)</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest on investments	4,414
<b>Net Cash Provided by Investing Activities</b>	<u>4,414</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,446,537
Beginning cash and cash equivalents	<u>3,809,633</u>
<b>Ending Cash and Cash Equivalents</b>	<u><u>\$ 5,256,170</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating (income)	\$ 1,780,682
Adjustments to reconcile operating (income) to net cash provided:	
Depreciation	753,993
<b>Changes in Operating Assets and Liabilities:</b>	
<b>Increase (Decrease) in:</b>	
Accounts receivable	(65,166)
Inventory	68,424
Deferred outflows - pension	(29,698)
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	143,565
Customer deposits	65,591
Compensated absences	(6,191)
Other post employment benefits	3,755
Deferred inflows- pensions	36,403
Net pension liability	(21,885)
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 2,729,473</u></u>

See Notes to Financial Statements.

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# **CITY OF CONVERSE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS***

**For the Year Ended September 30, 2015**

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

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

The City of Converse, Texas was incorporated in 1961. The City has operated as a general law city under State statutes with a Council-Manager form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police protection, municipal court, public works to include streets and drainage, water and sewer services, and general administration.

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

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

#### **Discretely Presented Component Unit**

The Converse Economic Development Corporation (EDC) has been included in the reporting entity as a discretely presented component unit. The EDC is a non-profit corporation organized under The Development Corporation Act of 1979 and covered by Section 4B of the Act. The EDC's Board of Directors is appointed by and serves at the discretion of City Council. The City Council approves the EDC's budget. A sales tax of one half of one percent is levied to fund the EDC's budget. Separate financial statements for the EDC are issued and may be obtained by contacting the City.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**Blended Component Units**

The Converse Public Facility Corporation (PFC) is a non-profit corporation organized under The Public Finance Corporation Act of 1987. The PFC was organized exclusively for the purpose of assisting the City in financing, refinancing, or providing for public facilities. The PFC is governed by a Board of Directors, all of whose members serve on the City Council. The PFC has and possesses the broadest possible powers to finance acquisition of City obligations issued or incurred in accordance with existing law to provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing, and placement in service of public facilities of the City.

The Converse Housing Finance Corporation (HFC) is a non-profit corporation organized under The Housing Facility Corporation Act of 1999. The HFC was organized exclusively for the purpose of assisting the City and PFC in financing, refinancing, or providing for public facilities. The HFC is governed by a seven-member Board of Directors, who are appointed by the City Council.

The component units identified above are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City Council functions as the organizations' boards and is either able to impose its will on them or a financial benefit/burden exists.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component units. 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 to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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

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

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

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

The City reports the following governmental funds:

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, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

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 the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *capital projects fund* is used to account for the expenditures of resources accumulated from various tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include the Converse Housing Finance Corporation (blended component unit), the Converse Public Facility Corporation (blended component unit), court technology and security funds, and public communication or PEG fund. All the special revenue funds are considered nonmajor.

The City reports the following enterprise fund:

The *water and sewer fund* is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

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

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

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

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

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

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

**1. Cash and Cash Equivalents**

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

**2. Investments**

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

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**For the Year Ended September 30, 2015**

with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool and Texas CLASS, 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, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Money market mutual funds that meet certain criteria
- Statewide investment pools

**3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

**4. Restricted Assets**

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

**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 governmental column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	15 to 50 years
Improvements	5 to 50 years
Equipment	5 to 10 years
Water and sewer system	20 to 50 years
Infrastructure	40 to 50 years

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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred outflows have been recognized as a result of differences between projected and actual investment earnings of the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

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

**7. Compensated Employee Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Accumulated amounts, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

**8. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported

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as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

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 recorded as other financing sources and as capital outlay expenditures in the applicable 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.

**9. Net Position Flow Assumption**

Sometimes the City 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 City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**10. Fund Balance Flow Assumptions**

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

**11. Fund Balance Policies**

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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**For the Year Ended September 30, 2015**

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

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

**12. Post Employment Healthcare Benefits**

The City provides post employment healthcare benefits as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under COBRA, and the City incurs no direct costs. The City has approved the payment of health insurance premiums for eligible retirees. Coverage is offered to those employees who were 60 years of age and who are retiring with 15 years of service with the City. The retiree cost for health insurance will be covered until the retiree reaches the age of 65. At this time, retirees would then be eligible for Medicare Part B coverage at their own expense.

**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.

**14. Pensions**

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

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

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

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined in the approved budget is the department level in the general fund. All other fund budgets are for management purposes. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2015.

**Deficit Fund Balance**

As of September 30, 2015, the City had a deficit fund balance in the debt service fund of \$38,602. The City plans to reduce this deficit with an increase in revenue from property taxes.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 3,581,100	0.00
Texas CLASS	1,260,018	0.00
Total fair value	<u>\$ 4,841,118</u>	
Portfolio weighted average maturity		0.00

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*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. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2015, market values of pledged securities and FDIC exceeded bank balances.

*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.

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool “AAAm”. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

**Texas CLASS**

The Texas Cooperative Liquid Assets Securities System (CLASS) is an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Governmental Code. CLASS was created in 1996 by contract among participating governmental units and is governed by a board of trustees which is elected annually. The Board of Trustees (the “Board”) administers the affairs of CLASS and acts as the liaison between the participants. Additionally, the Board of Trustees has established an advisory board composed of both participants in CLASS and

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

other persons who do not have a business relationship with CLASS. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates CLASS "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

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

**B. Receivables**

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue</u>	<u>Water and Sewer</u>
Property taxes	\$ 98,985	\$ 16,086	\$ -	\$ -
Other taxes	663,161	-	13,160	-
Accounts	658,223	-	94,816	978,660
Other	1,116	-	-	-
Less allowance	(393,791)	(4,446)	-	(23,256)
<b>Total Receivables</b>	<u>\$ 1,027,694</u>	<u>\$ 11,640</u>	<u>\$ 107,976</u>	<u>\$ 955,404</u>

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**C. Capital Assets**

The following is a summary of changes in capital assets for governmental activities:

	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 14,398,102	\$ -	\$ -	\$ 14,398,102
<b>Total Capital Assets Not Being Depreciated</b>	14,398,102	-	-	14,398,102
Other capital assets:				
Buildings and improvements	7,446,242	19,631	-	7,465,873
Furniture, fixtures, and equipment	6,297,735	724,558	-	7,022,293
Infrastructure	27,920,910	276,440	-	28,197,350
<b>Total Other Capital Assets</b>	41,664,887	1,020,629	-	42,685,516
Less accumulated depreciation for:				
Buildings and improvements	(1,911,937)	(190,126)	-	(2,102,063)
Furniture, fixtures, and equipment	(3,367,703)	(654,470)	-	(4,022,173)
Infrastructure	(11,315,116)	(719,045)	-	(12,034,161)
<b>Total Accumulated Depreciation</b>	(16,594,756)	(1,563,641)	-	(18,158,397)
Other capital assets, net	25,070,131	(543,012)	-	24,527,119
<b>Governmental Activities Capital Assets, Net</b>	\$ 39,468,233	\$ (543,012)	\$ -	38,925,221
			Plus unspent bond proceeds	3,742,330
			Less associated debt	(7,005,539)
			<b>Net Investment in Capital Assets</b>	<b>\$ 35,662,012</b>

Depreciation was charged to governmental functions as follows:

General government	\$ 245,914
Municipal court	14,415
Public safety	270,440
Fire and emergency services	217,251
Public works	708,356
Parks and recreation	93,644
Library	13,621
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 1,563,641</b>

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

The following is a summary of changes in capital assets for business-type activities:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>(Decreases)/ Reclassifications</b>	<b>Ending Balance</b>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 342,727	\$ -	\$ -	\$ 342,727
Water acquisition rights	1,676,960	939,847	-	2,616,807
<b>Total Capital Assets Not Being Depreciated</b>	<b>2,019,687</b>	<b>939,847</b>	<b>-</b>	<b>2,959,534</b>
Other capital assets:				
Buildings and improvements	351,837	-	-	351,837
Furniture, fixtures, and equipment	1,819,125	-	-	1,819,125
Infrastructure	19,799,010	56,250	-	19,855,260
<b>Total Other Capital Assets</b>	<b>21,969,972</b>	<b>56,250</b>	<b>-</b>	<b>22,026,222</b>
Less accumulated depreciation for:				
Buildings and improvements	(128,125)	(12,331)	-	(140,456)
Furniture, fixtures, and equipment	(1,025,487)	(169,310)	-	(1,194,797)
Infrastructure	(6,317,146)	(572,352)	-	(6,889,498)
<b>Total Accumulated Depreciation</b>	<b>(7,470,758)</b>	<b>(753,993)</b>	<b>-</b>	<b>(8,224,751)</b>
Other capital assets, net	14,499,214	(697,743)	-	13,801,471
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 16,518,901</b>	<b>\$ 242,104</b>	<b>\$ -</b>	<b>\$ 16,761,005</b>
			Less associated debt	(1,812,336)
			<b>Net Investment in Capital Assets</b>	<b>\$ 14,948,669</b>

Depreciation was charged to business-type functions as follows:

Water and sewer system	\$ 753,993
<b>Total Business-Type Activities Depreciation Expense</b>	<b>\$ 753,993</b>

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

The following is a summary of changes in capital assets for the Discretely Presented Component Unit:

	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
<b>Discretely Presented Component Unit</b>				
Capital assets not being depreciated:				
Land	\$ 2,967,253	\$ 111,513	\$ (99,869)	\$ 2,978,897
<b>Total Capital Assets Not Being Depreciated</b>	<u>2,967,253</u>	<u>111,513</u>	<u>(99,869)</u>	<u>2,978,897</u>
Other capital assets:				
Buildings and improvements	16,919	-	-	16,919
Furniture, fixtures, and equipment	12,400	-	-	12,400
<b>Total Other Capital Assets</b>	<u>29,319</u>	<u>-</u>	<u>-</u>	<u>29,319</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,256)	(846)	-	(3,102)
Furniture, fixtures, and equipment	(12,400)	-	-	(12,400)
<b>Total Accumulated Depreciation</b>	<u>(14,656)</u>	<u>(846)</u>	<u>-</u>	<u>(15,502)</u>
Other capital assets, net	14,663	(846)	-	13,817
<b>Discretely Presented Component Unit Capital Assets, Net</b>	<u>\$ 2,981,916</u>	<u>\$ 110,667</u>	<u>\$ (99,869)</u>	<u>\$ 2,992,714</u>
			Less associated debt	<u>(90,000)</u>
			<b>Net Investment in Capital Assets</b>	<u>\$ 2,902,714</u>

**D. Long-Term Liabilities**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds, notes and other payables:					
Certificates of obligation	\$ 4,000,000	\$ -	\$ 55,000	\$ 3,945,000	\$ 55,000
General obligation	2,280,000	-	445,000	1,835,000	455,000
Tax notes	765,000	-	165,000	600,000	170,000
Capital leases	116,781	526,492	95,678	547,595	131,166
Unamortized premium	82,046	-	4,102	77,944	-
	<u>7,243,827</u>	<u>526,492</u>	<u>764,780</u>	<u>7,005,539</u>	<u>811,166</u>
Other liabilities:					
Net pension liability	3,753,796	-	139,075	3,614,721	-
Other post employment benefits	188,672	23,866	-	212,538	-
Compensated absences	258,135	280,589	232,322	306,402	275,762
<b>Total Governmental Activities</b>	<u>\$ 11,444,430</u>	<u>\$ 807,081</u>	<u>\$ 997,102</u>	<u>\$ 11,139,200</u>	<u>\$ 1,086,928</u>
				<u>\$ 10,052,272</u>	
				<u>\$ 7,005,539</u>	

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Business-Type Activities:</b>					
Bonds, notes and other payables:					
Tax notes	\$ 255,000	\$ -	\$ 60,000	\$ 195,000	\$ 65,000
Certificates of obligation	1,740,000	-	165,000	1,575,000	175,000
Unamortized premium	47,629	-	5,293	42,336	-
	<u>2,042,629</u>	<u>-</u>	<u>230,293</u>	<u>1,812,336</u>	<u>240,000</u>
Other liabilities:					
Compensated absences	52,040	40,645	46,836	45,849	41,264
Other post employment benefits	29,306	3,755	-	33,061	-
Net pension liability	590,692	-	21,885	568,807	-
<b>Total Business-Type Activities</b>	<u>\$ 4,757,296</u>	<u>\$ 44,400</u>	<u>\$ 529,307</u>	<u>\$ 2,460,053</u>	<u>\$ 521,264</u>

Long-term debt due in more than one year \$ 1,938,789

\*Debt associated with business-type activities capital assets \$ 1,812,336

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Discretely Presented</b>					
<b>Component Unit:</b>					
Tax notes	\$ 115,000	\$ -	\$ 25,000	\$ 90,000	\$ 30,000
Compensated absences	2,925	3,881	2,633	4,173	3,756
Other post employment benefits	4,159	766	-	4,925	-
Net pension liability	120,506	-	4,465	116,041	-
<b>Total Discretely Presented Activities</b>	<u>\$ 242,590</u>	<u>\$ 4,647</u>	<u>\$ 32,098</u>	<u>\$ 215,139</u>	<u>\$ 33,756</u>

Long-term debt due in more than one year \$ 181,383

\*Debt is associated with discretely presented component unit capital assets \$ 90,000

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

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

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

Description	Interest Rates	Balance
<b>Certificates of Obligation</b>		
Series 2014	2.0 - 4.0%	\$ 3,945,000
<b>Total Certificates of Obligation</b>		<u>3,945,000</u>
<b>General Obligation Bonds</b>		
Series 2013	1.37%	1,835,000
<b>Total General Obligation Bonds</b>		<u>1,835,000</u>
<b>Tax Anticipation Notes</b>		
Series 2012	0.98 - 1.99%	315,000
Series 2011	1.79%	285,000
<b>Total Tax Anticipation Notes</b>		<u>600,000</u>
<b>Capital Leases</b>		
2016 Freightliner street sweeper	1.69%	187,492
2015 Dodge Ram ambulance	1.53%	271,070
2013 chip spreader	3.41%	89,033
<b>Total Capital Leases</b>		<u>547,595</u>
<b>Total Governmental Activities Long-Term Debt</b>		<u>\$ 6,927,595</u>

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

Description	Interest Rates	Balance
<b>Certificates of Obligation</b>		
Series 2011	2.0 - 4.0%	\$ 1,575,000
<b>Total Certificates of Obligation</b>		<u>1,575,000</u>
<b>Tax Anticipation Note</b>		
Series 2011	1.79%	195,000
<b>Total Tax Anticipation Note</b>		<u>195,000</u>
<b>Total Discretely Present Activities Long-Term Debt</b>		<u>\$ 1,770,000</u>

Long-term discretely presented component unit debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
<b>Tax Anticipation Note</b>		
Series 2011	1.79%	\$ 90,000
<b>Total Tax Anticipation Note</b>		<u>90,000</u>
<b>Total Discretely Presented Activities Long-Term Debt</b>		<u>\$ 90,000</u>

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

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

Year Ending Sep. 30	Governmental Activities					
	Certificates of Obligation		General Obligation Bonds		Tax Anticipation Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 55,000	\$ 128,050	\$ 455,000	\$ 22,023	\$ 170,000	\$ 7,200
2017	60,000	126,900	460,000	15,755	175,000	5,313
2018	75,000	125,550	455,000	9,487	175,000	3,162
2019	170,000	123,100	465,000	3,185	80,000	796
2020	190,000	119,500	-	-	-	-
2021-2025	1,035,000	516,375	-	-	-	-
2026-2030	1,210,000	339,863	-	-	-	-
2031-2033	1,150,000	94,400	-	-	-	-
<b>Total</b>	<b>\$ 3,945,000</b>	<b>\$ 1,573,738</b>	<b>\$ 1,835,000</b>	<b>\$ 50,450</b>	<b>\$ 600,000</b>	<b>\$ 16,471</b>

The annual requirements to amortize business-type activities debt outstanding at year end were as follows:

Year Ending Sep. 30	Business-Type Activities			
	Certificates of Obligation		Tax Anticipation Notes	
	Principal	Interest	Principal	Interest
2016	\$ 175,000	\$ 56,288	\$ 65,000	\$ 2,909
2017	180,000	50,075	65,000	1,745
2018	185,000	43,688	65,000	582
2019	190,000	37,125	-	-
2020	200,000	29,800	-	-
2021-2023	645,000	39,500	-	-
<b>Total</b>	<b>\$ 1,575,000</b>	<b>\$ 256,476</b>	<b>\$ 195,000</b>	<b>\$ 5,236</b>

The annual requirements to amortize the discretely presented component unit debt outstanding at year end were as follows:

Year Ending Sep. 30	Discretely Presented Component Unit	
	Tax Anticipation Notes	
	Principal	Interest
2016	\$ 30,000	\$ 1,343
2017	30,000	806
2018	30,000	269
<b>Total</b>	<b>\$ 90,000</b>	<b>\$ 2,418</b>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending Sep 30	Governmental Activities	
	Principal	Interest
2016	\$ 131,166	\$ 10,352
2017	133,771	7,748
2018	136,452	5,054
2019	107,440	2,360
2020	38,766	655
<b>Total</b>	<b>\$ 547,595</b>	<b>\$ 26,169</b>

The assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 670,230
Less: Accumulated depreciation	(97,045)
<b>Total</b>	<b>\$ 573,185</b>

Federal Arbitrage

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

**E. Interfund Transactions**

Amounts recorded as “due to/from” are considered to be temporary loans and will be repaid during the following year:

Due To	Due From	Amounts
General fund	Debt service fund	\$ 39,938
Nonmajor governmental funds	General fund	4,555
	<b>Total</b>	<b>\$ 44,493</b>

**F. Fund Equity**

Funds restricted by enabling legislation are \$34,084 and \$67,797 related to court security and court technology, respectively.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**G. Restatement of Net Position**

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for a net pension liability as of the initial measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year, September 30, 2014.

The beginning net position was restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities and Enterprise Fund</u>	<u>Converse Economic Development Corporation</u>
<b>Prior year ending net position as reported</b>	\$ 39,590,666	\$ 18,872,614	\$ 4,914,694
Restatement - Net pension liability	(3,753,796)	(590,692)	(120,506)
Restatement - Deferred outflows	505,047	79,474	16,213
Restatement - Net pension obligation	543,206	84,812	12,460
<b>Restated Beginning Net Position</b>	<u>\$ 36,885,123</u>	<u>\$ 18,446,208</u>	<u>\$ 4,822,861</u>

**IV. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements 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, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

**C. Pension Plans**

**Texas Municipal Retirement System**

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS 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 that can be obtained at [www.tmr.com](http://www.tmr.com).

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

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>2015</u>	<u>2014</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	50% of CPI	50% of CPI

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits	118
Active employees	145
Total	305

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.68 percent and 14.32 percent in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$883,125, which was less than the required contribution.

Net Pension Liability

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

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
<b>Total</b>	<b>100.0%</b>	

Discount Rate

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

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 906,232	\$ -	\$ 906,232
Interest	1,520,921	-	1,520,921
Difference between expected and actual experience	(363,352)	-	(363,352)
Contributions - employer	-	833,567	(833,567)
Contributions - employee	-	430,003	(430,003)
Net investment income	-	976,689	(976,689)
Benefit payments, including refunds of employee contributions	(521,389)	(521,389)	-
Administrative expense	-	(10,195)	10,195
Other changes	-	(838)	838
<b>Net Changes</b>	<b>1,542,412</b>	<b>1,707,837</b>	<b>(165,425)</b>
Balance at December 31, 2013	21,535,016	5,740,062	15,794,954
<b>Balance at December 31, 2014</b>	<b>\$ 23,077,428</b>	<b>\$ 7,447,899</b>	<b>\$ 15,629,529</b>

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of seven percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 8,228,372	\$ 4,299,569	\$ 1,146,207

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](http://www.tmr.com).

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

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$768,740.

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

	Deferred Outflows of	Deferred Inflows of
Differences between expected and actual economic experience	\$ -	\$ 275,168
Difference between projected and actual investment earnings	174,570	-
Contributions subsequent to the measurement date	650,655	-
<b>Total</b>	<b>\$ 825,225</b>	<b>\$ 275,168</b>

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

\$650,655 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended September 30</b>	<b>Pension Expense Amount</b>
2016	\$ (44,541)
2017	(44,541)
2018	(44,541)
2019	33,025
<b>Total</b>	<b>\$ (100,598)</b>

**D. Other Post Employment Benefits**

**1. City of Converse Retiree Health Care Plan**

Plan Description

In order to recognize and reward long-term employees, as well as to provide an incentive for those remaining in the City’s employment, the City administers a single-employer defined benefit other post employment benefits (OPEB) plan that will allow the retiree to pay their premium for continuation of the medical and dental insurance coverage. Retiree’s pay 100 percent of the premium; however, the City would contribute \$3,500 per year (\$7,500 per family per year) towards the retiree’s deductible through a health savings account. The plan is known as the City Retiree Health Care Plan (the “Plan”). All coverage ends when the retiree reaches age 65.

In order to be eligible for this benefit, the retiree must separate from service with at least 15 years of service with the City and be a current recipient of retirement benefits from TMRS. The health care benefit of the Plan is available to the spouse and any dependent(s) if they were on the Plan at the beginning of the Plan year in which the employee retires. Furthermore, a dependent is eligible for coverage if they have not reached age 25. Eligibility for coverage for the spouse ends when Medicare coverage begins.

Funding Policy

The City has elected to subsidize premiums for the Plan and funding is provided on a pay-as-you-go basis.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2015

Annual OPEB Cost

The City's OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to cover normal costs each year and to amortize any annual unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Annual Required Contribution (ARC)	\$	32,680
Interest on OPEB Obligation		9,996
Adjustment to ARC		<u>(9,261)</u>
End of Year Annual OPEB Cost		33,415
Net Estimated Employer Contributions		<u>(5,028)</u>
Increase in Net OPEB Obligation		28,387
Beginning of Year Net OPEB Obligation		<u>222,137</u>
End of Year Net OPEB Obligation	\$	<u><u>250,524</u></u>

A separately audited GAAP-basis post employment benefit plan report is not available. The City's annual OPEB cost, the percentage of annual OPEB cost contributed on the Plan, and the net OPEB obligation for 2013 and the two preceding years are as follows:

Fiscal Year	Annual	Annual OPEB	Percentage of	Net OPEB Obligation	
	OPEB		Annual OPEB	Beginning	Ending
	Cost	Contribution	Cost Contributed		
2013	\$ 52,519	\$ 12,129	23.1%	\$ 128,755	\$ 169,445
2014	\$ 52,692	\$ -	0.0%	\$ 169,445	\$ 222,137
2015	\$ 33,415	\$ 5,028	15.0%	\$ 222,137	\$ 250,524

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$269,329 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$269,329. The annual covered payroll is \$6,140,042 and the UAAL as a percentage of covered payroll is 4.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The projected unit credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. Projections of health benefits are based on the Plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The following is a summary of the actuarial assumptions:

Inflation rate	3.00% per annum
Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Salary growth	3.00% per annum
Healthcare cost trend rate	Initial rate of 7.5% declining to an ultimate rate of 4.50% after 12 years

**2. TMRS Supplemental Death Benefit Fund**

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. For the year ended September 30, 2015, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contributions to the TMRS SDBF for the fiscal years ended 2015, 2014, and 2013 were \$1,259, \$1,044, and \$563, respectively, which equaled the required contributions each year.

**CITY OF CONVERSE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2015**

The City's contribution rates for the past three years are shown below:

	2015	2014	2013
Annual req. contrib. (rate)	0.02%	0.02%	0.01%
Actual contribution made	0.02%	0.02%	0.01%
Percentage of ARC contrib.	100.00%	100.00%	100.00%

**E. Conduit Debt and Related Organization**

The Converse Public Facilities Corporation (PFC) is the sole member of Town Square Living LLC, which owns a 0.01 percent equity interest in the Town Square Apartments, Ltd. Partnership (the "Partnership"). The purpose of this Partnership was to obtain funding to construct and manage a low-income apartment housing complex in the City known as the Town Square Apartments (the "Project"). As a part of the agreement, the City earned deferred development fees of \$600,000 to be paid from future cash flow. As of September 30, 2015, the City was still owed \$94,816 in deferred development fees. Once deferred development fees are received, the City is entitled to a portion of the annual net cash flow of the Project. The PFC's capital investment in the Project is minimal, thus no asset is recorded in the City's financial statements.

Financing for the Project was acquired through bonds issued by the Converse Housing Finance Corporation (HFC), Multi-family Housing Revenue Bonds, Series 2007 for \$14,300,000. Though a subordination agreement with the purchaser of the bonds and the Partnership, the bonds issued do not constitute debt or a pledge of faith or credit of the HFC or the City. Accordingly, the outstanding amount of conduit debt was \$13,450,000. The HFC receives an annual payment of \$7,500 for issuer fees.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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

For the Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u> <u>Budget</u> <u>Amounts</u>	<u>Final</u> <u>Budget</u> <u>Amounts</u>		
<b>Revenues</b>				
Ad valorem taxes	\$ 4,469,329	\$ 4,469,329	\$ 4,421,576	\$ (47,753)
Sales taxes	1,784,000	1,784,000	2,037,185	253,185
Franchise taxes	1,050,000	1,050,000	1,284,067	234,067
Permits, licenses, and fees	691,200	691,200	686,341	(4,859)
Fines and forfeitures	475,000	475,000	527,596	52,596
Charges for services	999,700	999,700	1,010,719	11,019
Grants and contributions	-	5,182	12,028	6,846
Investment earnings	6,000	6,000	12,462	6,462
Other revenue	140,250	140,250	357,948	217,698
<b>Total Revenues</b>	<u>9,615,479</u>	<u>9,620,661</u>	<u>10,349,922</u>	<u>729,261</u>
<b>Expenditures</b>				
Current:				
General government	1,389,229	1,396,229	1,294,450	101,779
Municipal court	218,383	218,383	173,218	45,165
Public safety	3,250,252	3,336,800	3,195,628	141,172
Fire and emergency services	2,413,449	2,377,701	2,266,053	111,648
Public works	1,627,113	1,664,214	1,440,040	224,174
Parks and recreation	360,031	362,031	266,797	95,234
Library	180,488	185,670	178,826	6,844
Capital outlay	244,000	280,000	189,834	90,166
Debt service:				
Principal	140,678	140,678	140,678	-
Interest and fiscal agent fees	46,358	46,358	46,358	-
<b>Total Expenditures</b>	<u>9,869,981</u>	<u>10,008,064</u>	<u>9,191,882</u>	<u>714,403</u>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over (Under) Expenditures</b>	<u>(254,502)</u>	<u>(387,403)</u>	<u>1,158,040</u>	<u>1,443,664</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(250,000)	(250,000)	-	250,000
<b>Total Other Financing (Uses)</b>	<u>(250,000)</u>	<u>(250,000)</u>	<u>-</u>	<u>250,000</u>
<b>Net Change in Fund Balance</b>	<u>\$ (504,502)</u>	<u>\$ (637,403)</u>	<u>1,158,040</u>	<u>\$ 1,693,664</u>
Beginning fund balance			<u>3,002,609</u>	
<b>Ending Fund Balance</b>			<u>\$ 4,160,649</u>	

Notes to Required Supplementary Information:

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

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**CITY OF CONVERSE, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
For the Year Ended September 30, 2015

	<b>Measurement Year</b>
	<b>2014*</b>
<b>Total Pension Liability</b>	
Service cost	\$ 906,232
Interest (on the total pension liability)	1,520,921
Difference between expected and actual experience	(363,352)
Benefit payments, including refunds of employee contributions	(521,389)
<b>Net Change in Total Pension Liability</b>	<b>1,542,412</b>
Beginning total pension liability	21,535,016
<b>Ending Total Pension Liability</b>	<b>\$ 23,077,428</b>
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 833,567
Contributions - employee	430,003
Net investment income	976,689
Benefit payments, including refunds of employee contributions	(521,389)
Administrative expense	(10,195)
Other	(838)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,707,837</b>
Beginning plan fiduciary net position	17,070,022
<b>Ending Plan Fiduciary Net Position</b>	<b>\$ 18,777,859</b>
<b>Net Pension Liability</b>	<b>\$ 4,299,569</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	81.37%
<b>Covered Employee Payroll</b>	\$ 6,140,042
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	70.03%

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

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**CITY OF CONVERSE, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**For the Year Ended September 30, 2015**

	<b>Fiscal Year</b>
	<b>2015*</b>
Actuarially determined contribution	\$ 907,779
Contributions in relation to the actuarially determined contribution	883,125
Contribution deficiency (excess)	\$ 24,654
Covered employee payroll	\$ 6,140,042
Contributions as a percentage of covered employee payroll	14.38%

\*Only one year of information is currently available. The City will build this schedule over the next nine year period.

Notes to Required Supplementary Information:

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.5% to 12.0% including inflation
Investment rate of return	7.0%
Retirement age	Experience - based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

There were no benefit changes during the year.

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**CITY OF CONVERSE, TEXAS**  
**SCHEDULE OF FUNDING PROGRESS**  
**POST EMPLOYMENT HEALTHCARE BENEFITS**  
For the Year Ended September 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/1/2012	\$ -	\$ 442,722	\$ 442,722	0.0%	\$ 5,912,303	7.5%
12/31/2014	\$ -	\$ 269,329	\$ 269,329	0.0%	\$ 6,140,042	4.4%

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***COMBINING STATEMENTS  
AND SCHEDULES***

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**CITY OF CONVERSE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**

For the Year Ended September 30, 2015

	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Ad valorem taxes	\$ 756,584	\$ 843,973	\$ 87,389
<b>Total Revenues</b>	756,584	843,973	87,389
<b><u>Expenditures</u></b>			
Debt service:			
Principal	620,000	620,000	-
Interest and fiscal agent fees	134,605	128,888	5,717
<b>Total Expenditures</b>	754,605	748,888	5,717
<b>Net Change in Fund Balance</b>	\$ 1,979	95,085	\$ 93,106
Beginning fund balance		(133,687)	
<b>Ending Fund Balance</b>		\$ (38,602)	

**CITY OF CONVERSE, TEXAS**  
**COMBINING NONMAJOR GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
September 30, 2015

	<b>Converse Housing Finance Corporation</b>	<b>Converse Public Facility Corporation</b>	<b>Court Technology</b>	<b>Court Security</b>
<b><u>Assets</u></b>				
Current assets:				
Cash and cash equivalents	\$ 165,925	\$ 700,196	\$ 34,084	\$ 68,080
Receivables, net	-	94,816	-	-
Due from other funds	-	-	-	-
<b>Total Assets</b>	<b>\$ 165,925</b>	<b>\$ 795,012</b>	<b>\$ 34,084</b>	<b>\$ 68,080</b>
<b><u>Liabilities:</u></b>				
Accounts payable and accrued liabilities	-	-	-	283
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>283</b>
<b><u>Fund Balances:</u></b>				
Restricted:				
Communication	-	-	-	-
Court security	-	-	-	67,797
Court technology	-	-	34,084	-
Housing finance corporation	165,925	-	-	-
Public facility corporation	-	795,012	-	-
<b>Total Fund Balances</b>	<b>165,925</b>	<b>795,012</b>	<b>34,084</b>	<b>67,797</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 165,925</b>	<b>\$ 795,012</b>	<b>\$ 34,084</b>	<b>\$ 68,080</b>

<u>PEG</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 299,261	\$ 1,267,546
13,160	107,976
4,555	4,555
<u>\$ 316,976</u>	<u>\$ 1,380,077</u>

<u>\$ -</u>	<u>\$ 283</u>
<u>-</u>	<u>283</u>

316,976	316,976
-	67,797
-	34,084
-	165,925
-	795,012
<u>316,976</u>	<u>1,379,794</u>
<u>\$ 316,976</u>	<u>\$ 1,380,077</u>

**CITY OF CONVERSE, TEXAS**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2015

	<u>Converse Housing Finance Corporation</u>	<u>Converse Public Facility Corporation</u>	<u>Court Technology</u>	<u>Court Security</u>
<b>Revenues</b>				
Franchise taxes	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	9,151	10,589
Investment earnings	209	1,441	-	-
Other revenue	7,500	131,298	-	-
<b>Total Revenues</b>	<u>7,709</u>	<u>132,739</u>	<u>9,151</u>	<u>10,589</u>
<b>Expenditures</b>				
Current:				
Municipal court	-	-	48,600	7,160
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>48,600</u>	<u>7,160</u>
<b>Net Change in Fund Balances</b>	7,709	132,739	(39,449)	3,429
Beginning fund balances	158,216	662,273	73,533	64,368
<b>Ending Fund Balances</b>	<u>\$ 165,925</u>	<u>\$ 795,012</u>	<u>\$ 34,084</u>	<u>\$ 67,797</u>

<u>PEG</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 52,843	\$ 52,843
-	19,740
499	2,149
-	138,798
<u>53,342</u>	<u>213,530</u>
-	55,760
-	<u>55,760</u>
53,342	157,770
263,634	1,222,024
<u>\$ 316,976</u>	<u>\$ 1,379,794</u>

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