

City of Balch Springs, Texas

Independent Auditor's Report and Financial Statements
For the Fiscal Year Ended
September 30, 2016



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City of Balch Springs, Texas
Year Ended September 30, 2016

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Financial Section

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Independent Auditor's Report

The Honorable Mayor and
Members of the City Council
City of Balch Springs, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 nonmajor combining financial statements and discretely presented component unit financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and Members of the City Council
City of Balch Springs, Texas
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2017, on our consideration of City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
May 5, 2017

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City of Balch Springs, Texas

Management's Discussion and Analysis (Unaudited)

September 30, 2016

The Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the City of Balch Springs (City) for the fiscal year ended September 30, 2016.

Readers of the financial statements are encouraged to consider the information included in the other sections of the Financial Statements *e.g.*, combining statements and notes in conjunction with the MD&A.

FINANCIAL HIGHLIGHTS

The following financial highlights summarize the City's financial position and operations as presented in more detail in the Basic Financial Statements (BFS).

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at September 30, 2016, by \$27.2 million (net position). This was a decrease of \$1.4 million from the prior year.
- Restricted net position was \$3.5 million and unrestricted was a net deficit of \$4.2 million. Theoretically, the unrestricted net position is what is used to meet the City's ongoing obligations to citizens and creditors.
- The ending unassigned fund balance for the General Fund was \$1.4 million or 9.6% of next year's total General Fund budgeted expenditures, a decrease of \$175 thousand from the prior year.
- The City's governmental funds reported combined ending fund balances of \$3.8 million of which \$1.4 million is available for spending at the City's discretion.
- The City's enterprise fund reported combined ending net position of \$19.0 million of which \$1.3 million is available for spending at the City's discretion.
- During FY 2016, the City issued Combination Tax and Surplus Revenue Refunding Bonds, Series 2016 of \$6,795,000 with an interest rate range from 2.00% to 3.00%.

Overview of the Financial Statements

Basic Financial Statements: The MD&A is intended to serve as an introduction to the City's BFS. The BFS are comprised of three components: 1) Government-Wide Financial Statements (GWFS), 2) Fund Financial Statements (FFS), and 3) Notes to Basic Financial Statements (Notes). This report also contains other Required Supplementary Information (RSI) in addition to the BFS.

Government-Wide Financial Statements: The GWFS, shown on pages 13-14 of this report, contain the statement of net position and the statement of activities, described below:

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position using the accrual basis of accounting. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Balch Springs, Texas
Management's Discussion and Analysis (Unaudited)
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The statement of activities presents a comparison between direct expenses and program revenues for each of the City's functions or programs. Direct expenses are specifically associated with an activity and are therefore clearly identifiable with that activity. Program revenues include charges paid by the recipient of the goods or services offered by the program. Program revenues also include grants and contributions restricted to meeting the operational or capital requirements of a particular activity. Revenues not directly related to a specific activity are presented as general revenues. The comparison of direct expenses with revenues from activities identifies the extent to which each activity is self-financing, or alternatively, draws from any City generated general revenues.

Governmental activities (activities principally supported by taxes and intergovernmental revenues) of the City include general government, public safety, public works and community development and recreation. Business-type activities (activities intended to recover all of their costs through user fees and charges) of the City include water, sewer, and solid waste. All changes in net position are reported as soon as the underlying event occurs (accrual basis), regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as uncollected taxes and earned, but unused vacation leave.

Component Units: The GWFS include the City (primary government), and two legally separate entities (component units) for which the City is financially accountable. The component units consist of: Balch Springs Industrial and Economic Development Corporation (type A sales tax) and the Balch Springs Community and Economic Development Corporation (type B sales tax). The component units provide economic development services, community services, and public improvement financing for the City. Financial information for the component units is reported separately in the GWFS to differentiate them from the City's financial information.

Fund Financial Statements: A *fund* is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The principal role of funds in the financial reporting model is to demonstrate fiscal accountability. The City, as with other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the FFS is on major funds. Major funds are those that meet minimum criteria (a percentage of assets, liabilities, revenue, or expenditures/expenses of fund category and of the governmental and enterprise funds combined) or those that the City chooses to report as major funds given their qualitative significance. Non-major funds are aggregated and shown in a single column in the appropriate financial statements. Combining schedules of nonmajor funds are included in this report following the Required Supplementary Information (RSI). All funds of the City can be divided into two categories: *Governmental Funds* and *Proprietary Funds*.

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Governmental FFS: Governmental funds are used to account for essentially the same functions reported as governmental activities in the GWFS. However, unlike the GWFS, governmental FFS focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the City's fiscal year. Such information is useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the GWFS (modified accrual versus accrual basis of accounting, and current financial resources versus economic resources), it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, the reader may better understand the long-term impact of near-term financing decisions. Reconciliations are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances to facilitate the comparison between governmental funds and governmental activities.

The City maintains 14 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 which is a major fund. The governmental FFS can be found on pages 15-18 of this report.

The City adopts a budget annually for the General Fund. In the RSI section, a budgetary comparison statement for the General Fund has been provided to demonstrate compliance with the budget.

Proprietary FFS: The City maintains one proprietary fund. It is reported as an *Enterprise Fund* which is used to report the same functions presented as business-type activities in the GWFS. Enterprise FFS provide the same type of information as the GWFS, only in more detail. The City uses its Utility Fund to account for Water, Wastewater and Solid Waste services. The proprietary FFS can be found on pages 19-21 of this report.

Notes to Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the GWFS and FFS. The notes can be found on pages 24-49 of this report.

Required Supplementary Information: In addition to the basic financial statements and accompanying notes, this report also presents certain RSI concerning the City's progress in funding its obligation to provide pension benefits to its employees and retirees. The General Fund budgetary comparison demonstrating the legal level of budgetary control can also be found as part of the RSI. The RSI can be found on pages 50-53 of this report.

City of Balch Springs, Texas
Management's Discussion and Analysis (Unaudited)
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Government-Wide Financial Analysis

As noted earlier, net position serves as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$27.1 million (*net position*) at the close of the fiscal year, compared to \$28.6 million (*net position*) at the end of the prior fiscal year. As a result of operations, total net position decreased by \$1.4 million during the period.

	Governmental Activities 2016	Business-type Activities 2016	Total 2016	Governmental Activities 2015	Business-type Activities 2015	Total 2015
Current and other assets	\$ 6,394,712	\$ 5,141,879	\$ 11,536,591	\$ 5,761,494	\$ 6,782,604	\$ 12,544,098
Capital assets	<u>18,907,592</u>	<u>25,031,177</u>	<u>43,938,769</u>	<u>17,437,104</u>	<u>24,455,202</u>	<u>41,892,306</u>
Total assets	<u>25,302,304</u>	<u>30,173,056</u>	<u>55,475,360</u>	<u>23,198,598</u>	<u>31,237,806</u>	<u>54,436,404</u>
Deferred outflows of resources	<u>2,096,714</u>	<u>751,284</u>	<u>2,847,998</u>	<u>1,046,774</u>	<u>235,525</u>	<u>1,282,299</u>
Long-term liabilities	16,232,210	9,723,306	25,955,516	12,786,401	9,384,430	22,170,831
Other liabilities	<u>2,984,389</u>	<u>2,157,724</u>	<u>5,142,113</u>	<u>2,922,626</u>	<u>2,003,197</u>	<u>4,925,823</u>
Total liabilities	<u>19,216,599</u>	<u>11,881,030</u>	<u>31,097,629</u>	<u>15,709,027</u>	<u>11,387,627</u>	<u>27,096,654</u>
Deferred inflows of resources	<u>8,636</u>	<u>1,943</u>	<u>10,579</u>	<u>11,005</u>	<u>2,475</u>	<u>13,480</u>
Net position						
Net investment in capital assets	11,456,566	16,483,215	27,939,781	11,003,734	16,617,172	27,620,906
Restricted	2,231,844	1,221,770	3,453,614	1,552,998	1,403,515	2,956,513
Unrestricted	<u>(5,514,627)</u>	<u>1,336,382</u>	<u>(4,178,245)</u>	<u>(4,031,392)</u>	<u>2,062,542</u>	<u>(1,968,850)</u>
Total net position	<u>\$ 8,173,783</u>	<u>\$ 19,041,367</u>	<u>\$ 27,215,150</u>	<u>\$ 8,525,340</u>	<u>\$ 20,083,229</u>	<u>\$ 28,608,569</u>

The majority of the City's net position reflects its investment in capital assets, including land, buildings, infrastructure, machinery and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The City uses capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

The City has restricted net position totaling 12.7% of total net position, which represent resources subject to external restrictions on how they may be used. Such resources include bond funds restricted to be spent for specified capital projects, debt service reserves restricted by bond covenants and special revenue funds restricted for specific purposes. The remaining balance of unrestricted net position may be used to meet the City's ongoing obligations. Although this is a deficit balance in the amount of \$4,178,245, management sees this as a temporary reporting issue; due to the adjustment for change in pension accounting implemented in 2015. To recap the major categories of net position for the City as a whole, they are: restricted of \$2.2 million for all activities, deficit unrestricted of \$5.5 million for governmental activities and restricted of \$1.2 million for debt service and capital acquisition and unrestricted of \$1.3 million for business-type activities.

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The governmental and business-type net position decreased by approximately \$352K and \$1M, respectively, and is shown in the following table:

	Governmental Activities 2016	Business-type Activities 2016	Total 2016	Governmental Activities 2015	Business-type Activities 2015	Total 2015
Revenues						
Program revenues						
Charges for services	\$ 2,600,580	\$ 10,607,754	\$ 13,208,334	\$ 1,461,803	\$ 10,579,107	\$ 12,040,910
Operating grant and contribution	1,101,685	-	1,101,685	1,112,129	-	1,112,129
Capital grants and contributions	9,167	-	9,167	320,729	-	320,729
General Revenue						
Taxes and fees	12,017,343	-	12,017,343	11,735,482	-	11,735,482
Other	379,886	34,204	414,090	298,849	152,198	451,047
Total revenues	<u>16,108,661</u>	<u>10,641,958</u>	<u>26,750,619</u>	<u>14,928,992</u>	<u>10,731,305</u>	<u>25,660,297</u>
Program Expenses						
General government	2,245,826	-	2,245,826	1,735,448	-	1,735,448
Public safety	10,584,560	-	10,584,560	9,165,576	-	9,165,576
Public works	3,134,243	-	3,134,243	3,322,133	-	3,322,133
Community development and recreation	1,493,177	-	1,493,177	999,508	-	999,508
Interest and fiscal charges	99,701	-	99,701	164,035	-	164,035
Water and sewer	-	10,586,531	10,586,531	-	9,217,866	9,217,866
Total expenses	<u>17,557,507</u>	<u>10,586,531</u>	<u>28,144,038</u>	<u>15,386,700</u>	<u>9,217,866</u>	<u>24,604,566</u>
Increase (Decrease in Net Position Before Transfers)	(1,448,846)	55,427	(1,393,419)	(457,708)	1,513,439	1,055,731
Transfers	<u>1,097,289</u>	<u>(1,097,289)</u>	<u>-</u>	<u>1,580,000</u>	<u>(1,580,000)</u>	<u>-</u>
Change in Net Position	(351,557)	(1,041,862)	(1,393,419)	1,122,292	(66,561)	1,055,731
Net Position, Beginning of year	<u>8,525,340</u>	<u>20,083,229</u>	<u>28,608,569</u>	<u>7,403,048</u>	<u>20,149,790</u>	<u>27,552,838</u>
Net Position, End of Year	<u>\$ 8,173,783</u>	<u>\$ 19,041,367</u>	<u>\$ 27,215,150</u>	<u>\$ 8,525,340</u>	<u>\$ 20,083,229</u>	<u>\$ 28,608,569</u>

Changes in Net Position: Details of the above summarized information can be found on page 13 of this report.

City of Balch Springs, Texas
Management's Discussion and Analysis (Unaudited)
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Governmental Activities: The City's governmental activities experienced a decrease in net position of \$351,557, compared to an increase of \$1,122,292 during the prior fiscal year. Key elements of the operational decrease include:

- Revenues excluding transfers increased by \$1,106,646. The major changes in revenue from the prior year are:
 - Charges for Services increased by \$1,055,770. Major factors in this category were increases in licenses and permits of \$114,082 and an increase in recreation center charges of \$47,564.
 - Operating Grants decreased by \$10,000 over the prior year. This relates to a change in grant funding from 2015.
 - Capital Grants decreased by \$312,000 over the prior year. These were "one-time" construction projects of the Economic Development Corporations.
 - Taxes and Fees increased by \$282,000. Property tax decreased by \$149,000 while sales tax increased by \$266,000 of the increase while franchise fees and other taxes increased by \$165,000.
- Transfers from the Business-type Activities to Governmental Activities as approved by City Council were budgeted at \$1,050,000 to be transferred from the Utility Fund to the General Fund. The amount budgeted for fiscal year 2016 was reduced by \$230,000. Actual transfers were \$100,000 below budgeted for the year.

Business-type Activities: Revenue from the City's business-type activities decreased by \$0.1 million. Total revenue decreased from \$10.7 million in the prior year to \$10.6 million in the current year. Key elements are as follows:

- Water sales decreased from \$4.0 million to \$3.8 million resulting from greater rainfall during the year.
- Sewer sales were virtually unchanged at about \$3.3 million each year.
- Trash service sales were 5% higher at \$2.7 million this year.
- Expenses of the City's business-type activities increased by \$1.2 million over the prior year. The bulk of that increase was due to the wholesale rate increases charged by the Dallas Waste Water Treatment system. The City hired consultants in FY 2017 to conduct a water and sewer rate study where rates would increase upon City Council approval. Additionally, debt issuance costs of \$206 thousand were incurred related to the Series 2016 refunding issuance.

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Financial Analysis of the City's Funds

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. The GASB has defined five types of fund balances, which, are more fully described in the footnotes to the financials. The City uses three of the five types of fund balances defined: nonspendable, restricted and unassigned. At the end of the year, the City's governmental funds reported combined ending fund balances of \$3.8 million, compared to \$3.2 million at the end of the prior fiscal year.

The General Fund is the chief operating fund of the City. The unassigned fund balance serves as a useful measure of the City's resources available for spending at the end of the fiscal year. When fiscal year 2016 ended the General Fund had \$1.4 million unassigned fund balance, compared to \$1.6 million unassigned fund balance in fiscal year 2015. As a measure of the General Fund's liquidity, it is useful to compare the unassigned fund balance to total fund revenues. Unassigned fund balance represented 9.9% of total General Fund expenditures compared to 11.7% of total General Fund expenditures in the prior year.

Proprietary Funds: The City's proprietary fund statements provide essentially the same type of information found in the GWFS but in more detail. Net position of the Utility Fund decreased by \$1.1 million; from \$20.1 million to \$19.0 million in the current fiscal year.

General Fund Budgetary Highlights

For fiscal year 2016 General Fund actual revenues were short of budget by \$26,043. The largest element of the deficit was fines and forfeiture revenue of \$417,575, or 29%. Taxes and fees in the General Fund was up \$206,470, or 2%, from budget. License and permits exceeded budget by \$129,112 or 37% primarily due to an increase in building permits of \$83,653 due to construction within the City.

For fiscal year 2016 the City Council adopted a General Fund operating budget that included expenditures of \$13,654,632. That was later amended to a total of \$14,008,389.

For fiscal year 2016 General Fund actual expenditures came in over budget by \$1,539,782 primarily related to increased payroll costs of public safety employees. Of the aforementioned expenditures over budget, capital leases were issued during the fiscal year for a total of \$1,549,274 included in capital outlay in the governmental funds. Other financing sources equal to this capital outlay offsets the expenditure resulting in net expenditures below the amended budget of \$9,492.

The City budget is on a basis other than Generally Accepted Accounting Principles (GAAP), with the main difference being that capital lease proceeds and related capital outlay not budgeted.

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Management's Discussion and Analysis (Unaudited)
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Capital Assets and Debt Administration

Capital Assets: The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities at September 30, 2016, totaled \$27,902,446, a \$281,540 increase over the prior fiscal year's balance of \$27,620,906. The investment in capital assets includes land, buildings, improvements, equipment, construction in progress and infrastructure. There were no major projects to report as construction in progress this year. A street improvement project consisted of much of the current year increase.

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,409,837	\$ 1,409,837	\$ 792,616	\$ 792,616	\$ 2,202,453	\$ 2,202,453
Building	7,862,331	7,862,331	2,424,944	2,424,944	10,287,275	10,287,275
Improvements	1,358,822	1,083,469	-	-	1,358,822	1,083,469
Vehicles	5,119,130	3,933,122	1,987,886	1,617,206	7,107,016	5,550,328
Equipment	1,869,070	1,539,730	1,773,697	1,836,219	3,642,767	3,375,949
Construction in progress	76,167	-	268,318	-	344,485	-
Streets and bridges	9,526,623	9,526,623	-	-	9,526,623	9,526,623
System improvements	-	-	32,841,076	32,216,046	32,841,076	32,216,046
Accumulated depreciation	(8,314,388)	(7,918,008)	(15,057,360)	(14,431,829)	(23,371,748)	(22,349,837)
Total	\$ 18,907,592	\$ 17,437,104	\$ 25,031,177	\$ 24,455,202	\$ 43,938,769	\$ 41,892,306

Remaining construction project costs as of December 31, 2016, include the following items:

- Street improvements with total project budgets under contract of \$149,363, of which, \$76,167 has been paid as of year-end.

Additional information about the City's capital assets can be found on pages 36-37 of this report.

Long-term Debt: A summary of the City's total outstanding debt follows:

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 5,475,000	\$ 5,915,000	\$ -	\$ -	\$ 5,475,000	\$ 5,915,000
Revenue bonds	-	-	8,110,000	8,710,000	8,110,000	8,710,000
Capital leases	1,636,074	106,784	-	-	1,636,074	106,784
Net pension liability	6,793,383	5,357,522	1,528,511	1,205,443	8,321,894	6,562,965
Total	\$ 13,904,457	\$ 11,379,306	\$ 9,638,511	\$ 9,915,443	\$ 23,542,968	\$ 21,294,749

There is no direct debt limitation in the City Charter or under state law. The City operates under a Home Rule Charter that limits the maximum tax rate for all City purposes to \$2.50 per \$100 of assessed valuation. The Attorney General of the State of Texas permits an allocation of \$1.50 of the \$2.50 maximum tax rate for general obligation bonds debt service. The FY 2016 interest and sinking fund tax rate per \$100 of assessed valuation was \$0.088232, which is significantly below the maximum allowable tax rate.

City of Balch Springs, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2016

As of September 30, 2016, the City's total outstanding debt has increased by \$2,248,219, or 10.6% from the prior fiscal year. The increase in outstanding debt is attributed an increase in the net pension liability and issuance of two capital leases during the year.

The bond rating from Standard and Poor's is A+.

Additional information about the City's long-term debt can be found on pages 38-41 of this report.

Economic Factors and the Next Fiscal Year's Budget and Rates

Per the Bureau of Labor Statistics the DFW Metroplex December unemployment rate increased slightly to 4.1% from 4.0% the year before. Property tax values and sales tax collections were slightly higher as the region continues to show slow, but steady growth.

The Property Tax rate for Fiscal Year 2016 was \$0.803 per \$100 of assessed value. The budget for Fiscal Year 2017 included the same rate of \$0.803 per \$100 of assessed value.

Requests for Information

The financial report is designed to provide a general overview of the City of Balch Spring's finances.

Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Director of Finance, City of Balch Springs, 13503 Alexander Rd, Balch Springs, TX 75181-3401 or by email at financemanager@cityofbalchsprings.com.

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Basic Financial Statements

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City of Balch Springs, Texas
Statement of Net Position
September 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 3,673,930	\$ 1,366,337	\$ 5,040,267	\$ 3,675,430
Receivables, net of allowance				
<i>Ad valorem</i> taxes, net	1,167,141	-	1,167,141	-
Sales tax	732,265	-	732,265	295,457
Fines	535,735	-	535,735	-
Notes	-	-	-	300,000
Accounts	-	1,015,051	1,015,051	-
Other	131,787	-	131,787	20,104
Due from component unit	10,650	-	10,650	-
Prepaid insurance	143,204	11,086	154,290	-
Inventory	-	213,846	213,846	-
Restricted cash equivalents	-	2,535,559	2,535,559	-
Capital assets, net of accumulated depreciation				
Non-depreciable	1,486,004	1,060,935	2,546,939	2,339,791
Depreciable	17,421,588	23,970,242	41,391,830	-
Total assets	<u>25,302,304</u>	<u>30,173,056</u>	<u>55,475,360</u>	<u>6,630,782</u>
Deferred Outflows of Resources				
Employer contributions—Pensions	774,177	174,190	948,367	19,354
Investment return losses—Pensions	1,038,279	233,614	1,271,893	25,958
Experience losses—Pensions	284,258	63,958	348,216	7,106
Deferred loss on debt refunding	-	279,522	279,522	-
Total deferred outflows of resources	<u>2,096,714</u>	<u>751,284</u>	<u>2,847,998</u>	<u>52,418</u>
Liabilities				
Accounts payable	619,754	909,213	1,528,967	12,322
Accrued liabilities	1,299,517	73,323	1,372,840	5,276
Accrued interest payable	14,610	17,706	32,316	5,928
Other liabilities	98,580	356,040	454,620	-
Long-term liabilities				
Due within one year	951,928	801,442	1,753,370	288,628
Due in more than one year	9,438,827	8,194,795	17,633,622	3,082,654
Net pension liability	6,793,383	1,528,511	8,321,894	169,834
Total liabilities	<u>19,216,599</u>	<u>11,881,030</u>	<u>31,097,629</u>	<u>3,564,642</u>
Deferred Inflows of Resources				
Experience gains—Pensions	7,831	1,762	9,593	196
Change of assumptions gains—Pensions	805	181	986	20
Total deferred inflows of resources	<u>8,636</u>	<u>1,943</u>	<u>10,579</u>	<u>216</u>
Net Position				
Net investment in capital assets	11,456,566	16,483,215	27,939,781	554,567
Restricted for				
Debt service	212,235	620,741	832,976	-
Housing program	9,339	-	9,339	-
Construction	1,589,081	601,029	2,190,110	-
Public safety	269,942	-	269,942	-
Economic development	151,247	-	151,247	-
Unrestricted	(5,514,627)	1,336,382	(4,178,245)	2,563,775
Total net position	<u>\$ 8,173,783</u>	<u>\$ 19,041,367</u>	<u>\$ 27,215,150</u>	<u>\$ 3,118,342</u>

City of Balch Springs, Texas
Statement of Activities
Year Ended September 30, 2016

Functions/Program	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 2,245,826	\$ 579,169	\$ -	\$ -
Public safety	10,584,560	1,803,796	165,916	-
Public works	3,134,243	15,311	256,707	9,167
Community development and recreation	1,493,177	202,304	679,062	-
Interest on long-term debt	99,701	-	-	-
Total governmental activities	<u>17,557,507</u>	<u>2,600,580</u>	<u>1,101,685</u>	<u>9,167</u>
Business-type activities				
Utility fund	10,586,531	10,607,754	-	-
Total business-type activities	<u>10,586,531</u>	<u>10,607,754</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 28,144,038</u>	<u>\$ 13,208,334</u>	<u>\$ 1,101,685</u>	<u>\$ 9,167</u>
Component units				
Balch Springs Industrial and Economic Development Corporation	\$ 593,684	\$ -	\$ -	\$ -
Balch Springs Community and Economic Development Corporation	544,902	-	-	-
Total component units	<u>\$ 1,138,586</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
		General revenues		
		Taxes		
		Property taxes		
		Sales taxes		
		Franchise taxes		
		Other local taxes		
		Gain on sale of assets		
		Interest on investments		
		Miscellaneous		
		Transfers		
		Total general revenues and transfers		
		Change in Net Position		
		Net Position, Beginning of Year		
		Net Position, End of Year		

Net (Expense) Revenue and Changes in Net Position
Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,666,657)	\$ -	\$ (1,666,657)	\$ -
(8,614,848)	-	(8,614,848)	-
(2,853,058)	-	(2,853,058)	-
(611,811)	-	(611,811)	-
(99,701)	-	(99,701)	-
<u>(13,846,075)</u>	<u>-</u>	<u>(13,846,075)</u>	<u>-</u>
<u>-</u>	<u>21,223</u>	<u>21,223</u>	<u>-</u>
<u>-</u>	<u>21,223</u>	<u>21,223</u>	<u>-</u>
<u>(13,846,075)</u>	<u>21,223</u>	<u>(13,824,852)</u>	<u>-</u>
-	-	-	(593,684)
-	-	-	(544,902)
-	-	-	(1,138,586)
\$ 6,749,813	\$ -	\$ 6,749,813	\$ -
4,101,802	-	4,101,802	1,640,722
1,089,587	-	1,089,587	-
76,141	-	76,141	-
91,865	-	91,865	-
4,088	12,750	16,838	3,942
283,933	21,454	305,387	24,488
1,097,289	(1,097,289)	-	-
<u>13,494,518</u>	<u>(1,063,085)</u>	<u>12,431,433</u>	<u>1,669,152</u>
(351,557)	(1,041,862)	(1,393,419)	530,566
<u>8,525,340</u>	<u>20,083,229</u>	<u>28,608,569</u>	<u>2,587,776</u>
<u>\$ 8,173,783</u>	<u>\$ 19,041,367</u>	<u>\$ 27,215,150</u>	<u>\$ 3,118,342</u>

City of Balch Springs, Texas
Balance Sheet – Governmental Funds
September 30, 2016

Assets	General Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,205,139	\$ 2,468,791	\$ 3,673,930
Receivables (net of allowance for uncollectibles)			
Taxes	945,199	221,942	1,167,141
Sales tax	732,265	-	732,265
Fines	535,735	-	535,735
Other	77,295	54,492	131,787
Due from			
Other governments	10,650	-	10,650
Prepaid items	143,204	-	143,204
 Total assets	 <u>\$ 3,649,487</u>	 <u>\$ 2,745,225</u>	 <u>\$ 6,394,712</u>
 Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts and contracts payable	\$ 531,778	\$ 87,976	\$ 619,754
Accrued liabilities	553,775	352,580	906,355
Due to other governments	98,580	-	98,580
 Total liabilities	 <u>1,184,133</u>	 <u>440,556</u>	 <u>1,624,689</u>
Deferred inflows of resources			
Unavailable revenues property taxes	386,763	72,825	459,588
Unavailable revenues court fines	508,217	-	508,217
 Total deferred inflow of resources	 <u>894,980</u>	 <u>72,825</u>	 <u>967,805</u>
Fund balances			
Nonspendable for prepaid items	143,204	-	143,204
Restricted for			
Debt service	-	212,235	212,235
Housing program	-	9,339	9,339
Street maintenance	-	1,589,081	1,589,081
Public safety	-	269,942	269,942
Economic development	-	151,247	151,247
Unassigned	1,427,170	-	1,427,170
 Total fund balances	 <u>1,570,374</u>	 <u>2,231,844</u>	 <u>3,802,218</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 3,649,487</u>	 <u>\$ 2,745,225</u>	 <u>\$ 6,394,712</u>

City of Balch Springs, Texas
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Position
September 30, 2016

Total fund balances – governmental funds		\$ 3,802,218
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.		18,907,592
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(14,610)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.		967,805
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:		
Employer contributions	774,177	
Investment return difference (GASB 68)	1,038,279	
Experience difference, net (GASB 68)	276,427	
Change of assumptions (GASB 68)	<u>(805)</u>	<u>2,088,078</u>
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities and related deferred outflows of resources at year-end consist of:		
General obligation bonds	(5,475,000)	
Premiums on bond debt	(339,952)	
Compensated absences	(2,939,729)	
Capital leases	(1,636,074)	
Other obligations	(393,162)	
Pension obligation	<u>(6,793,383)</u>	<u>(17,577,300)</u>
Net position of governmental activities		<u>\$ 8,173,783</u>

City of Balch Springs, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
Year Ended September 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes and fees	\$ 10,442,911	\$ 1,540,187	\$ 11,983,098
Licenses and permits	472,112	-	472,112
Intergovernmental	142,552	640,782	783,334
Charges for services	202,304	15,387	217,691
Fines and forfeitures	1,022,425	780,158	1,802,583
Interest	3,995	93	4,088
Miscellaneous	18,151	144,834	162,985
	<u>12,304,450</u>	<u>3,121,441</u>	<u>15,425,891</u>
Expenditures			
Current			
General government	1,015,366	-	1,015,366
Public safety	8,912,277	782,190	9,694,467
Public works	2,098,658	642,305	2,740,963
Community development and recreation	1,299,956	24,133	1,324,089
Capital outlay	2,172,399	402,295	2,574,694
Debt service			
Principal retirement	19,991	440,000	459,991
Interest and fiscal charges	3,481	183,912	187,393
	<u>15,522,128</u>	<u>2,474,835</u>	<u>17,996,963</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,217,678)</u>	<u>646,606</u>	<u>(2,571,072)</u>
Other financing sources (uses)			
Operating transfers in	1,258,858	265,869	1,524,727
Operating transfers out	(265,869)	(208,858)	(474,727)
Transfers from component units	305,000	-	305,000
Transfers to other governments	-	(24,771)	(24,771)
Proceeds from capital lease	1,549,274	-	1,549,274
Insurance recoveries	120,948	-	120,948
Sale of equipment	210,100	-	210,100
	<u>3,178,311</u>	<u>32,240</u>	<u>3,210,551</u>
Net Change in Fund Balances	(39,367)	678,846	639,479
Fund Balances, Beginning of Year	<u>1,609,741</u>	<u>1,552,998</u>	<u>3,162,739</u>
Fund Balances, End of Year	<u>\$ 1,570,374</u>	<u>\$ 2,231,844</u>	<u>\$ 3,802,218</u>

City of Balch Springs, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2016

Net change in fund balances – total governmental funds	\$	639,479
Amounts reported for governmental activities in the statement of activities are different because:		
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. This is the amount of capital assets recorded in the current period.		2,574,694
Certain revenues reported in the statement of activities do not provide the use of current financial resources and, therefore, are not reported as revenues in governmental funds. These revenues were capital contributions of maintenance vehicles from the Utility fund.		47,289
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(1,080,549)
Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:		
General and certificates of obligation bonds	\$ 440,000	
Capital leases	<u>19,984</u>	459,984
The issuance of long-term debt, such as capital leases, are shown as "Other Sources" in the governmental funds, but are shown on the statement of net position as debt obligations with corresponding balances amortized over the life of the lease.		(1,549,274)
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources.		(383,552)
Current year change in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(1,284,340)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(16,058)
Revenues from the sale of capital assets are reported as proceeds from sales on the governmental funds but adjusted for the book value of assets sold on the government-wide financial statements. This difference represents the net book value of assets sold.		(118,235)
Certain revenues and expenses in the government-wide statement of activities that do not provide or require current financial resources are not reported as revenues in the governmental funds. This is the net change in these balances for the year.		<u>359,005</u>
Change in net position of governmental activities	\$	<u><u>(351,557)</u></u>

City of Balch Springs, Texas
Statement of Net Position
Proprietary Funds
September 30, 2016

	Utility Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 1,366,337
Receivables (net of allowance for uncollectibles)	
Accounts	1,015,051
Prepaid expenses	11,086
Inventory	213,846
	2,606,320
Total current assets	2,606,320
Noncurrent Assets	
Restricted cash and cash equivalents	2,535,559
Capital Assets	
Land	792,615
Construction in progress	268,320
Buildings	2,424,944
Machinery, equipment and vehicles	3,761,584
Water and sewer distribution systems	32,841,075
Less accumulated depreciation	(15,057,361)
	27,566,736
Total noncurrent assets	27,566,736
Total assets	30,173,056
Deferred Outflows of Resources	
Employer contributions—Pensions	174,190
Investment return losses—Pensions	233,614
Experience losses—Pensions	63,958
Deferred loss on debt refunding	279,522
	751,284
Total deferred outflows of resources	751,284

Liabilities**Current Liabilities**

Accounts payable	909,213
Accrued wages	73,323
Compensated absences	44,828
Payable from restricted resources	
Bonds payable	756,614
Accrued interest payable	17,706
Customer meter deposits	356,040
	<hr/>
Total current liabilities	2,157,724

Noncurrent Liabilities

Bonds payable	7,791,348
Net pension liability	1,528,511
Compensated absences	403,447
	<hr/>
Total noncurrent liabilities	9,723,306

Total liabilities 11,881,030

Deferred Inflows of Resources

Experience gains—Pensions	1,762
Change of assumptions gains—Pensions	181
	<hr/>
Total deferred inflows of resources	1,943

Net Position

Net investment in capital assets	16,483,215
Restricted for	
Debt service	620,741
Construction	601,029
Unrestricted	1,336,382
	<hr/>
Total net position	<u>\$ 19,041,367</u>

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City of Balch Springs, Texas
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended September 30, 2016

	Utility Fund
Operating Revenues	
Charges for services	\$ 10,607,754
Miscellaneous	21,454
	10,629,208
Total operating revenues	10,629,208
Operating Expenses	
Personnel services	2,107,795
Professional services	78,000
Materials and supplies	160,076
Utilities	181,624
Repairs and maintenance	405,163
Minor equipment and rental	71,428
Benefits provided	533,256
Insurance	56,733
Purchase of water	1,279,029
Sewage	1,786,953
Solid waste	2,379,473
Other services and charges	168,643
Depreciation and amortization	872,231
	10,080,404
Total operating expenses	10,080,404
Operating Income	548,804
Nonoperating Revenues (Expenses)	
Interest revenue	12,750
Interest and fiscal charges	(506,127)
	(493,377)
Total nonoperating revenues (expenses)	(493,377)
Income Before Transfers	55,427
Transfers Out	(1,097,289)
Change in Net Position	(1,041,862)
Net Position, Beginning of Year	20,083,229
Net Position, End of Year	\$ 19,041,367

City of Balch Springs, Texas
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2016

	Business-type Activities Utility Enterprise Fund
Operating Activities	
Cash received from customers	\$ 10,730,660
Cash paid to employees for services	(1,858,564)
Cash paid for goods and services	(6,927,632)
	1,944,464
Noncapital Financing Activities	
Transfers of cash to other funds	(1,050,000)
	(1,050,000)
Capital and Related Financing Activities	
Principal paid on revenue bond maturities	(685,000)
Proceeds from issuance of bonds, net of refunding	85,000
Interest paid	(393,126)
Acquisition of capital assets	(1,495,495)
	(2,488,621)
Investing Activities	
Sale of investments	-
Investment income	12,750
	12,750
Net Decrease in Cash and Cash Equivalents	(1,581,407)
Cash and Cash Equivalents, Beginning of Year	5,483,303
Cash and Cash Equivalents, End of Year	\$ 3,901,896

	Business-type Activities Utility Enterprise Fund
	<hr/>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities	
Operating income	\$ 548,804
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	872,231
Change in assets and liabilities	
Increase in accounts receivable	86,356
Decrease in inventories	(26,030)
Decrease in prepaid expenses	(1,008)
Increase in accounts payable and accrued liabilities	140,427
Increase in compensated absences	222,289
Increase in customer deposits	15,096
Increase in net pension liability, net of deferred resources	86,299
	<hr/>
Net cash provided by operating activities	<u>\$ 1,944,464</u>

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City of Balch Springs, Texas
Statement of Net Position
Component Units
September 30, 2016

	Balch Springs Industrial and Economic Development Corporation	Balch Springs Community and Economic Development Corporation	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,866,727	\$ 808,703	\$ 3,675,430
Receivables			
Sales tax	149,003	146,454	295,457
Notes	-	300,000	300,000
Interest	-	20,104	20,104
	<u>3,015,730</u>	<u>1,275,261</u>	<u>4,290,991</u>
Total current assets			
Noncurrent Assets			
Capital assets not being depreciated			
Land	2,239,117	-	2,239,117
Construction in progress	100,674	-	100,674
	<u>2,339,791</u>	<u>-</u>	<u>2,339,791</u>
Total noncurrent assets			
	<u>2,339,791</u>	<u>-</u>	<u>2,339,791</u>
Total assets	<u>5,355,521</u>	<u>1,275,261</u>	<u>6,630,782</u>
Deferred Outflows of Resources			
Employer contributions—Pensions	9,677	9,677	19,354
Investment return losses—Pensions	12,979	12,979	25,958
Experience losses—Pensions	3,553	3,553	7,106
	<u>26,209</u>	<u>26,209</u>	<u>52,418</u>
Total deferred outflows of resources			
	<u>26,209</u>	<u>26,209</u>	<u>52,418</u>
Liabilities			
Current liabilities			
Accounts payable	6,951	5,371	12,322
Accrued liabilities	2,638	2,638	5,276
Accrued interest payable	5,551	377	5,928
Current portion of compensated absences	1,814	1,814	3,628
Current portion of bonds payable	120,000	165,000	285,000
	<u>136,954</u>	<u>175,200</u>	<u>312,154</u>
Total current liabilities			
	<u>136,954</u>	<u>175,200</u>	<u>312,154</u>
Noncurrent liabilities			
Compensated absences	16,327	16,327	32,654
Bonds payable	2,880,000	170,000	3,050,000
Net pension liability	84,917	84,917	169,834
	<u>2,981,244</u>	<u>271,244</u>	<u>3,252,488</u>
Total noncurrent liabilities			
	<u>2,981,244</u>	<u>271,244</u>	<u>3,252,488</u>
Total liabilities	<u>3,118,198</u>	<u>446,444</u>	<u>3,564,642</u>
Deferred Inflows of Resources			
Experience gains—Pensions	98	98	196
Change of assumptions gains—Pensions	10	10	20
	<u>108</u>	<u>108</u>	<u>216</u>
Total deferred outflows of resources			
	<u>108</u>	<u>108</u>	<u>216</u>
Net Position			
Net investment in capital assets	554,567	-	554,567
Unrestricted	1,708,857	854,918	2,563,775
	<u>554,567</u>	<u>854,918</u>	<u>1,409,485</u>
Total net position	<u>\$ 2,263,424</u>	<u>\$ 854,918</u>	<u>\$ 3,118,342</u>

City of Balch Springs, Texas
Statement of Activities
Component Units
Year Ended September 30, 2016

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component units			
Balch Springs Industrial and Economic Development Corporation	\$ 593,684	\$ -	\$ -
Bach Springs Community and Economic Development Corporation	544,902	-	-
	<u>\$ 1,138,586</u>	<u>\$ -</u>	<u>\$ -</u>
Total component units	<u>\$ 1,138,586</u>	<u>\$ -</u>	<u>\$ -</u>
		General revenues	
		Taxes	
		Sales taxes	
		Investment earnings	
		Miscellaneous	
		Total general revenues and transfers	
		Change in Net Position	
		Net Position, Beginning of Year	
		Net Position, End of Year	

Component Units		
Balch Springs Industrial and Economic Development Corporation	Balch Springs Community and Economic Development Corporation	Total
\$ (593,684)	\$ -	\$ (593,684)
-	(544,902)	(544,902)
(593,684)	(544,902)	(1,138,586)
820,361	820,361	1,640,722
3,082	860	3,942
11,548	12,940	24,488
834,991	834,161	1,669,152
241,307	289,259	530,566
2,022,117	565,659	2,587,776
<u>\$ 2,263,424</u>	<u>\$ 854,918</u>	<u>\$ 3,118,342</u>

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City of Balch Springs, Texas

Notes to Basic Financial Statements

September 30, 2016

Note 1: Significant Accounting Policies

General Statement

The accounting policies of the City of Balch Springs (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues, expenditures and expenses. Actual results could vary from the estimates that are used. Significant policies of the City are described below.

Reporting Entity

The City, originally incorporated in 1990, is a municipal corporation incorporated under Article XI of the *Constitution of the State of Texas* (Home Rule Amendment). The City operates under a Council-Manager form of government and provides such services as are authorized by its charter to advance the public safety (policy and fire), water and sewer utilities, public works, library, parks and recreation and general administrative services of the City, and its residents. The City is governed by an elected mayor and a six-member council and has the authority to make decisions, appoint administrators and managers and significantly influence operations. It also has the primary accountability for fiscal matters.

The City's basic financial statements include the separate governmental entities that are controlled by or are dependent on the City. The determination to include separate governmental entities is based on the criteria of GASB Statement 14, *the Financial Reporting Entity*, as amended by GASB 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14* and GASB Statement 61, *the Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. GASB Statement No. 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either (1) the primary government must be able to impose its will or (2) the primary government may potentially benefit financially or be financially responsible for the component unit. The Balch Springs Industrial and Economic Development Corporation 4A (4A) and the Balch Springs Community and Economic Development Corporation 4B (4B) are nonprofit economic development corporations formed in October of 1982 and 1997, respectively, under the *Development Corporation Act of 1979*. Both 4A and 4B are organized exclusively for the purposes of benefiting and accomplishing public purposes and to act on behalf of the City. This includes the construction and renovation of streets and municipal buildings, the acquisition, improvement and operation of parks, as well as, other economic development purposes. The affairs of these corporations are managed by two separate Boards of Directors, which are appointed by the City Council. The City Council approves annual budgets and issuances of debt. 4A and 4B have been discretely presented in the accompanying financial statements. Separate financial statements of the individual component units are not available.

City of Balch Springs, Texas

Notes to Basic Financial Statements

September 30, 2016

Basis of Presentation

Government-Wide Financial Statements - The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net position presents information on all the City's assets, deferred outflows and liabilities, 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.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. "Direct expenses" are those that are clearly identifiable with a specific program of City government. "Program revenues" include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for Governmental Funds and Proprietary Funds. These statements present each major fund as a separate column on the fund financial statements; all nonmajor funds are aggregated and presented in a single column.

Governmental Funds are those funds through which most governmental functions typically are financed. The measurement focus of Governmental Funds is on the sources, uses and balances of current financial resources. The City has presented the following major Governmental Fund:

General Fund – The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

City of Balch Springs, Texas

Notes to Basic Financial Statements

September 30, 2016

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major Proprietary Fund:

Utility Fund – The Utility Fund is used to account for the acquisition, operation and maintenance of municipal water, sewer utility and solid waste services, supported primarily by user charges to the public.

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. Operating expenses for the Proprietary Funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Classification of Fund Equity

Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned in governmental funds. Nonspendable fund balances cannot be spent, either because it is not in spendable form or because of legal or contractual requirements. Restricted fund balances have constraints for specific purposes which are externally imposed by providers, such as creditors, grantors or other governments; or by enabling legislation of the City Council. Committed fund balances can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by intent to be used for specific purposes, but are neither restricted nor committed. Assignments are made by City management based on Council direction. Unassigned fund balances include residual positive fund balances within the General Fund that had not been classified within the other mentioned categories. Unassigned fund balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

The City designates restricted amounts to be spent first if both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the City would first use committed, followed by assigned, and lastly unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Measurement Focus

Measurement focus is the accounting convention, which determines which assets and liabilities are included on the balance sheet of a fund type and whether a fund type’s operating statement presents “financial flow” or “capital maintenance” information per fund.

The government-wide statements and fund financial statements for Proprietary Funds are reported using the economic resources measurement focus, which means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position.

City of Balch Springs, Texas

Notes to Basic Financial Statements

September 30, 2016

Governmental Fund financial statements are reported using the current financial resources measurement focus, which means only current assets and current liabilities are generally included on their balance sheets.

Their reported fund balance (net current position) is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current position. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Proprietary Funds are accounted for on a “net income and capital maintenance” measurement focus. This means that all assets, liabilities, equity, revenues, expenses and transfers relating to the activity of a Proprietary Fund are accounted for through the Proprietary Fund. The measurement focus is used in the determination of net income, financial position and cash flows.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for Proprietary Funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental Fund financial statements are reported using the modified accrual basis for accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough, thereafter, to be used 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.

Ad valorem, franchise and sales tax, and court fine revenues recorded in the General Fund are considered to be susceptible to accrual. Licenses and permits, charges for services (except for sanitation services), other fines and forfeits, and rents and concessions are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings and intergovernmental revenue are recorded as earned since they are measurable and available.

Cash and Cash Equivalents

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

City of Balch Springs, Texas

Notes to Basic Financial Statements

September 30, 2016

Investments

Substantially all operating cash, deposits and short-term investments are maintained in consolidated cash and investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly liquid investments with original maturities of three months or less. Restricted cash equivalents represent unspent bond proceeds.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the state of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds and certificates of deposits within established criterion. As of September 30, 2016, all investments were in external investment pools.

Allowance for Uncollectible Accounts

An allowance for uncollectible taxes including penalties and interest, and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2016, were \$70,749 for uncollectible taxes, \$939,000 for water and sewer billings and \$3,475,087 for court fees and fines.

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Transactions Between Funds

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other interfund transactions, except interfund services provided and used and reimbursements, are recorded as transfers.

Capital Assets

Capital assets, which include property, plant equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for Proprietary Funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest is capitalized on Proprietary Fund type assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expenses incurred from the date of the borrowing unit until completion of the project with interest earned on invested proceeds over the same period.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Assets capitalized have a useful life of over one year. Depreciation, which includes amortization of assets under capital leases, is recorded on each class of depreciable property utilizing the straight-line method over the shorter of the estimated useful life or lease term of the related assets at the acquisition date or date placed in service. Estimated useful lives of major categories of property are:

Vehicles	7 – 15 years
Furniture and equipment	5 – 15 years
Machinery and equipment	15 years
Buildings and improvements	10 – 50 years

Accumulated Unpaid Vacations, Sick Leave and Other Employee Benefit Amounts

The City’s Police and Fire Department employees (civil service) accumulate 10 sick hours and 15 sick hours per month, respectively. The leave may be accumulated without limit. Upon termination, the civil service employees will receive lump sum payment for the full amount of sick days, if not more than 90 days are accumulated. If accumulation is in excess of 90 days, the lump sum payment is limited to that amount which would remain if the employee was allowed to use 90 days in the last six months of employment.

All other City employees accumulate 10 hours of sick leave per month. Non-civil service employees are required to be a City employee for at least 10 years to receive pay for unused sick leave. This pay is limited to 90 days.

Vacation time for the City’s Police and Fire Department employees will accumulate up to 15 days (120 hours) per year with accumulation from year to year only upon the approval of the City Council. All other employees will accrue vacation according to length of service, and accumulation from year to year will be only upon the approval of the City Manager. Upon termination, all employees will be paid for their accumulated vacation time. At September 30, 2016, the liability for accrued compensated absences is approximately \$3,424,000. The amount expected to be paid from current resources is immaterial.

Defined Benefit Pension Plans

For purposes of measuring the net pension liability, pension related deferred outflows of resources and deferred inflows of resources and pension expense, City specific information about its fiduciary net position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City’s fiduciary net position have been determined on the same basis as reported by TMRS. For this purpose, plan contributions are recognized in the period 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. Information regarding the City’s total pension liability is obtained from TMRS through a report prepared for the City by TMRS’ consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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 the following items that qualify for reporting in this category.

- Deferred loss on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and recognized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and reported as a reduction in net pension liability or increase in net pension asset in the year subsequent to their deferral.
- Difference in projected and actual experience (pensions) – This difference is deferred and recognized over the estimated average remaining service lives of all members determined as of the beginning of the measurement period.
- Difference in projected and actual earnings on pension assets – This difference is deferred and recognized in pension expense over a closed five year period.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category.

- Difference in projected and actual experience (pensions) – This difference is deferred and recognized over the estimated average remaining service lives of all members determined as of the beginning of the measurement period.
- Change of assumptions (pensions) – This difference is deferred and recognized over the estimated average remaining service lives of all members determined as of the beginning of the measurement period.
- Unavailable revenue – This amount represents property taxes and court fines receivable that were not collected within the 60-day availability period subsequent to year-end. This amount is deferred and recognized once payments are made in the following fiscal year.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

New Pronouncements

The City has adopted and implemented the following GASB statements which have become effective for the fiscal year 2016:

GASB Statement No. 72, *Fair Value Measurement and Application*.

- This Statement requires disclosures to be made about fair value measurements of certain applicable assets and liabilities, the level of fair value hierarchy and valuation techniques.
- This Statement also added clarification to the term *investment*, to be defined as a security or other asset a government holds primarily for the purpose of income or profit, and has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. No financial statement reclassifications were made as a result of implementation.

GASB Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

- This statement supersedes GASB Statement No. 55, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and modifies GAAP hierarchy to include GASB Implementation Guides as authoritative guidance. Additionally, this statement emphasizes considerations under situations not specified in authoritative guidance and requires consideration of consistency with the GASB Concept Statements with nonauthoritative literature.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*.

- This statement clarifies that a *deviation*, as defined by the Actuarial Standards of Practice, issued by the Actuarial Standards Board, is not considered to be in conformity with the requirements of GASB Statements No. 67, No. 68 and No. 73 for the selection of assumptions used to measure the total pension liability and related measures. Additionally, this statement requires member contributions paid by the employer, to be excluded from employer contributions and from corresponding pension related deferred resources. GASB 82 also requires presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, to be included in required supplementary information.

City of Balch Springs, Texas

Notes to Basic Financial Statements

September 30, 2016

Note 2: Cash and Investments

At year-end, the carrying amount of the City's cash and cash equivalents was \$8,715,697 (composed of \$5,040,267 related to the primary government and \$3,675,430 related to discretely presented component units). Corresponding bank deposit balances on September 30, 2016, were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and municipal pools. During the year ended September 30, 2016, the City's investments were fully comprised of external investment pools.

Governmental investments are categorized as either: (1) insured or registered for which securities are held by the City or its agent in the City's name (2) uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the City's name or (3) uninsured and unregistered for which the securities are held by the counterparty or its trust department or agent, but not in the City's name.

Interest Rate Risk

The strategy of the City is to maintain sufficient liquidity in its portfolio and structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the secondary market prior to maturity.

Custodial Credit Risk

Custodial credit risk is the risk that a government will not be able to recover (a) deposits if the depository financial institution fails or (b) the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. To minimize such risk, the City requires collateralization of most deposits in excess of coverage, utilizes the delivery vs. payment method for investment purchases and contracts with a third-party safekeeping agent.

The *Public Funds Investment Act* and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The *Public Funds Investment Act* requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

The City is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

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. TexPool uses amortized cost rather than the market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the net asset value of TexPool shares.

The City invested in the Texas Local Government Investment Cooperative (LOGIC) Liquid Asset Portfolio. LOGIC is a public funds investment pool managed by Southwest Securities Group, Inc. LOGIC investments are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the City has not issued securities, but rather it owns an individual beneficial interest in the assets of the related investment pools. LOGIC uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in LOGIC is the same as the net asset value of LOGIC shares. In accordance with GASB Statement No. 31, the City’s general policy is to report short-term treasury securities, U.S. government backed securities which have a remaining term of one year or less at time of purchase, and money market mutual funds at amortized costs.

Credit Risk

In compliance with the City’s Investment Policy as of September 30, 2016, the City minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities, pre-qualifying financial institutions, broker/dealers and advisors with which the City does business and diversifying the investment portfolio so that potential losses on individual securities are minimized.

Investments as of September 30, 2016, are as follows:

	Carrying Amount	Fair Value	Weighted- Average Maturity (Years)
Primary Government			
TexPool	\$ 4,113,851	\$ 4,113,851	0.003
LOGIC	<u>108,336</u>	<u>108,336</u>	0.003
Total primary government	<u>4,222,187</u>	<u>4,222,187</u>	
Component Units			
TexPool	<u>227,085</u>	<u>227,085</u>	0.003
Total component units	<u>227,085</u>	<u>227,085</u>	
Total	<u><u>\$ 4,449,272</u></u>	<u><u>\$ 4,449,272</u></u>	

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Deposits and investments as of September 30, 2016, are as follows:

Primary Government	
Deposits	\$ 3,111,574
Investments	1,928,693
Restricted deposits	242,065
Restricted investments	<u>2,293,494</u>
Total primary government	<u>7,575,826</u>
Component Units	
Deposits	3,448,345
Investments	<u>227,085</u>
Total component units	<u>3,675,430</u>
Total cash and cash equivalents	<u><u>\$ 11,251,256</u></u>

Note 3: Property Taxes

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1, and are due and payable on or before January 31, of the following year. All unpaid taxes become delinquent February 1, of the following year. Tax collections for the year ended September 30, 2016, were 99.8% of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30, that are collected within 60 days are recognized as revenue and recorded as taxes receivable. Any uncollected property taxes at September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred inflow of resources. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The statutes of the state of Texas do not prescribe a legal debt limit, nor does the City's charter provide for a debt limit. However, provision of Article XI, Section 5 of the *Texas Constitution* applicable to cities with populations greater than 5,000 limits the *ad valorem* tax rate to \$2.50 per \$100 assessed valuation. However, as a city operating under a Home Rule Charter, the City has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2016, the City had a combined tax rate to finance general government service and debt service of \$.803 per \$100.00 assessed valuation.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may, at its own expense, require annual reviews of appraised values.

The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the tax rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year. This legislation provides that, if approved by the qualified voters in the City, both the appraisal and collection functions may be placed with the appraisal district. In addition, the City may obtain approval from its governing body to place these functions with the appraisal district.

Note 4: Interfund Transactions

Interfund transfers represent payments between funds that are designed to cover various operating and overhead expenses and to allocate charges for services performed by one fund on behalf of another fund.

At September 30, 2016, interfund transactions were as follows:

	Transfer In			Total
	Governmental Activities	General	Nonmajor Governmental	
Transfers out				
General Fund	\$ -	\$ -	\$ 265,869	\$ 265,869
Utility Fund—non-capital	-	1,050,000	-	1,050,000
Utility Fund—capital	47,289	-	-	47,289
Nonmajor governmental	-	208,858	-	208,858
	<u>47,289</u>	<u>1,258,858</u>	<u>265,869</u>	<u>1,572,016</u>
Total transfers out	<u>\$ 47,289</u>	<u>\$ 1,258,858</u>	<u>\$ 265,869</u>	<u>\$ 1,572,016</u>

Note 5: Interfund Assets/Liabilities

Interfund balances reflect payments made by one fund on behalf of another fund for which cash settlement has not been made as of the end of the accounting period. Amounts due to and from other funds will be settled within the next accounting period. As of September 30, 2016, there were no interfund assets or liabilities.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 6: Fixed Assets

Governmental Funds

Capital assets of the Governmental Activities are as follows:

	Balance September 30, 2015	Increases	Decreases	Transfers	Balance September 30, 2016
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 1,409,837	\$ -	\$ -	\$ -	\$ 1,409,837
CIP	-	76,167	-	-	76,167
Total capital assets not being depreciated	<u>1,409,837</u>	<u>76,167</u>	<u>-</u>	<u>-</u>	<u>1,486,004</u>
Capital assets being depreciated					
Buildings	7,862,331	-	-	-	7,862,331
Improvements	1,083,469	275,353	-	-	1,358,822
Equipment and furniture	1,539,730	266,818	-	62,522	1,869,070
Vehicles	3,933,122	2,003,645	(1,049,104)	231,467	5,119,130
Infrastructure	9,526,623	-	-	-	9,526,623
Total capital assets being depreciated	<u>23,945,275</u>	<u>2,545,816</u>	<u>(1,049,104)</u>	<u>293,989</u>	<u>25,735,976</u>
Less accumulated depreciation	<u>7,918,008</u>	<u>1,080,549</u>	<u>(930,869)</u>	<u>246,700</u>	<u>8,314,388</u>
Total capital assets being depreciated, net	<u>16,027,267</u>	<u>1,465,267</u>	<u>(118,235)</u>	<u>47,289</u>	<u>17,421,588</u>
Governmental activities capital assets, net	<u>\$ 17,437,104</u>	<u>\$ 1,541,434</u>	<u>\$ (118,235)</u>	<u>\$ 47,289</u>	<u>\$ 18,907,592</u>

Depreciation expense was charged as a direct expense to programs of the primary government as follows:

General and administrative	\$ 11,640
Public safety	506,541
Public works	393,280
Culture and recreation	<u>169,088</u>
Total depreciation expense – governmental activities	<u>\$ 1,080,549</u>

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Enterprise Fund

Capital assets of the Enterprise Fund are as follows:

	Balance September 30, 2015	Increases	Decreases	Transfers	Balance September 30, 2016
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 263,984	\$ -	\$ -	\$ -	\$ 263,984
Right of way easements	528,632	-	-	-	528,632
Construction in progress	-	268,319	-	-	268,319
Total capital assets not being depreciated	<u>792,616</u>	<u>268,319</u>	<u>-</u>	<u>-</u>	<u>1,060,935</u>
Capital assets being depreciated					
Buildings	2,424,944	-	-	-	2,424,944
Equipment	3,453,425	602,147	-	(293,989)	3,761,583
Infrastructure and improvements	32,216,046	625,029	-	-	32,841,075
Total capital assets being depreciated	38,094,415	1,227,176	-	(293,989)	39,027,602
Less accumulated depreciation	<u>14,431,829</u>	<u>872,231</u>	<u>-</u>	<u>(246,700)</u>	<u>15,057,360</u>
Total capital assets being depreciated, net	<u>23,662,586</u>	<u>354,945</u>	<u>-</u>	<u>(47,289)</u>	<u>23,970,242</u>
Business-type activities capital assets, net	<u>\$ 24,455,202</u>	<u>\$ 623,264</u>	<u>\$ -</u>	<u>\$ (47,289)</u>	<u>\$ 25,031,177</u>

Depreciation expense of \$872,231 was charged as a direct expense to the Utility fund within the primary government.

Discretely Presented Component Units

Capital assets of the Balch Springs Industrial and Economic Development Corporation are as follows:

	Balance September 30, 2015	Increases	Decreases	Balance September 30, 2016
Balch Springs Community and Economic Development Corporation				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 100,674	\$ -	\$ 100,674
Land	1,191,184	1,047,933	-	2,239,117
Total capital assets not being depreciated	<u>\$ 1,191,184</u>	<u>\$ 1,148,607</u>	<u>\$ -</u>	<u>\$ 2,339,791</u>

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Note 7: Long-term Liabilities

The following is a summary of changes in long-term liabilities:

	Balance September 30, 2015	Additions	Retirements	Balance September 30, 2016	Due Within One-Year
Governmental Activities					
General obligation bonds	\$ 5,915,000	\$ -	\$ (440,000)	\$ 5,475,000	\$ 450,000
Premiums on bond debt	411,586	-	(71,634)	339,952	50,830
Compensated absences	1,655,389	2,182,996	(898,656)	2,939,729	293,973
Capital leases	106,784	1,549,274	(19,984)	1,636,074	157,125
Net pension liability	5,357,522	1,435,861	-	6,793,383	-
Total governmental activities	<u>\$ 13,446,281</u>	<u>\$ 5,168,131</u>	<u>\$ (1,430,274)</u>	<u>\$ 17,184,138</u>	<u>\$ 951,928</u>
Business-type Activities					
Revenue bonds	\$ 8,710,000	\$ 6,795,000	\$ (7,395,000)	\$ 8,110,000	\$ 705,000
Premiums on bond debt	34,810	409,038	(5,802)	438,046	51,614
Compensated absences	225,986	329,770	(107,481)	448,275	44,828
Net pension liability	1,205,443	323,068	-	1,528,511	-
Total business-type activities	<u>\$ 10,176,239</u>	<u>\$ 7,856,876</u>	<u>\$ (7,508,283)</u>	<u>\$ 10,524,832</u>	<u>\$ 801,442</u>
Discretely Presented Component Unit					
Revenue bonds	\$ 1,865,000	\$ 1,755,000	\$ (285,000)	\$ 3,335,000	\$ 285,000
Compensated absences	15,150	36,299	(15,167)	36,282	3,628
Net pension liability	133,938	35,896	-	169,834	-
Total discretely presented component units	<u>\$ 2,014,088</u>	<u>\$ 1,827,195</u>	<u>\$ (300,167)</u>	<u>\$ 3,541,116</u>	<u>\$ 288,628</u>

In June 2016, the Utility fund issued \$6,795,000 of Series 2016, Combination Tax and Surplus Revenue Refunding Bonds. The debt was issued to refund the Series 2008 Waterworks and Sewer System Revenue Bonds. Net proceeds from the sale of bonds totaled \$7,293,817. Of these proceeds, \$7,079,301 was placed with an escrow agent to pay off the remaining principal and accrued interest in June 2016. The new bonds mature in 2031. The refunding resulted in a decrease in the City's debt service payments of \$861,648 which resulted in an economic gain (difference between the present value of the debt service payments of the old debt and new debt) of \$780,899.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

General long-term debt consists of capital leases, liabilities for accrued vacation leave and general obligation bonds, which are direct obligations, issued on the full faith and credit of the City. Principal and interest payments on the general obligation bonds are secured by *ad valorem* taxes levied on all taxable property within the City, and made in the Debt Service fund. Although these bonds are secured by the full faith and credit of the City, they have no specific claim against Utility Fund assets. Debt service requirements of the Utility fund including principal and interest are secured by operating revenues of the Utility fund and are expected to be less than 50% of net revenues. Accordingly, this debt is reflected as an obligation of the Utility Fund. Proceeds from Utility fund debt issued are for the primary purpose of water and sewer distribution system improvements. Debt service requirements of the component units are secured and paid for by sales tax revenues. The total pledged revenue for each related debt issuance are included in the amortization tables later in this note.

General obligation bonds and revenue bonds outstanding at September 30, 2016, consist of the following:

	Governmental Activities	Water and Sewer	Total Primary Government	Component Unit
<u>General Obligation Bonds</u>				
\$7,200,000, 2012 General Obligation Refunding Bonds, due in annual installments through August 1, 2027, 2.00% – 3.50%	\$ 5,475,000	\$ -	\$ 5,475,000	\$ -
	<u>\$ 5,475,000</u>	<u>\$ -</u>	<u>\$ 5,475,000</u>	<u>\$ -</u>
<u>Revenue Bonds</u>				
\$9,750,000, 2008 Revenue Bonds, due in annual installments through September 1, 2032, 4.00% – 5.00%	\$ -	\$ 360,000	\$ 360,000	\$ -
\$2,570,000, 2011 Revenue Refunding Bonds, due in annual installments through September 1, 2021, 2.00% – 4.00%	-	995,000	995,000	-
\$1,175,000, 2011 Sales Tax Revenue Refunding Bonds, due in bi-annual installments through August 15, 2018, 3.09%	-	-	-	335,000
\$1,365,000, 2015 Sales Tax Revenue Bonds, due in bi-annual installments through August 15, 2025, 3.55%	-	-	-	1,245,000
\$6,795,000, 2016 Revenue Refunding Bonds, due in annual installments through September 1, 2031, 2.15%	-	6,795,000	6,795,000	-
\$1,755,000, 2016 Sales Tax Revenue Bonds, due in bi-annual installments through August 15, 2032, 4.99%	-	-	-	1,755,000
	<u>\$ -</u>	<u>\$ 8,150,000</u>	<u>\$ 8,150,000</u>	<u>\$ 3,335,000</u>

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

The annual requirements to amortize the long-term debt as of September 30, 2016, are as follows:

General Obligation Bonds			
Fiscal Year	Governmental Activities		
	Principal	Interest	Total
2017	\$ 450,000	\$ 175,325	\$ 625,325
2018	455,000	166,325	621,325
2019	470,000	152,675	622,675
2020	485,000	138,575	623,575
2021	500,000	124,025	624,025
2022-2026	2,590,000	361,725	2,951,725
2027	<u>525,000</u>	<u>18,375</u>	<u>543,375</u>
Total	<u>\$ 5,475,000</u>	<u>\$ 1,137,025</u>	<u>\$ 6,612,025</u>

Revenue Bonds			
Fiscal Year	Business-Type Activities		
	Principal	Interest	Total
2017	\$ 705,000	\$ 481,808	\$ 1,186,808
2018	515,000	185,845	700,845
2019	530,000	172,045	702,045
2020	540,000	160,645	700,645
2021	550,000	148,945	698,945
2022-2026	2,635,000	509,075	3,144,075
2027-2031	<u>2,635,000</u>	<u>149,070</u>	<u>2,784,070</u>
Total	<u>\$ 8,110,000</u>	<u>\$ 1,807,433</u>	<u>\$ 9,917,433</u>

Revenue Bonds			
Fiscal Year	Discretely Presented Component Units		
	Principal	Interest	Total
2017	\$ 285,000	\$ 142,270	\$ 427,270
2018	320,000	131,453	451,453
2019	155,000	121,827	276,827
2020	160,000	115,965	275,965
2021	165,000	109,925	274,925
2022-2026	885,000	454,408	1,339,408
2027-2031	1,110,000	235,528	1,345,528
2032	<u>255,000</u>	<u>12,723</u>	<u>267,723</u>
Total	<u>\$ 3,335,000</u>	<u>\$ 1,075,848</u>	<u>\$ 4,659,099</u>

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

As of September 30, 2016, vehicles purchased under capital leases are carried at \$1,758,386 with accumulated depreciation of \$82,162. Amortization of these assets is included with depreciation expense.

Fiscal Year	Capital Leases		
	Governmental Activities		
	Principal	Interest	Total
2017	\$ 157,142	\$ 46,011	\$ 203,153
2018	161,613	41,539	203,152
2019	166,213	36,939	203,152
2020	170,927	32,208	203,135
2021	152,335	27,347	179,682
2022—2026	<u>827,844</u>	<u>70,561</u>	<u>898,405</u>
Total	<u>\$ 1,636,074</u>	<u>\$ 254,605</u>	<u>\$ 1,890,679</u>

Note 8: Retirement Plan

Plan Description

The City and two of its component units participate as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit agent multiple-employer pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS, an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, *Texas Government Code* (TMRS Act) is an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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 actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

A summary of plan provisions for the City are as follows:

Employee deposit rate	7.0%
Matching ratio (City to employee)	2 – 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

Membership in the Plan by membership class at December 31, 2015, (measurement date), is as follows:

Inactive employees or beneficiaries currently receiving benefits	77
Inactive employees entitled to but not receiving benefits	101
Active employees	<u>171</u>
Total	<u><u>349</u></u>

Contributions

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

Employees are required to contribute 7% of their annual gross earnings during the fiscal year. The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (*i.e.*, December 31, 2008, valuation is effective for the rates beginning January, 2010).

For the year ended September 30, 2016, contributions by the City and its Component Units were \$1,369,562 and \$27,950, or 14.57%, of the covered payroll of \$9,401,960 and \$191,877, respectively, as required by the actuarial valuation. The component units proportionate share within the plan is 2% of all plan balances.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Net Pension Liability

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. This experience study was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75% for the 2015 actuarial valuation. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

Discount Rate: The discount rate used to measure the Total Pension Liability was 6.75%, which is a reduction of .25% from the 2015 discount rate. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% rate and employer contributions will be made at the rates specified by 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Changes in the total pension liability, plan fiduciary net position and the net pension liability for the year ended September 30, 2016, were as follows:

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability(a) - (b)
Balances as of September 30, 2015	\$ 27,757,941	\$ 21,061,038	\$ 6,696,903
Changes for the year:			
Service cost	1,588,374	-	1,588,374
Interest on total pension liability	1,968,932	-	1,968,932
Effect of plan changes	-	-	-
Effect of difference in expected and actual experience	464,652	-	464,652
Changes of assumptions	(1,315)	-	(1,315)
Benefit payments	(849,057)	(849,057)	-
Administrative expenses	-	(18,929)	18,929
Member contributions	-	681,706	(681,706)
Net investment income	-	31,089	(31,089)
Employer contributions	-	1,532,886	(1,532,886)
Other	-	(935)	935
Net changes	<u>3,171,586</u>	<u>1,376,760</u>	<u>1,794,826</u>
Balances as of September 30, 2016	<u>\$ 30,929,527</u>	<u>\$ 22,437,798</u>	<u>\$ 8,491,729</u>
City	<u>\$ 30,310,936</u>	<u>\$ 21,989,042</u>	<u>\$ 8,321,894</u>
Component Units	<u>\$ 618,591</u>	<u>\$ 448,756</u>	<u>\$ 169,835</u>

Sensitivity to Interest Rate Changes: The following presents the net pension liability of the City calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
City's net pension liability	\$ 13,694,790	\$ 8,321,894	\$ 4,031,998
Component Unit's net pension liability	279,486	169,835	82,286

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended September 30, 2016, the City and its Component Units recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$1,825,397 and \$37,253, respectively, and at September 30, 2016, reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

City	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 348,216	\$ (9,593)
Change of assumptions	-	(986)
Difference between projected and actual earnings on pension plan investments	1,271,893	-
Contributions subsequent to the measurement date	<u>948,367</u>	<u>-</u>
	<u><u>\$ 2,568,476</u></u>	<u><u>\$ (10,579)</u></u>
Component Units	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 7,106	\$ (196)
Change of assumptions	-	(20)
Difference between projected and actual earnings on pension plan investments	25,958	-
Contributions subsequent to the measurement date	<u>19,354</u>	<u>-</u>
	<u><u>\$ 52,418</u></u>	<u><u>\$ (216)</u></u>

At September 30, 2016, the City and its Component Units reported \$948,367 and \$19,354 as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date and prior to year-end. These amounts will be recognized as a reduction in the net pension liability at September 30, 2016.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the plan will be recognized in pension expense as follows:

City

Year Ending September 30

2017	\$	432,630
2018		432,630
2019		434,698
2020		<u>309,573</u>
	\$	<u><u>1,609,530</u></u>

Component Units

Year Ending September 30

2017	\$	8,829
2018		8,829
2019		8,871
2020		<u>6,318</u>
	\$	<u><u>32,848</u></u>

Note 9: Disclosures About Fair Values of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Investment in State Investment Pools

During the year, the City invested in two public fund investment pools, including TexPool, and LOGIC. The fair value of the position of the pools for LOGIC is measured at net asset value and is designed to approximate the share value. The fair value of the position of in TexPool is measured at amortized cost per share as the pool meets requirements of GASB No. 79. Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

Recurring Measurements

As of the September 30, 2016, the City had investments measured by the aforementioned methods in TexPool and LOGIC of \$2,555,295 and \$108,336, respectively, and Component Units had investments in TexPool of \$227,085.

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Note 10: Commitments and Contingencies

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; injuries to employees and natural disasters. The City is part of the Texas Municipal League Intergovernmental Risk Pool (Pool). Premiums are paid to the Pool, which retain a limit of loss. Reinsurance companies insure the risks beyond those limits. The City retains, as a risk, only the deductible amount of each policy. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in any of the past three fiscal years.

City of Balch Springs, Texas
Notes to Basic Financial Statements
September 30, 2016

Federal and State Programs

The City participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that if the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2016, may be impaired.

Other Contingencies

There are other claims and pending actions incidental to normal operations of the City other than that included in *Note 1*. In the opinion of the City administration, the City's potential liability in other matters will not have a material impact on the accompanying financial statements.

Required Supplementary Information

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City of Balch Springs, Texas
Schedule of Changes in the City's Net Pension Liability and Related Ratios
Last Two Fiscal Years
(Unaudited)

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 1,111,639	\$ 1,588,374
Interest (on the total pension liability)	1,805,251	1,968,932
Changes in benefit terms	-	-
Differences between expected and actual experience	(17,723)	464,652
Changes of assumptions	-	(1,315)
Benefit payments, including refunds of employee contributions	-	-
	<u>(749,402)</u>	<u>(849,057)</u>
Net change in total pension liability	2,149,765	3,171,586
Total pension liability – Beginning	<u>25,608,176</u>	<u>27,757,941</u>
Total pension liability – Ending (a)	<u>\$ 27,757,941</u>	<u>\$ 30,929,527</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,420,005	\$ 1,532,886
Contributions – employee	646,296	681,706
Net investment income	1,069,250	31,089
Benefit payments, including refunds of employee contributions	(749,402)	(849,057)
Administrative expense	(11,161)	(18,929)
Other	(918)	(935)
Net change in plan fiduciary net position	2,374,070	1,376,760
Plan fiduciary net position – Beginning	<u>18,686,968</u>	<u>21,061,038</u>
Plan fiduciary net position – Ending (b)	<u>\$ 21,061,038</u>	<u>\$ 22,437,798</u>
City's net pension liability – Ending (a) – (b)	<u>\$ 6,696,903</u>	<u>\$ 8,491,729</u>
Plan fiduciary net position as a percentage of the total pension liability	75.87%	72.54%
Covered payroll	\$ 9,232,798	\$ 9,738,654
City's net pension liability as a percentage of covered payroll	72.53%	87.20%

Other Information: The discount rate changed from 7.00% to 6.75% for the 2015 valuation; there were no other changes in assumptions.

The information in this schedule has been determined as of the measurement date (December 31) of the City's net pension liability and is intended to show information for 10 years. However, until a full 10-year trend is compiled in accordance with the provision of GASB 68, only periods for which such information is available are presented.

City of Balch Springs, Texas
Schedule of Contributions
Last Two Fiscal Years
(Unaudited)

	2015	2016
Actuarially determined contribution	\$ 1,444,542	\$ 1,397,512
Contributions in relation to the actuarially determined contribution	1,444,542	1,397,512
Contribution deficiency (excess)	\$ -	\$ -
Covered-payroll	\$ 9,311,322	\$ 9,593,837
Contributions as a percentage of covered-payroll	15.51%	14.57%

Note to Schedule:

Valuation Date: Actuarial determined contribution rates are calculated as of December 31, each year and become effective in January, 12 months and a day 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	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City’s plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information: There were no benefit changes during the year.

The information in this schedule has been determined as of the City’s most recent fiscal year-end and is intended to show information for 10 years. However, until a full 10-year trend is compiled in accordance with the provision of GASB 68, only periods for which such information is available are presented.

City of Balch Springs, Texas
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
Year Ended September 30, 2016

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and fees	\$ 10,143,000	\$ 10,236,441	\$ 10,442,911	\$ 206,470
Licenses and permits	343,000	343,000	472,112	129,112
Intergovernmental	102,000	123,052	142,552	19,500
Charges for services	118,000	118,000	202,304	84,304
Fines and forfeits	1,440,000	1,440,000	1,022,425	(417,575)
Interest	5,000	5,000	3,995	(1,005)
Miscellaneous	65,000	65,000	18,151	(46,849)
	<u>12,216,000</u>	<u>12,330,493</u>	<u>12,304,450</u>	<u>(26,043)</u>
Total revenues				
Expenditures				
Current				
General government	828,881	993,974	1,035,357	(41,383)
Public safety	8,761,855	8,734,690	8,912,277	(177,587)
Public works	1,903,362	1,976,961	2,098,658	(121,697)
Community development and recreation	1,540,165	1,360,867	1,299,956	60,911
Capital outlay	620,369	941,897	2,172,399	(1,230,502)
Interest and fiscal charges	-	-	3,481	(3,481)
	<u>13,654,632</u>	<u>14,008,389</u>	<u>15,522,128</u>	<u>(1,513,739)</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(1,438,632)</u>	<u>(1,677,896)</u>	<u>(3,217,678)</u>	<u>(1,539,782)</u>
Other financing sources				
Operating transfers in	1,350,000	1,350,000	1,258,858	(91,142)
Other sources	88,632	327,896	1,919,453	1,591,557
	<u>1,438,632</u>	<u>1,677,896</u>	<u>3,178,311</u>	<u>1,500,415</u>
Total other financing sources				
Net Change in Fund Balances	-	-	(39,367)	(39,367)
Fund Balance, Beginning of Year	<u>1,609,741</u>	<u>1,609,741</u>	<u>1,609,741</u>	-
Fund Balance, End of Year	<u>\$ 1,609,741</u>	<u>\$ 1,609,741</u>	<u>\$ 1,570,374</u>	<u>\$ (39,367)</u>

City of Balch Springs, Texas
Notes to Required Supplementary Information
September 30, 2016

Budgets and Budgetary Accounting

The City adopts an “appropriated budget” of Governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

An operating budget for the General Fund is legally adopted each fiscal year.

The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

The City generally follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A proposed operating budget including proposed expenditures and the means of financing them is submitted to the City Council by the City Manager.
2. Upon receipt of the budget estimates, the City Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City.
3. A public hearing on the budget is held.
4. Prior to October 1, the budget is legally enacted through passage of an ordinance. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgetary control has been established at the detail level by line item activity for management control.

Departmental appropriations that have not been expended or encumbered by the departments at the end of the fiscal year will lapse.

**Individual Fund and Nonmajor Combining
Statements and Schedules**

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City of Balch Springs, Texas
Nonmajor Governmental Funds
September 30, 2016

Special Revenue Funds

The following funds are Special Revenue Funds. Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trust or capital projects) that are legally restricted to expenditures for specific purposes.

Section 8 Housing Assistance Program

To account for the financial activity associated with the Section 8 Housing Assistance Program, a grant program funded by the U.S. Department of Housing and Urban Development.

State Chapter 59 Law Enforcement

To account for the financial activity associated with seizures and forfeitures awarded to the City. Expenditures are restricted to law enforcement purposes.

Department of Justice Grants

To account for the financial activity associated with Department of Justice Grants awarded to the City. Expenditures are restricted to law enforcement purposes.

Department of Justice Forfeitures

To account for the financial activity associated with Department of Justice seizures and forfeitures awarded to the City. Expenditures are restricted to law enforcement purposes.

US Treasury Forfeitures

To account for the financial activity associated with the Department of Justice seizures and forfeitures awarded to the City. Expenditures are restricted to law enforcement purposes.

Red Light Camera

To account for the financial activity associated with the fines assessed from the Red Light Camera program. Expenditures are restricted for "traffic" related items. One-half of the revenue that is not spent is remitted to the State.

Library Donation

To account for the financial activity associated with donations that have been made to the Library.

Municipal Court Technology

To account for the financial activity associated with the portion of citations that have been restricted for technology in Municipal Court.

Municipal Court Building Security

To account for the financial activity associated with the portion of citations that have been restricted for security in Municipal Court.

City of Balch Springs, Texas
Nonmajor Governmental Funds (Continued)
September 30, 2016

Hotel Occupancy Tax

To account for the financial activity associated with the seven percent (7%) occupancy tax collected by hotels, motels, and bed & breakfasts located in the City and ETJ. These funds are restricted for cultural and tourism activities.

Emergency Vehicle

To account for the financial activity associated with the proceeds from abandon vehicles sales, impound fees, insurance refunds and funds previously designated to replace police and fire department vehicles.

Debt Service Fund

Debt Service

To account for the accumulation of financial resources for the payment, interest and related costs of general long-term debt paid primarily from taxes levied by the City.

Capital Projects Fund

Street Maintenance Fund

To account for the financial activity associated with the one-quarter cent ($\frac{1}{4}\phi$) sales tax dedicated for street maintenance.

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City of Balch Springs, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2016

	Special Revenue					
	Section 8 Housing Assistance Program	State Chapter 59 Law Enforcement	Department of Justice Grants	Department of Justice Forfeitures	US Treasury Forfeitures	Red Light Camera
Assets						
Cash and cash equivalents	\$ 11,309	\$ 69,971	\$ 189	\$ 39,114	\$ 11,742	\$ 331,725
Receivables (net of allowance for uncollectibles)						
Taxes	-	-	-	-	-	-
Other	-	-	-	-	-	54,492
Total assets	<u>\$ 11,309</u>	<u>\$ 69,971</u>	<u>\$ 189</u>	<u>\$ 39,114</u>	<u>\$ 11,742</u>	<u>\$ 386,217</u>
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts and contracts payable	\$ 348	\$ -	\$ -	\$ -	\$ -	\$ 68,929
Accrued liabilities	1,622	35,500	-	-	-	315,458
Total liabilities	<u>1,970</u>	<u>35,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>384,387</u>
Deferred inflows of resources	-	-	-	-	-	-
Restricted fund balances						
Debt service	-	-	-	-	-	-
Housing program	9,339	-	-	-	-	-
Street maintenance	-	-	-	-	-	-
Public safety	-	34,471	189	39,114	11,742	1,830
Economic development	-	-	-	-	-	-
Total fund balances	<u>9,339</u>	<u>34,471</u>	<u>189</u>	<u>39,114</u>	<u>11,742</u>	<u>1,830</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,309</u>	<u>\$ 69,971</u>	<u>\$ 189</u>	<u>\$ 39,114</u>	<u>\$ 11,742</u>	<u>\$ 386,217</u>

Special Revenue					Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Library Donation	Municipal Court Technology	Municipal Court Building Security	Hotel Occupancy Tax	Emergency Vehicle	Debt Service	Street Maintenance	
\$ -	\$ 72,656	\$ 27,930	\$ 151,247	\$ 82,193	\$ 209,571	\$ 1,461,144	\$ 2,468,791
-	-	-	-	-	75,489	146,453	221,942
-	-	-	-	-	-	-	54,492
<u>\$ -</u>	<u>\$ 72,656</u>	<u>\$ 27,930</u>	<u>\$ 151,247</u>	<u>\$ 82,193</u>	<u>\$ 285,060</u>	<u>\$ 1,607,597</u>	<u>\$ 2,745,225</u>
\$ -	\$ 183	\$ -	\$ -	\$ -	\$ -	\$ 18,516	\$ 87,976
-	-	-	-	-	-	-	352,580
-	183	-	-	-	-	18,516	440,556
-	-	-	-	-	72,825	-	72,825
-	-	-	-	-	212,235	-	212,235
-	-	-	-	-	-	-	9,339
-	-	-	-	-	-	1,589,081	1,589,081
-	72,473	27,930	-	82,193	-	-	269,942
-	-	-	151,247	-	-	-	151,247
-	72,473	27,930	151,247	82,193	212,235	1,589,081	2,231,844
<u>\$ -</u>	<u>\$ 72,656</u>	<u>\$ 27,930</u>	<u>\$ 151,247</u>	<u>\$ 82,193</u>	<u>\$ 285,060</u>	<u>\$ 1,607,597</u>	<u>\$ 2,745,225</u>

City of Balch Springs, Texas
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2016

	Special Revenue					
	Section 8 Housing Assistance Program	State Chapter 59 Law Enforcement	Department of Justice Grants	Department of Justice Forfeitures	US Treasury Forfeitures	Red Light Camera
Revenues						
Taxes and fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for service	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	14,174	765,984
Intergovernmental	631,615	-	9,167	-	-	-
Miscellaneous	-	19,156	-	23,338	-	-
Interest	35	-	3	39	16	-
Total revenues	631,650	19,156	9,170	23,377	14,190	765,984
Expenditures						
Current						
Public safety	-	1,558	9,167	8,019	2,448	603,740
Public works	637,251	-	-	-	-	-
Community development and recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	637,251	1,558	9,167	8,019	2,448	603,740
Excess (Deficiency) of revenues over (under) expenditures	(5,601)	17,598	3	15,358	11,742	162,244
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	(200,000)
Transfers to other governments	-	(24,771)	-	-	-	-
Total other financing uses	-	(24,771)	-	-	-	(200,000)
Net Change in Fund Balances	(5,601)	(7,173)	3	15,358	11,742	(37,756)
Fund Balances, Beginning of Year	14,940	41,644	186	23,756	-	39,586
Fund Balances, End of Year	\$ 9,339	\$ 34,471	\$ 189	\$ 39,114	\$ 11,742	\$ 1,830

Special Revenue					Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Library Donation	Municipal Court Technology	Court Building Security	Hotel Occupancy Tax	Emergency Vehicle	Debt Service	Street Maintenance	
\$ -	\$ -	\$ -	\$ 73,107	\$ -	\$ 646,719	\$ 820,361	\$ 1,540,187
-	-	15,387	-	-	-	-	15,387
-	-	-	-	-	-	-	780,158
-	-	-	-	-	-	-	640,782
-	20,516	-	-	81,824	-	-	144,834
-	-	-	-	-	-	-	93
-	20,516	15,387	73,107	81,824	646,719	820,361	3,121,441
-	27,507	123,320	-	6,431	-	-	782,190
-	-	-	-	-	-	5,054	642,305
-	-	-	24,133	-	-	-	24,133
-	-	-	-	77,748	-	324,547	402,295
-	-	-	-	-	440,000	-	440,000
-	-	-	-	-	183,912	-	183,912
-	27,507	123,320	24,133	84,179	623,912	329,601	2,474,835
-	(6,991)	(107,933)	48,974	(2,355)	22,807	490,760	646,606
-	-	-	-	-	-	265,869	265,869
(8,858)	-	-	-	-	-	-	(208,858)
-	-	-	-	-	-	-	(24,771)
(8,858)	-	-	-	-	-	265,869	32,240
(8,858)	(6,991)	(107,933)	48,974	(2,355)	22,807	756,629	678,846
8,858	79,464	135,863	102,273	84,548	189,428	832,452	1,552,998
\$ -	\$ 72,473	\$ 27,930	\$ 151,247	\$ 82,193	\$ 212,235	\$ 1,589,081	\$ 2,231,844

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City of Balch Springs, Texas
Discretely Presented Component Units
September 30, 2016

Balch Springs Industrial and Economic Development Corporation – to account for revenues from an industrial development sales tax to build economic development activity within the City.

Balch Springs Community and Economic Development Corporation – to account for revenues from a sales and use tax for the development of parks and recreational facilities.

City of Balch Springs, Texas
Balance Sheet
Industrial and Economic Development Corporation
September 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$ 2,866,727
Sales tax receivable	<u>149,003</u>

Total assets	<u><u>\$ 3,015,730</u></u>
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Liabilities and Fund Balance

Current Liabilities

Accounts payable	\$ 6,951
Accrued liabilities	<u>2,638</u>

Total liabilities	<u>9,589</u>
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Fund Balance

Unassigned	<u>3,006,141</u>
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Total liabilities and fund balances	<u><u>\$ 3,015,730</u></u>
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City of Balch Springs, Texas
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
Industrial and Economic Development Corporation
September 30, 2016

Total fund balance – governmental fund		\$ 3,006,141
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		2,339,791
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:		
Employer contributions	9,677	
Investment return losses (GASB 68)	12,979	
Expence losses (GASB 68)	3,553	
Experience gains (GASB 68)	(98)	
Change of assumptions gains (GASB 68)	(10)	
	26,101	26,101
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(5,551)
Long-term liabilities, including bonds and other payables are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:		
Revenue bonds	(3,000,000)	
Net pension liability	(84,917)	
Compensated absences	(18,141)	
	(3,103,058)	(3,103,058)
Net position of governmental activities		\$ 2,263,424

City of Balch Springs, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Industrial and Economic Development Corporation
Year Ended September 30, 2016

Revenues	
Sales tax	\$ 820,361
Interest income	3,082
Miscellaneous	<u>11,548</u>
Total revenues	<u>834,991</u>
Expenditures	
Current	
Administrative	150,000
Economic development	284,281
Capital outlay	1,148,608
Debt service	
Principal retirement	120,000
Interest and fiscal charges	<u>42,400</u>
Total expenditures	<u>1,745,289</u>
Other Financing Sources (Uses)	
Issuance of revenue bonds	1,755,000
Bond issuance costs	<u>(96,092)</u>
Total other financing sources	<u>1,658,908</u>
Net Change In Fund Balance	748,610
Fund Balance, Beginning of Year	<u>2,257,531</u>
Fund Balance, End of Year	<u><u>\$ 3,006,141</u></u>

City of Balch Springs, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the
Statement of Activities
Industrial and Economic Development Corporation
Year Ended September 30, 2016

Net change in fund balances – Economic Development Corporation	\$ 748,610
Amounts reported for governmental activities in the statement of activities are different because	
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. This is amount of capital assets recorded in the current period.	1,148,608
Current year changes in accrued compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(10,566)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in government funds.	(5,551)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of principal payments of \$160,000.	120,000
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.	(1,755,000)
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources and deferred inflow of resources balances.	<u>(4,794)</u>
Change in net position of governmental activities	<u><u>\$ 241,307</u></u>

City of Balch Springs, Texas
Balance Sheet
Community and Economic Development Corporation
September 30, 2016

Assets

Current Assets

Cash and cash equivalents	\$	808,703
Receivables		
Sales tax		146,454
Note		300,000
Interest		20,104
		20,104

Total assets		1,275,261
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**Liabilities, Deferred Inflows
of Resources and Fund Balances**

Current Liabilities

Accounts payable		5,371
Accrued liabilities		2,638
		2,638

Total liabilities		8,009
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Deferred Inflows of Resources		320,104
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Fund Balance

Unassigned		947,148
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Total liabilities, deferred inflows of resources and fund balances	\$	1,275,261
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City of Balch Springs, Texas
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
Community and Economic Development Corporation
September 30, 2016

Total fund balance – governmental fund \$ 947,148

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

Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:

Note receivable	300,000	
Interest receivable	20,104	
Employer contributions (GASB 68)	9,677	
Investment return difference (GASB 68)	12,979	
Experience difference, net (GASB 68)	3,455	
Change of assumptions (GASB 68)	(10)	
	(10)	\$ 346,205

Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet. \$ (377)

Long-term liabilities, including bonds and other payables are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:

Revenue bonds	(335,000)	
Net pension liability	(84,917)	
Compensated absences	(18,141)	
	(18,141)	\$ (438,058)

Net position of governmental activities \$ 854,918

City of Balch Springs, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
Community and Economic Development Corporation
Year Ended September 30, 2016

Revenues	
Sales tax	\$ 820,361
Interest income	860
Miscellaneous	<u>17,871</u>
Total revenues	<u>839,092</u>
Expenditures	
Current	
Administration	150,000
Economic development	366,959
Debt Service	
Principal payments	165,000
Interest and fiscal charges	<u>14,137</u>
Total expenditures	<u>696,096</u>
Net Change In Fund Balance	142,996
Fund Balance, Beginning of Year	<u>804,152</u>
Fund Balance, End of Year	<u>\$ 947,148</u>

City of Balch Springs, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the
Statement of Activities
Community and Economic Development Corporation
Year Ended September 30, 2016

Net change in fund balances – Economic Development Corporation	\$ 142,996
Amounts reported for governmental activities in the statement of activities are different because	
Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of principal payments of \$160,000.	165,000
Revenues reported in the Statement of Activities, but do not appear in the governmental funds because they do not provide current financial resources. This is the amount of decrease in accrued interest from notes receivable.	(4,931)
Current year changes in accrued compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(10,566)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in government funds.	1,554
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources.	(4,794)
	(4,794)
Change in net position of governmental activities	\$ 289,259

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