



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

We have audited the financial statements of the City of Windcrest, Texas (the City), as of and for the year ended September 30, 2016, and have issued our report thereon dated March 15, 2017. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

## **Planned Scope of the Audit**

We conducted our audit consistent with the planned scope we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

As a part of the engagement we assisted in preparing the financial statements and related notes to the financial statements of the City in conformity with U.S. generally accepted accounting principles. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Services*.

In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note I to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions

used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

- Management's estimate of the allowance for uncollectible accounts receivable is based on historical collections. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.
- Management's estimate of the net pension liability is based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuary makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension liability and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to the net pension liability. The disclosures in the financial statements are neutral, consistent, and clear.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. A list of all adjustments and reclassifications is attached to this letter.

### **Disagreements with Management**

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

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter dated March 17, 2017.

## **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

This report is intended solely for the information and use of the City Council and management of the City of Windcrest, Texas, and is not intended to be and should not be used by anyone other than these specified parties.

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
March 15, 2017

**CITY OF  
WINDCREST, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2016**

**Prepared by:**

**The Finance Department**



**PATTILLO, BROWN & HILL, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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WINDCREST, TEXAS**

**ANNUAL FINANCIAL REPORT**

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**CITY OF WINDCREST, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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**CITY OF WINDCREST, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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# **INTRODUCTORY SECTION**

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**CITY OF WINDCREST**

**CITY OFFICIALS**

**SEPTEMBER 30, 2016**

Mayor

Alan Baxter

Mayor Pro-Tem

Kimberly Wright

City Council

Gerd E. Jacobi  
Jim Shelton  
Pamela Dodson  
Matt Vandenberg

City Manager

Rafael Castillo

Attorney

Mike Brenan

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**FINANCIAL SECTION**

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P A T T I L L O , B R O W N & H I L L , L . L . P .  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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

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

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

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of Windcrest, Texas, 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, budgetary comparison information, schedule of changes in net pension liability and related ratios and schedule of employer contributions on pages 5 – 12 and 48 – 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Windcrest, Texas' basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas  
March 15, 2017

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**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

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## Management's Discussion and Analysis

As management of the City of Windcrest, Texas, (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

### Financial Highlights

- The City's total combined net position was \$13,650,971 at September 30, 2016.
- During the year, the City's change in net position was an increase of \$303,384 for governmental activities and a decrease of \$56,402 for business-type activities.
- The City's general fund reported a year-end fund balance of \$2,451,808, an increase of \$436,994 from the previous year. This unassigned fund balance represents 40% of general fund expenditures for the year (4.8 months).
- The City's garbage utility fund experienced another operating loss this year as total net position decreased \$56,402, leaving a deficit net position of \$177,409 in this fund.
- Total revenues for the City increased 9% from the previous year and total expenses increased 4%.

### Overview of the Financial Statements

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

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statement of net position presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and animal control. The business-type activities of the City are comprised of garbage utilities.

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

The government-wide financial statements can be found on pages 13-16 of this report.

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

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

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

The City maintains 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, the capital projects fund, and the debt service fund, which are considered to be major funds. Data from the other 11 governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining fund statements section of the report.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

**Proprietary Funds.** The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its garbage utility operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

*Notes to the Financial Statements.* The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-45 of this report.

*Other Information.* In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information (RSI). The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Also presented as RSI is information concerning the City's pension plan. Required supplementary information can be found on pages 46-48 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the RSI. Combining fund statements can be found on pages 49-54 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$13,650,971 (net position). Of this amount, \$2,100,168 (15%) (unrestricted net position) may be used to meet the ongoing obligations to citizens and creditors.

**City's Net Position**  
As of September 30, 2016  
(With comparative totals as of September 30, 2015)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 2,152,431	\$ 2,163,096	\$ 26,414	\$ -	\$ 2,178,845	\$ 2,163,096
Receivables, net	791,504	1,004,990	124,602	93,876	916,106	1,098,866
Due from component unit	182,000	182,000	-	-	182,000	182,000
Internal balances	168,976	130,265	( 168,976)	( 130,265)	-	-
<b>Total Current Assets</b>	<b>3,294,911</b>	<b>3,480,351</b>	<b>( 17,960)</b>	<b>( 36,389)</b>	<b>3,276,951</b>	<b>3,443,962</b>
<b>Non-Current Assets:</b>						
Land	347,050	267,050	-	-	347,050	267,050
Buildings and improvements	2,287,315	2,376,690	-	-	2,287,315	2,376,690
Improvements other than buildings	12,144,163	11,702,211	-	-	12,144,163	11,702,211
Furniture and equipment	4,353,330	4,335,630	-	-	4,353,330	4,335,630
Less accumulated depreciation	( 8,660,611)	( 7,723,222)	-	-	( 8,660,611)	( 7,723,222)
<b>Total Non-Current Assets</b>	<b>10,471,247</b>	<b>10,958,359</b>	<b>-</b>	<b>-</b>	<b>10,471,247</b>	<b>10,958,359</b>
<b>Total Assets</b>	<b>13,766,158</b>	<b>14,438,710</b>	<b>( 17,960)</b>	<b>( 36,389)</b>	<b>13,748,198</b>	<b>14,402,321</b>
Deferred outflows related to pensions	623,361	194,294	-	-	623,361	194,294
<b>Current Liabilities:</b>						
Accounts payable and other current liabilities	621,778	815,723	159,449	84,618	781,227	900,341
<b>Total Current Liabilities</b>	<b>621,778</b>	<b>815,723</b>	<b>159,449</b>	<b>84,618</b>	<b>781,227</b>	<b>900,341</b>
<b>Non-Current Liabilities:</b>						
Due within one year	33,823	25,890	-	-	33,823	25,890
Due in more than one year	695,955	264,831	-	-	695,955	264,831
<b>Total Non-Current Liabilities</b>	<b>729,778</b>	<b>290,721</b>	<b>-</b>	<b>-</b>	<b>729,778</b>	<b>290,721</b>
<b>Total Liabilities</b>	<b>1,351,556</b>	<b>1,106,444</b>	<b>159,449</b>	<b>84,618</b>	<b>1,511,005</b>	<b>1,191,062</b>
Deferred inflows of resources	92,705	1,564	-	-	92,705	1,564
<b>Net Position:</b>						
Net investment in capital assets	11,354,369	10,958,359	-	-	11,354,369	10,958,359
Restricted	196,434	158,409	-	-	196,434	158,409
Unrestricted	2,277,577	2,408,228	( 177,409)	( 121,007)	2,100,168	2,287,221
<b>Total Net Position</b>	<b>\$ 13,828,380</b>	<b>\$ 13,524,996</b>	<b>\$( 177,409)</b>	<b>\$( 121,007)</b>	<b>\$ 13,650,971</b>	<b>\$ 13,403,989</b>

By far, the largest portion of the City's net position, \$11,354,369 (83%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure). The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

A small portion of the City's net position (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,100,168 is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

During the year ended September 30, 2016, the City's total net position increased by \$246,982. Total revenues were \$7,889,284 and expenses were \$7,642,302. A significant portion (76%) of the City's revenues came from taxes, 22% came from grants and charges for services, while the remaining amount came from investment earnings and other miscellaneous revenues.

The following table indicates changes in net position for the governmental and business-type activities for the City as of September 30, 2016, compared to 2015.

<b>Changes in the City's Net Position</b>						
As of September 30, 2016						
(With comparative totals as of September 30, 2015)						
	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program Revenues:						
Charges for services	\$ 904,278	\$ 932,247	\$ 827,629	\$ 794,974	\$ 1,731,907	\$ 1,727,221
Operating grants and contributions	35,766	131,393	-	-	35,766	131,393
General Revenues:						
Property taxes	1,752,353	1,663,170	-	-	1,752,353	1,663,170
Other taxes	4,242,834	3,686,309	-	-	4,242,834	3,686,309
Investment earnings	1,454	1,928	3	2	1,457	1,930
Other	124,967	90,538	-	-	124,967	90,538
<b>TOTAL REVENUES</b>	<u>7,061,652</u>	<u>6,505,585</u>	<u>827,632</u>	<u>794,976</u>	<u>7,889,284</u>	<u>7,300,561</u>
<b>EXPENSES</b>						
General government	2,614,526	2,446,960	-	-	2,614,526	2,446,960
Public safety	2,914,177	2,930,406	-	-	2,914,177	2,930,406
Public works	1,059,032	989,595	-	-	1,059,032	989,595
Animal control	170,533	133,379	-	-	170,533	133,379
Interest on long-term debt	-	505	-	-	-	505
Garbage	-	-	884,034	852,474	884,034	852,474
<b>TOTAL EXPENSES</b>	<u>6,758,268</u>	<u>6,500,845</u>	<u>884,034</u>	<u>852,474</u>	<u>7,642,302</u>	<u>7,353,319</u>
Changes in net assets	303,384	4,740	( 56,402)	( 57,498)	246,982	( 52,758)
Transfers In (Out)	-	79,049	-	( 79,049)	-	-
Increase (decrease) in net position	303,384	83,789	( 56,402)	( 136,547)	246,982	( 52,758)
Net position - beginning	<u>13,524,996</u>	<u>13,454,755</u>	<u>( 121,007)</u>	<u>15,540</u>	<u>13,403,989</u>	<u>13,470,295</u>
Prior period adjustment (Note II. K.)	-	( 13,548)	-	-	-	( 13,548)
Net position - ending	<u>\$ 13,828,380</u>	<u>\$ 13,524,996</u>	<u>\$( 177,409)</u>	<u>\$( 121,007)</u>	<u>\$ 13,650,971</u>	<u>\$ 13,403,989</u>

**Governmental Activities.** Key elements of changes in governmental activities from the prior year follow:

- Total revenues increased by \$556,067 , primarily due to an increase in property tax revenues and sales tax revenues.
- Total expenses increased by \$257,423, with the largest increase in general government expenses.

Property tax rates decreased to \$0.3341, all of which was allocated to operations. Property taxes levied changed from \$1,645,009 in 2015 to \$1,776,119 in 2016, an increase of \$131,110.

The following table presents the net cost of each of the City’s largest functions (total costs less program revenues). The net cost is funded by general revenues, which primarily include taxes.

**Net Cost of Select City Functions**

	Net Cost of Services	
	2016	2015
General government	\$( 2,222,312)	\$( 2,154,163)
Public safety	( 2,366,347)	( 2,159,563)
Public works	( 1,059,032)	( 989,595)
Animal control	( 170,533)	( 133,379)
Garbage utility	( 56,405)	( 57,500)

The net expense of all governmental activities this year before general revenues was (\$5,818,224). This net expense was funded by general revenues of \$6,121,608.

**Business Type Activities.** Revenues of the City’s business-type activities (garbage utility) were \$827,629 and expenses were \$884,034, yielding an operating loss of \$56,405. The net position of the garbage utility ended the year with a deficit of \$177,409. The City plans to eliminate this deficit in future years with an increase in rates.

**Financial Analysis of the City’s Funds**

Revenues from governmental fund types totaled \$7,131,230, an increase of \$672,393 from the prior year. Governmental revenues are comprised of property taxes, sales taxes, hotel occupancy taxes, franchise taxes, licenses, permits, fines, charges for services, grants, interest and miscellaneous revenue. Expenditures totaled \$7,053,147, an increase of \$734,308 over the prior year.

**General Fund Budgetary Highlights**

Over the course of the year, the City had numerous budget adjustments.

Final actual revenues were \$375,037 more than final budgeted revenues.

Final actual expenditures were \$268,059 less than final budgeted expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** At the end of 2016, the City had invested \$11,354,369 in a broad range of capital assets, including land, equipment, buildings, improvements, and vehicles, net of accumulated depreciation. This amount represents a net increase (including additions, deductions, and depreciation) of \$396,010 over last year.

More detailed information about the City’s capital assets is presented in the Note II. D. to the financial statements.

**City's Capital Assets**

	Governmental	
	Activities	
	2016	2015
Land	\$ 347,050	\$ 267,050
Construction in progress	883,122	-
Buildings and improvements	2,287,315	2,376,690
Improvements other than buildings	12,144,163	11,702,211
Furniture and equipment	4,353,330	4,335,630
Total	<u>20,014,980</u>	<u>18,681,581</u>
Total accum. depreciation	( 8,660,611)	( 7,723,222)
Net capital assets	<u>\$ 11,354,369</u>	<u>\$ 10,958,359</u>

**Long Term Debt.** At year end, the primary government had no outstanding bonds or capital leases. More detailed information about the City’s debt is presented in Note II. F. to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The following factors were considered in developing the 2016-2017 budget:

- 2016-2017 General Fund budgeted revenues available for appropriation are \$6,482,489.
- 2016-2017 General Fund budgeted expenditures are \$7,235,049.
- The ad valorem tax rate (property tax rate) for fiscal year 2016-2017 is budgeted with a decrease of 8% at \$.3080930 of taxable assessed valuation. This is a total decrease of 32.81% in tax rates since FY 2011-2012, at 0.436495.
- There are many capital improvements projects budgeted including the continuation of upgrades to various parks, facilities and improvements to the streets and alleys within the City.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide a general overview of the City's finances and to show the City's accountability to its taxpayers. If you have any questions about this report or need additional information, contact:

Rafael Castillo Jr.  
City Manager  
City of Windcrest  
8601 Midcrown  
Windcrest, TX 78239  
[rcastillo@windcrest-tx.gov](mailto:rcastillo@windcrest-tx.gov)

Donald Hakala  
Municipal Finance Officer  
City of Windcrest  
8601 Midcrown  
Windcrest, TX 78239  
[dhakala@windcrest-tx.gov](mailto:dhakala@windcrest-tx.gov)

**BASIC  
FINANCIAL STATEMENTS**

**CITY OF WINDCREST, TEXAS**

**STATEMENT OF NET POSITION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Cash and investments	\$ 2,152,431	\$ 26,414	\$ 2,178,845
Receivables (net of allowance for uncollectibles):			
Taxes	611,194	-	611,194
Fines	145,528	-	145,528
Accounts	34,782	124,602	159,384
Due from component unit	182,000	-	182,000
Internal balances	168,976	( 168,976)	-
Capital assets:			
Land	347,050	-	347,050
Construction in progress	883,122	-	883,122
Buildings and improvements	2,287,315	-	2,287,315
Improvements other than buildings	12,144,163	-	12,144,163
Furniture and equipment	4,353,330	-	4,353,330
Less: accumulated depreciation	( 8,660,611)	-	( 8,660,611)
Total capital assets	<u>11,354,369</u>	<u>-</u>	<u>11,354,369</u>
Total assets	<u>14,649,280</u>	<u>( 17,960)</u>	<u>14,631,320</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	<u>623,361</u>	<u>-</u>	<u>623,361</u>
Total deferred outflows of resources	<u>623,361</u>	<u>-</u>	<u>623,361</u>
<b>LIABILITIES</b>			
Accounts payable	250,084	145,468	395,552
Accrued liabilities	183,851	-	183,851
Due to other governments	187,843	13,981	201,824
Due to primary government	-	-	-
Noncurrent liabilities:			
Due within one year	33,823	-	33,823
Due in more than one year	695,955	-	695,955
Total liabilities	<u>1,351,556</u>	<u>159,449</u>	<u>1,511,005</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	<u>92,705</u>	<u>-</u>	<u>92,705</u>
Total deferred inflows of resources	<u>92,705</u>	<u>-</u>	<u>92,705</u>
<b>NET POSITION</b>			
Net investment in capital assets	11,354,369	-	11,354,369
Restricted for:			
Debt service	5,283	-	5,283
Other purposes	191,151	-	191,151
Crime control and prevention	-	-	-
Unrestricted	<u>2,277,577</u>	<u>( 177,409)</u>	<u>2,100,168</u>
Total net position	<u>\$ 13,828,380</u>	<u>\$( 177,409)</u>	<u>\$ 13,650,971</u>

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

Component Units	
Economic Development Corporation	Crime Control and Prevention District
\$ 480,538	\$ 621,743
91,933	122,811
-	-
-	-
-	-
-	-
-	-
3,350	-
-	-
-	398,101
( 2,066)	( 118,011)
<u>1,284</u>	<u>280,090</u>
<u>573,755</u>	<u>1,024,644</u>
-	<u>44,917</u>
-	<u>44,917</u>
1,252	9,718
2,613	-
14,468	-
145,000	37,000
132,406	1,002
<u>312,009</u>	<u>46,591</u>
<u>607,748</u>	<u>94,311</u>
-	<u>6,795</u>
-	<u>6,795</u>
1,284	280,090
-	-
-	-
-	688,365
( 35,277)	-
<u>\$( 33,993)</u>	<u>\$ 968,455</u>

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

	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>GOVERNMENTAL ACTIVITIES:</b>			
General government	\$ 2,614,526	\$ 369,214	\$ 23,000
Public safety	2,914,177	535,064	12,766
Public works	1,059,032	-	-
Animal control	170,533	-	-
Total governmental activities	6,758,268	904,278	35,766
<b>BUSINESS-TYPE ACTIVITIES:</b>			
Garbage utility	884,034	827,629	-
Total business-type activities	884,034	827,629	-
 Total primary government	 7,642,302	 1,731,907	 35,766
<b>Component Units</b>			
Economic Development Corporation	194,456	-	30,000
Crime Control and Prevention District	416,956	-	-
Total component units	\$ 611,412	\$ -	\$ 30,000

**General Revenues:**

Taxes:
Property, levied for general purposes
Sales
Hotel occupancy
Franchise
Mixed beverage
Investment earnings
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Net position - ending

**Net (Expense) Revenue and  
Changes in Net Position**

<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Economic Development Corporation</b>	<b>Crime Control and Prevention District</b>
\$( 2,222,312)	\$ -	\$( 2,222,312)		
( 2,366,347)	-	( 2,366,347)		
( 1,059,032)	-	( 1,059,032)		
( 170,533)	-	( 170,533)		
( 5,818,224)	-	( 5,818,224)		
-	( 56,405)	( 56,405)		
-	( 56,405)	( 56,405)		
( 5,818,224)	( 56,405)	( 5,874,629)		
			( 164,456)	-
			-	( 416,956)
			<u>\$( 164,456)</u>	<u>\$( 416,956)</u>
1,752,353	-	1,752,353	-	-
3,430,481	-	3,430,481	571,747	773,140
147,727	-	147,727	-	-
625,850	-	625,850	-	-
38,776	-	38,776	-	-
1,454	3	1,457	386	44
124,967	-	124,967	-	-
-	-	-	-	-
<u>6,121,608</u>	<u>3</u>	<u>6,121,611</u>	<u>572,133</u>	<u>773,184</u>
303,384	( 56,402)	246,982	407,677	356,228
<u>13,524,996</u>	<u>( 121,007)</u>	<u>13,403,989</u>	<u>( 441,670)</u>	<u>612,227</u>
<u>\$ 13,828,380</u>	<u>\$( 177,409)</u>	<u>\$ 13,650,971</u>	<u>\$( 33,993)</u>	<u>\$ 968,455</u>

**CITY OF WINDCREST, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>General</u>	<u>Debt Service</u>
<b>ASSETS</b>		
Cash and investments	\$ 1,879,481	\$ 440
Receivables (net of allowances for uncollectibles):		
Accounts	180,310	-
Taxes	503,451	4,843
Due from component units	182,000	-
Due from other funds	<u>483,541</u>	<u>-</u>
Total assets	<u>3,228,783</u>	<u>5,283</u>
<b>LIABILITIES</b>		
Accounts payable	240,966	-
Accrued liabilities	183,851	-
Due to other funds	-	-
Due to other governments	<u>173,284</u>	<u>-</u>
Total liabilities	<u>598,101</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property taxes	33,346	4,843
Unavailable revenue - fines	<u>145,528</u>	<u>-</u>
Total deferred inflows of resources	<u>178,874</u>	<u>4,843</u>
<b>FUND BALANCES</b>		
Restricted	-	440
Unassigned	<u>2,451,808</u>	<u>-</u>
Total fund balances	<u>2,451,808</u>	<u>440</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 3,228,783</u>	 <u>\$ 5,283</u>

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

<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 42,605	\$ 229,905	\$ 2,152,431
-	-	180,310
91,933	10,967	611,194
-	-	182,000
-	-	483,541
<u>134,538</u>	<u>240,872</u>	<u>3,609,476</u>
2,495	6,623	250,084
-	-	183,851
271,467	43,098	314,565
14,559	-	187,843
<u>288,521</u>	<u>49,721</u>	<u>936,343</u>
-	-	38,189
-	-	145,528
-	-	183,717
-	191,151	191,591
( 153,983)	-	2,297,825
( 153,983)	191,151	2,489,416
<u>\$ 134,538</u>	<u>\$ 240,872</u>	<u>\$ 3,609,476</u>

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**CITY OF WINDCREST, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Total fund balances - governmental funds balance sheet	\$	2,489,416
Amounts reported for governmental activities in the statement of net position are different because:		
		11,354,369
Capital assets (net of accumulated depreciation) used in governmental funds are not financial resources and, therefore, are not reported in the funds.		
	(	729,778)
Long-term liabilities (net pension liability and compensated absences), are not due and payable in the current period and, therefore, are not reported in the funds.		
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported in the funds.		530,656
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		<u>183,717</u>
Net position of governmental activities - statement of net position	\$	<u>13,828,380</u>

**CITY OF WINDCREST, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	General	Debt Service
<b>REVENUES</b>		
Taxes:		
Property	\$ 1,756,051	\$ -
Sales	2,858,734	-
Franchise	625,850	-
Hotel occupancy	-	-
Mixed beverage	38,776	-
Fines and fees	569,629	-
License and permits	250,292	-
Intergovernmental	23,000	-
Charges for services	118,922	-
Donations	-	-
Investment earnings	842	-
Miscellaneous	124,967	-
Total revenues	6,367,063	-
<b>EXPENDITURES</b>		
Current:		
General government	2,212,328	-
Public safety	2,448,864	-
Public works	896,126	-
Animal control	144,119	-
Capital outlay	368,632	-
Total expenditures	6,070,069	-
Excess (deficiency) of revenues over (under) expenditures	296,994	-
<b>OTHER FINANCING SOURCES (USES):</b>		
Transfers in	140,000	-
Transfers out	-	-
Total other financing sources (uses)	140,000	-
Net change in fund balances	436,994	-
Fund balance - beginning	2,014,814	440
Fund balance - ending	\$ 2,451,808	\$ 440

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

<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 1,756,051
571,747	-	3,430,481
-	-	625,850
-	147,727	147,727
-	-	38,776
-	31,315	600,944
-	-	250,292
-	8,571	31,571
-	-	118,922
-	4,195	4,195
30	582	1,454
-	-	124,967
<u>571,777</u>	<u>192,390</u>	<u>7,131,230</u>
-	-	2,212,328
-	5,642	2,454,506
-	-	896,126
-	-	144,119
<u>968,713</u>	<u>8,723</u>	<u>1,346,068</u>
<u>968,713</u>	<u>14,365</u>	<u>7,053,147</u>
( 396,936)	178,025	78,083
-	-	140,000
-	( 140,000)	( 140,000)
-	( 140,000)	-
( 396,936)	38,025	78,083
<u>242,953</u>	<u>153,126</u>	<u>2,411,333</u>
<u>\$( 153,983)</u>	<u>\$ 191,151</u>	<u>\$ 2,489,416</u>

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**CITY OF WINDCREST, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balances - total governmental funds \$ 78,083

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

Governmental funds report all 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 reconciling item represents the amount by which capital outlays exceeded depreciation in the current period. 396,010

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This reconciling item reflects the net of such expenses. ( 101,131)

Some revenues in the statement of activities do not provide current financial resources and are not included in the governmental funds. ( 69,578)

Change in net position of governmental activities - statement of activities \$  303,384

**CITY OF WINDCREST, TEXAS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Business-Type Activities</u>
	<u>Garbage Utility</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 26,414
Accounts receivable (net of allowance for uncollectibles)	<u>124,602</u>
Total assets	<u>151,016</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	145,468
Due to other funds	168,976
Due to other governments	<u>13,981</u>
Total liabilities	<u>328,425</u>
<b>NET POSITION</b>	
Unrestricted	<u>( 177,409)</u>
Total net position	<u><u>\$ ( 177,409)</u></u>

**CITY OF WINDCREST, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Business-Type Activities</u>
	<u>Garbage</u>
	<u>Utility</u>
<b>OPERATING REVENUES:</b>	
Charges for services:	
Commercial customer charges	\$ 416,217
Residential customer charges	380,568
Miscellaneous	30,844
Total operating revenues	<u>827,629</u>
<b>OPERATING EXPENSES:</b>	
Contracted services - commercial sanitation	400,404
Contracted services - residential sanitation	469,040
Other	14,590
Total operating expenses	<u>884,034</u>
Operating loss	( 56,405)
<b>NONOPERATING REVENUES:</b>	
Investment earnings	3
Total nonoperating revenues	<u>3</u>
Change in net position	( 56,402)
Total net position - beginning	( 121,007)
Total net position - ending	<u>\$( 177,409)</u>

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

# CITY OF WINDCREST, TEXAS

## STATEMENT OF CASH FLOWS PROPRIETARY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>Business-Type Activities</u>
	<u>Garbage Utility</u>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 796,903
Payments to suppliers and service providers	( 809,203)
Net cash used by operating activities	( 12,300)
<b>Cash flows from noncapital financing activities:</b>	
Payments from other funds	38,711
Net cash provided by noncapital financing activities	38,711
<b>Cash flows from investing activities:</b>	
Interest on investments	3
Net increase in cash and cash equivalents	26,414
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	26,414
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	( 56,405)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease (increase) in receivables	( 30,726)
Increase (decrease) in accounts payable	75,191
Increase (decrease) in due to other governments	( 360)
Net cash used by operating activities	\$( 12,300)

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

**CITY OF WINDCREST, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the City of Windcrest, Texas (the City) relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (“GAAP”) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (“GASB”) and the American Institute of Certified Public Accounts in the publication entitled State and Local Governments - Audit and Accounting Guide. The more significant accounting policies of the City are described below:

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**B. Reporting Entity**

The City is governed by an elected mayor and five-member governing council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. The City has no blended component units. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

**Discretely Presented Component Units**

The Windcrest Economic Development Corporation (the Corporation) was created pursuant to state law on September 25, 1998, to act on behalf of the City for the promotion, development and enhancement of economic development within the City. The Corporation is governed by seven members who are appointed by and serve at the pleasure of the City Council.

The Corporation is fiscally dependent on the City because it receives predominantly all of its revenue from the City’s sales taxes. Separate financial statements for the Corporation can be obtained by contacting the Corporation located at 8601 Midcrown Drive, Windcrest, Texas 76522.

The Windcrest Crime Control and Prevention District (the District) was created for the promotion, development, and enhancement of crime control and prevention within the City on September 20, 2004. The District was established under state law to allow the collection of \$0.0025 sales tax revenue to supplement the Windcrest Police Department. The District is governed by six members who are appointed by and serve at the pleasure of the City Council.

The District is fiscally dependent on the City because it receives predominantly all of its revenue from the City's sales taxes. Separate financial statements for the District are not issued.

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

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

As discussed earlier, the City has two discretely presented component units that are shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are eliminations of charges that would distort the direct costs and program revenues reported for the various functions concerned.

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

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

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. 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 improvements costs that are not paid through other funds are paid from this fund.

The **Debt Service Fund** accounts for the accumulation of resources that are restricted, committed or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The **Capital Projects Fund** accounts for the acquisition or construction of infrastructure and building projects being financed from bond proceeds, grants, and transfers from other funds.

The City reports the following major enterprise fund:

The **Garbage Utility Fund** accounts for the provision of residential and commercial garbage collection services.

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

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

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

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

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

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

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

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

## **F. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. Actual expenditures may not legally exceed appropriations at the fund level.

## **G. Assets, Liability, Deferred Outflows and Inflows of Resources, Net Position/Fund Balance and Revenues**

### **1. Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts, and investments with original maturities of three (3) months or less from the date of acquisition.

### **2. Investments**

At September 30, 2016, the City's investments are comprised of local government investment pools and certificates of deposit.

The City's investments in pools are 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

### **3. Property Taxes Receivable**

Property taxes are levied by October 1, on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with the Texas Property Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payments of all taxes, penalties, and interest ultimately imposed.

Tax collections are, at times, prorated between the general fund and debt service fund based on the tax rate approved by the City Council. For the year ended September 30, 2016, the general fund rate was \$0.3409. There was no levy for the debt service fund.

Allowances for uncollectible tax receivables are based on historical collections.

### **4. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

## 5. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$2,500 or more and an estimated useful life of three (3) years or more. Such assets are recorded at historical cost as purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the donation date.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Infrastructure assets acquired prior to October 1, 2003, are not reported in the financial statements.

Land and construction in progress are not depreciated. The other property, plant, equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building improvements	5 - 50
Improvements other than buildings	20 - 50
Vehicles	3 - 10
Furniture and equipment	3 - 10

## 6. Pensions

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

## 7. Deferred Outflows/Inflows of Resources

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

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan.
- Difference in actuarial assumptions in calculating the net pension liability – This difference is deferred and amortized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has two types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, this item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type is the difference between expected and actual economic experience in calculating the net pension liability. This difference is deferred and amortized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan.

## **8. Compensated Absences**

The City permits full-time employees to accumulate earned but unused vacation pay benefits up to certain limits. Upon resignation, the employee may receive pay for any unused accrued vacation provided the employee gives two weeks written notice of the resignation and is not subject to discharge for misconduct. Liabilities for compensated absences are recognized in the fund financial statements to the extent the liabilities have matured (i.e. are due for payment) and recognized as a long term liability in the government-wide financial statements. The general fund generally liquidates the liability when it matures.

Unused sick leave may be accumulated to certain limits; however, in the event of termination, reimbursement to the employee is not made for accumulated sick leave; therefore, a liability does not exist at September 30, 2016.

## **9. Long-term Obligations**

In the government-wide financial statements and proprietary funds in the fund financials statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

#### **10. Net Position Flow Assumptions**

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

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

#### **11. Fund Balance Flow Assumptions**

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

#### **12. Fund Balance Policies**

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

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

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

The City's goal is to achieve and maintain an unassigned fund balance in the general fund equal to 30% of the current year's expenditures. At September 30, 2016, the general fund's unassigned fund balance is \$2,451,808, which equals 40.39% of the current year's expenditures.

**13. Program Revenues**

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

**14. Sales and Use Taxes**

The City's sales and use tax is currently levied at 2.00%. The sales and use tax is allocated as follows: 1.25% to the City's general fund; .25% to the City's capital projects fund; .25% to the District; and, .25% to the Corporation.

**15. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

**II. DETAILED NOTES**

**A. Deposits and Investments**

**Custodial Credit Risk – Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not insured or collateralized. As of September 30, 2016, the bank balances per various financial institutions were \$3,114,685. The City's deposits are not exposed to custodial credit risk since all deposits are fully collateralized less an amount insured by the FDIC.

At September 30, 2016, investments are comprised of the following:

	<u>Maturity</u>	<u>Rating</u>	<u>Value</u>
Local Governmental Investment Pools			
TexPool	42 days	AAAm	\$ 142,885
LoneStar	31 days	AAAm	107,653

The City's investments in local government investment pools are measured at net asset value (NAV).

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the weighted average maturities of investment pools to less than 12 months.

**Credit Risk.** In accordance with the City's investment policy, investments in investment pools must be rated at least AAA, AAAM, or its equivalent.

**B. Accounts Receivable**

Accounts receivable at September 30, 2016 were as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Garbage Utility Fund	Discretely Presented Component Units	Total
Receivables:						
Taxes	\$ 508,866	\$ 5,463	\$ 91,933	\$ -	\$ 214,744	\$ 821,006
Fines	582,111	-	-	-	-	582,111
Utilities	-	-	-	212,390	-	212,390
Miscellaneous	34,782	-	-	-	-	34,782
Component unit	182,000	-	-	-	-	182,000
Gross receivables	<u>1,307,759</u>	<u>5,463</u>	<u>91,933</u>	<u>212,390</u>	<u>214,744</u>	<u>1,832,289</u>
Less: allowance for uncollectible	( 441,998)	( 620)	-	( 87,788)	-	( 530,406)
Net total receivables	<u>\$ 865,761</u>	<u>\$ 4,843</u>	<u>\$ 91,933</u>	<u>\$ 124,602</u>	<u>\$ 214,744</u>	<u>\$ 1,301,883</u>

**C. Due To/From Other Funds**

At September 30, 2016, the due to/from other fund balances represent temporary short-term loans to other funds as a result of overdrafts of pooled cash. All balances are expected to be paid back within one year. The following is a summary of interfund receivables at year-end:

	Due from Other Funds	Due to Other Funds
General Fund		
Capital Projects Fund	\$ 271,467	\$ -
Nonmajor Governmental Funds	43,098	-
Garbage Utility Fund	168,976	-
Capital Projects Fund		
General Fund	-	271,467
Nonmajor Governmental Funds		
General Fund	-	43,098
Garbage Utility Fund		
General Fund	-	168,976
Total	<u>\$ 483,541</u>	<u>\$ 483,541</u>

## D. Capital Assets

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

	October 1, 2015	Additions	Deletions	September 30, 2016
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 267,050	\$ 80,000	\$ -	\$ 347,050
Construction in progress	-	<u>883,122</u>	-	<u>883,122</u>
<b>Total Capital Assets, Not Being Depreciated</b>	<u>267,050</u>	<u>963,122</u>	-	<u>1,230,172</u>
<b>Capital Assets, Being Depreciated:</b>				
Buildings and improvements	2,376,690	-	( 89,375)	2,287,315
Improvements other than buildings	11,702,211	441,952	-	12,144,163
Furniture and equipment	<u>4,335,630</u>	<u>28,359</u>	<u>( 10,659)</u>	<u>4,353,330</u>
<b>Total Capital Assets, Being Depreciated</b>	<u>18,414,531</u>	<u>470,311</u>	<u>(100,034)</u>	<u>18,784,808</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and improvements	( 1,569,062)	(109,973)	-	( 1,679,035)
Improvements other than buildings	( 2,717,360)	(572,893)	-	( 3,290,253)
Furniture and equipment	<u>( 3,436,800)</u>	<u>(316,062)</u>	<u>61,539</u>	<u>( 3,691,323)</u>
<b>Total Accumulated Depreciation</b>	<u>( 7,723,222)</u>	<u>(998,928)</u>	<u>61,539</u>	<u>( 8,660,611)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>10,691,309</u>	<u>(528,617)</u>	<u>( 38,495)</u>	<u>10,124,197</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 10,958,359</u>	<u>\$ 434,505</u>	<u>\$ ( 38,495)</u>	<u>\$ 11,354,369</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$	424,914
Public safety		403,153
Public works		147,189
Animal control		<u>23,672</u>
<b>Total Depreciation Expense</b>	<b>\$</b>	<b><u>998,928</u></b>

## Discretely Presented Component Units

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

	October 1, 2015	Additions	Deletions	September 30, 2016
<b>Discretely Presented Component Units:</b>				
<b>Capital Assets, Being Depreciated:</b>				
Buildings and improvements	\$ 60,780	\$ -	\$ (57,430)	\$ 3,350
Furniture and equipment	<u>360,323</u>	<u>57,142</u>	<u>( 19,364)</u>	<u>398,101</u>
<b>Total Capital Assets, Being Depreciated</b>	<u>421,103</u>	<u>57,142</u>	<u>( 76,794)</u>	<u>401,451</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and improvements	( 60,780)	( 670)	59,384	( 2,066)
Furniture and equipment	<u>( 98,823)</u>	<u>( 38,552)</u>	<u>19,364</u>	<u>( 118,011)</u>
<b>Total Accumulated Depreciation</b>	<u>( 159,603)</u>	<u>( 39,222)</u>	<u>78,748</u>	<u>( 120,077)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>261,500</u>	<u>17,920</u>	<u>1,954</u>	<u>281,374</u>
<b>Discretely Presented Component Units Capital Assets, Net</b>	<u>\$ 261,500</u>	<u>\$ 17,920</u>	<u>\$ 1,954</u>	<u>\$ 281,374</u>

Depreciation expense was charged to functions/programs of the discretely presented component units as follows:

Public safety	\$ 38,552
Economic development	<u>670</u>
<b>Total Depreciation Expense</b>	<u>\$ 39,222</u>

## E. Transfers

Transfers during the year ended September 30, 2016, were:

	Transfers In	Transfers Out
<b>General Fund:</b>		
Nonmajor funds	\$ 140,000	\$ -
<b>Nonmajor funds:</b>		
General Fund	<u>-</u>	<u>140,000</u>
<b>Total</b>	<u>\$ 140,000</u>	<u>\$ 140,000</u>

The primary purpose of this interfund transfer was to support expenditures of one fund in accordance with the authority established for the transferring fund.

## F. Long-Term Liabilities

### Loan Payable – Discretely Presented Component Unit

During fiscal year 2011, the City of Windcrest Economic Development Corporation obtained a Texas Leverage Fund (TLF) loan from the Office of the Governor Economic Development and Tourism Division in the amount of \$1,600,000 for the purpose of building a road for handling the increased employment traffic to the Rackspace location in the City. The interest rate is variable based on the federal funds rate plus 3%. The loan has a first lien on economic development sales and use tax receipts. The final maturity on the loan is January 1, 2020.

A summary of changes in the loan payable for the year ended September 30, 2016 follows:

Balance -- October 1, 2014	\$	554,393
Retired	(	109,978)
Balance -- September 30, 2015	\$	<u>444,415</u>
Due Within One Year	\$	<u>132,406</u>

Annual debt service requirements to maturity for the loan payable follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2017	\$ 132,406	\$ 12,328	\$ 144,734
2018	126,678	8,282	134,960
2019	130,857	4,103	134,960
2020	<u>54,474</u>	<u>415</u>	<u>54,889</u>
Total	<u>\$ 444,415</u>	<u>\$ 25,128</u>	<u>\$ 469,543</u>

### Changes in Compensated Absences and Net Pension Liability

	Balance October 1, 2015	Issued / Additions	Retired / Payments	Balance September 30, 2016	Due Within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 112,564	\$ 525,042	\$( 490,548)	\$ 147,058	\$ 33,823
Net pension liability	<u>178,157</u>	<u>475,681</u>	<u>( 71,637)</u>	<u>582,201</u>	<u>-</u>
Total	<u>\$ 290,721</u>	<u>\$ 1,000,723</u>	<u>\$( 562,185)</u>	<u>\$ 729,259</u>	<u>\$ 33,823</u>
<b>Discretely Presented Component Units:</b>					
Compensated absences	\$ 6,943	\$ 22,569	\$( 25,155)	\$ 4,357	\$ 1,002
Net pension liability	<u>13,616</u>	<u>34,871</u>	<u>( 5,251)</u>	<u>43,236</u>	<u>-</u>
Total	<u>\$ 20,559</u>	<u>\$ 57,440</u>	<u>\$( 30,406)</u>	<u>\$ 47,593</u>	<u>\$ 1,002</u>

## G. Defined Benefit Pension Plan

### Plan Description

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

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

### Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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.

Plan provisions for the City are as follows:

Employee Deposit Rate	6%
Matching Ratio (City to Employee)	1.5 to 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

***Employees covered by benefit terms***

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

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	60
Active employees	<u>56</u>
	<u>157</u>

**Contributions**

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

Employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.24 and 7.44% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016, were \$202,494, and were equal to the required contributions.

**Net Pension Liability**

The City's net pension liability (NPL) was measured as of December 31, 2015, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% 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 Tables with Blue Collar Adjustment, 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period 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. No additional changes were made for the 2014 valuation. 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%. 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

***Discount Rate***

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

***Changes in the Net Pension Liability***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 7,595,664	\$ 7,403,891	\$ 191,773
Changes for the year:			
Service cost	328,283	-	328,283
Interest	533,422	-	533,422
Change of benefit terms	-	-	-
Difference between expected and actual experience	( 142,145)	-	( 142,145)
Changes of assumptions	69,964	-	69,964
Contributions - employer	-	190,467	( 190,467)
Contributions - employee	-	161,451	( 161,451)
Net investment income	-	10,925	( 10,925)
Benefit payments, including refunds of employee contributions	( 278,972)	( 278,972)	-
Administrative expenses	-	( 6,654)	6,654
Other changes	-	( 329)	329
Net changes	<u>510,552</u>	<u>76,888</u>	<u>433,664</u>
Balance at 12/31/2015	<u>\$ 8,106,216</u>	<u>\$ 7,480,779</u>	<u>\$ 625,437</u>

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

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

	1% Decrease in Discount Rate (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 1,882,130	\$ 625,437	\$( 385,095)

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at [www.tmr.com](http://www.tmr.com).

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

For the year ended September 30, 2016, the City recognized pension expense of \$285,209.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 99,500
Changes in actuarial assumptions	48,503	-
Difference between projected and actual investment earnings	458,805	-
Contributions subsequent to the measurement date	<u>160,970</u>	<u>-</u>
Total	<u>\$ 668,278</u>	<u>\$ 99,500</u>

\$160,970 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended Sept. 30,</u>	
2016	\$ 96,245
2017	96,739
2018	113,355
2019	101,469

## **H. Other Post-Employment Benefits**

### **Group-term Life Insurance**

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

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

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

The City’s contribution to the TMRS SDBF for the years September 30, 2016, 2015, and 2014 were \$5,192, \$4,481, and \$4,640, respectively, which equaled the required contributions for each year. Therefore, the City does not have an OPEB liability at September 30, 2016.

## **I. Risk Management**

The City is exposed to various risks of loss related to torts; theft of and damage to property, and destruction of assets; public officials’ errors and omissions; bodily injury and property damage; injury to employees and natural disasters. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML and liability to the City is generally limited to the contributed amounts. There were no significant reductions in coverage in the past fiscal year and settlements did not exceed insurance coverage for each of the past three fiscal years.

## **J. Commitments and Contingencies**

### Commitments

In 2007, the City of Windcrest entered into an agreement with the City of San Antonio, Texas, under which the City of San Antonio released an area from its jurisdiction and allowed for the City of Windcrest to accept and annex the area into the municipal limits of the City of Windcrest. The boundary change agreement provides for the sharing of future tax revenues on the annexed area for the next 30 years. Under the terms of the agreement, the City of San Antonio and the City of Windcrest each receive 50% of the local sales taxes due to the City of Windcrest and distributed by the State Comptroller for taxable business activity conducted in the annexed area. For the fiscal year ended September 30, 2016, the amount of the local sales taxes due to the City of San Antonio under this agreement amounted to \$1,303,424.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

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**CITY OF WINDCREST, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 5,011,506	\$ 5,011,506	\$ 5,279,411	\$ 267,905
Licenses and permits	211,987	211,987	250,292	38,305
Intergovernmental	23,000	23,000	23,000	-
Charges for services	129,304	129,304	118,922	( 10,382)
Fines	546,854	546,854	569,629	22,775
Investment earnings	675	675	842	167
Miscellaneous	68,700	68,700	124,967	56,267
Total revenues	<u>5,992,026</u>	<u>5,992,026</u>	<u>6,367,063</u>	<u>375,037</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,276,607	2,276,607	2,212,328	64,279
Public safety	2,546,766	2,546,766	2,448,864	97,902
Public works	918,673	977,450	896,126	81,324
Animal control	153,905	153,905	144,119	9,786
Capital outlay	383,400	383,400	368,632	14,768
Total expenditures	<u>6,279,351</u>	<u>6,338,128</u>	<u>6,070,069</u>	<u>268,059</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER (UNDER) EXPENDITURES</b>	( 287,325)	( 328,024)	296,994	643,096
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	253,817	253,817	140,000	( 113,817)
Total other financing sources (uses)	<u>253,817</u>	<u>253,817</u>	<u>140,000</u>	<u>( 113,817)</u>
<b>NET CHANGE IN FUND BALANCE</b>	( 33,508)	( 74,207)	436,994	511,201
<b>FUND BALANCE, BEGINNING</b>	<u>2,014,814</u>	<u>2,014,814</u>	<u>2,014,814</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 1,981,306</u>	<u>\$ 1,940,607</u>	<u>\$ 2,451,808</u>	<u>\$ 511,201</u>

**CITY OF WINDCREST, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**AND RELATED RATIOS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Plan Year	2014	2015
<b>A. Total pension liability</b>		
Service Cost	\$ 275,134	\$ 328,283
Interest (on the Total Pension Liability)	494,716	533,422
Difference between expected and actual experience	( 2,409)	( 142,145)
Change of assumptions	-	69,964
Benefit payments, including refunds of employee contributions	( 203,164)	( 278,972)
Net change in total pension liability	564,277	510,552
Total pension liability - beginning	7,031,387	7,595,664
Total pension liability - ending (a)	\$ 7,595,664	\$ 8,106,216
<b>B. Plan fiduciary net position</b>		
Contributions - employer	\$ 164,263	\$ 190,467
Contributions - employee	155,633	161,451
Net investment income	394,581	10,925
Benefit payments, including refunds of employee contributions	( 203,164)	( 278,972)
Administrative expenses	( 4,119)	( 6,654)
Other	( 339)	( 329)
Net change in plan fiduciary net position	506,855	76,888
Plan fiduciary net position - beginning	6,897,036	7,403,891
Plan fiduciary net position - ending (b)	\$ 7,403,891	\$ 7,480,779
<b>C. Net pension liability - ending (a) - (b)</b>	<b>\$ 191,773</b>	<b>\$ 625,437</b>
<b>D. Plan fiduciary net position as a percentage of total pension liability</b>	97.48%	92.28%
<b>E. Covered employee payroll</b>	\$ 2,593,878	\$ 2,690,844
<b>F. Net pension liability as a percentage of covered employee payroll</b>	7.39%	23.24%

**CITY OF WINDCREST, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Fiscal Year	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarial determined contribution	\$ 158,359	\$ 183,726	\$ 202,494
Contributions in relation to the actuarially determined contribution	<u>158,359</u>	<u>183,726</u>	<u>202,494</u>
Contribution deficiency (excess)	-	-	-
Covered employee payroll	2,441,898	2,667,358	2,809,689
Contributions as a percentage of covered employee payroll	6.10%	9.28%	7.21%

**NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% 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.

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**COMBINING FUND  
STATEMENTS**

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## CITY OF WINDCREST, TEXAS

### SPECIAL REVENUE FUNDS DESCRIPTIONS

Special Revenue Funds are used to account for specific revenues where expenditures are legally restricted for particular purposes. Funds included in the Special Revenue Funds category that are non-major are described below.

*School Crossing Guard Fund* – used to account for revenues restricted by the State to provide for school crossing guards and maintenance of school zones.

*Assets Seizure and Forfeitures (Federal) Fund* – used to account for revenues provided by police seizures restricted by the Federal government to provide crime prevention and detection.

*Assets Seizure and Forfeitures (State) Fund* – used to account for revenues provided by police seizures restricted by the State government to provide crime prevention and detection.

*County Fire Contributions Fund* – used to account for funds provided by Bexar County to offset expenditures incurred in providing fire protection outside the City limits.

*Police Donations Fund* – used to account for donations provided for police protection within the City.

*Police Education and Training Fund* – used to account for L.E.O.S.E. funds received from the State to be used for police education and training.

*Roosevelt Scholarships Fund* – used to account for donations from the Windfest Family Fund Day to provide for a scholarship to be awarded to a graduating Roosevelt High School senior.

*Court Technology Fund* – used to account for fees assessed for the purpose of improving technology.

*Building Security Fund* – used to account for fees assessed for providing security to City facilities.

*Hotel/ Motel Tax Fund* – used to account for hotel occupancy taxes. These taxes may be used only to promote tourism and the convention and hotel industry.

*Friends to Animal Control Fund* – used to account for the trap and release program within the City for the feral cat. Donations are accepted and the City matches the donations 1 to 1 up to \$2,000.

**CITY OF WINDCREST, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2016**

	<u>School Crossing Guard</u>	<u>Asset Seizure and Forfeitures (Federal)</u>	<u>Asset Seizure and Forfeitures (State)</u>	<u>County Fire Contributions</u>
<b>ASSETS</b>				
Cash and investments	\$ 44,616	\$ 1,089	\$ 1,222	\$ 3,946
Taxes receivable	-	-	-	-
Total assets	<u>44,616</u>	<u>1,089</u>	<u>1,222</u>	<u>3,946</u>
<b>LIABILITIES</b>				
Accounts payable	-	71	380	-
Due to other funds	-	-	-	3,027
Total liabilities	<u>-</u>	<u>71</u>	<u>380</u>	<u>3,027</u>
<b>FUND BALANCES</b>				
Restricted	<u>44,616</u>	<u>1,018</u>	<u>842</u>	<u>919</u>
Total fund balances	<u>44,616</u>	<u>1,018</u>	<u>842</u>	<u>919</u>
Total liabilities and fund balances	<u>\$ 44,616</u>	<u>\$ 1,089</u>	<u>\$ 1,222</u>	<u>\$ 3,946</u>

<u>Police Donations</u>	<u>Police Education and Training</u>	<u>Roosevelt Scholarships</u>	<u>Court Technology</u>	<u>Building Security</u>	<u>Hotel/Motel Tax</u>
\$ 3,370	\$ 2,655	\$ 4,092	\$ 92,438	\$ 27,709	\$ 46,101
-	-	-	-	-	10,967
<u>3,370</u>	<u>2,655</u>	<u>4,092</u>	<u>92,438</u>	<u>27,709</u>	<u>57,068</u>
-	-	-	6,172	-	-
<u>1,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,919</u>
<u>1,152</u>	<u>-</u>	<u>-</u>	<u>6,172</u>	<u>-</u>	<u>38,919</u>
<u>2,218</u>	<u>2,655</u>	<u>4,092</u>	<u>86,266</u>	<u>27,709</u>	<u>18,149</u>
<u>2,218</u>	<u>2,655</u>	<u>4,092</u>	<u>86,266</u>	<u>27,709</u>	<u>18,149</u>
<u>\$ 3,370</u>	<u>\$ 2,655</u>	<u>\$ 4,092</u>	<u>\$ 92,438</u>	<u>\$ 27,709</u>	<u>\$ 57,068</u>

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**CITY OF WINDCREST, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2016**

	<b>Friends to Animal Control</b>	<b>Total Nonmajor Governmental Funds</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and investments	\$ 2,667	\$ 229,905
Taxes receivable	-	<u>10,967</u>
Total assets	<u>2,667</u>	<u>240,872</u>
<b>LIABILITIES</b>		
Accounts payable	-	6,623
Due to other funds	-	<u>43,098</u>
Total liabilities	<u>-</u>	<u>49,721</u>
<b>FUND BALANCES</b>		
Restricted	<u>2,667</u>	<u>191,151</u>
Total fund balances	<u>2,667</u>	<u>191,151</u>
Total liabilities and fund balances	<u>\$ 2,667</u>	<u>\$ 240,872</u>

**CITY OF WINDCREST, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**

**FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>School Crossing Guard</u>	<u>Asset Seizure and Forfeitures (Federal)</u>	<u>Asset Seizure and Forfeitures (State)</u>	<u>County Fire Contributions</u>
<b>REVENUES</b>				
Taxes:				
Hotel occupancy	\$ -	\$ -	\$ -	\$ -
Intergovernmental	6,377	-	-	-
Fines and fees	-	-	-	-
Donations	-	-	-	-
Investment earnings	565	-	-	-
	<u>6,942</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues				
	<u>6,942</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	194	1,500	-	-
Capital outlay	460	1,076	380	-
	<u>654</u>	<u>2,576</u>	<u>380</u>	<u>-</u>
Total expenditures				
	<u>654</u>	<u>2,576</u>	<u>380</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,288</u>	<u>( 2,576)</u>	<u>( 380)</u>	<u>-</u>
<b>OTHER FINANCING USES</b>				
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing uses				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	6,288	( 2,576)	( 380)	-
Fund balance - beginning	<u>38,328</u>	<u>3,594</u>	<u>1,222</u>	<u>919</u>
Fund balance - ending	<u>\$ 44,616</u>	<u>\$ 1,018</u>	<u>\$ 842</u>	<u>\$ 919</u>

<u>Police Donations</u>	<u>Police Education and Training</u>	<u>Roosevelt Scholarships</u>	<u>Court Technology</u>	<u>Building Security</u>	<u>Hotel/Motel Tax</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 147,727
-	2,194	-	-	-	-
-	-	-	17,895	13,420	-
4,095	-	-	-	-	-
-	-	-	3	-	14
<u>4,095</u>	<u>2,194</u>	<u>-</u>	<u>17,898</u>	<u>13,420</u>	<u>147,741</u>
2,596	1,352	-	-	-	-
<u>635</u>	<u>-</u>	<u>-</u>	<u>6,172</u>	<u>-</u>	<u>-</u>
<u>3,231</u>	<u>1,352</u>	<u>-</u>	<u>6,172</u>	<u>-</u>	<u>-</u>
<u>864</u>	<u>842</u>	<u>-</u>	<u>11,726</u>	<u>13,420</u>	<u>147,741</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 140,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 140,000)</u>
864	842	-	11,726	13,420	7,741
<u>1,354</u>	<u>1,813</u>	<u>4,092</u>	<u>74,540</u>	<u>14,289</u>	<u>10,408</u>
<u>\$ 2,218</u>	<u>\$ 2,655</u>	<u>\$ 4,092</u>	<u>\$ 86,266</u>	<u>\$ 27,709</u>	<u>\$ 18,149</u>

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**CITY OF WINDCREST, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**

**FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Friends to Animal Control</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>		
Taxes:		
Hotel occupancy	\$ -	\$ 147,727
Intergovernmental	-	8,571
Fines and fees	-	31,315
Donations	100	4,195
Investment earnings	-	582
	<u>100</u>	<u>192,390</u>
Total revenues		
<b>EXPENDITURES</b>		
Current:		
Public safety	-	5,642
Capital outlay	-	8,723
	<u>-</u>	<u>14,365</u>
Total expenditures		
Excess (deficiency) of revenues over (under) expenditures	<u>100</u>	<u>178,025</u>
<b>OTHER FINANCING USES</b>		
Transfers out	<u>-</u>	<u>( 140,000)</u>
Total other financing uses	<u>-</u>	<u>( 140,000)</u>
Net change in fund balances	100	38,025
Fund balance - beginning	<u>2,567</u>	<u>153,126</u>
Fund balance - ending	<u>\$ 2,667</u>	<u>\$ 191,151</u>

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***GOVERNMENT AUDITING  
STANDARDS REPORT***

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P A T T I L L O , B R O W N & H I L L , L . L . P .  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Windcrest, Texas, 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, and have issued our report thereon dated March 15, 2017.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
March 15, 2017

