

CITY OF IOWA COLONY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2016

CITY OF IOWA COLONY, TEXAS
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REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and
Members of City Council of
City of Iowa Colony, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund and the discretely presented component unit of City of Iowa Colony, Texas (the "City"), as of and for the year ended September 30, 2016, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

To the Honorable Mayor and
Members of City Council of
City of Iowa Colony, Texas

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 general fund and the discretely presented component unit of the City as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity 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 on pages 3 through 8, budgetary comparison information on pages 32 and 33 and required supplementary pension information on pages 34 and 35 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.

Whitley Penn LLP

Houston, Texas
June 5, 2017

CITY OF IOWA COLONY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Overview of the Financial Statements

This annual report consists of two parts - management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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 information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four 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 government'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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., adjudicated fines).

The governmental activities of the City are principally supported by taxes and intergovernmental revenues include general government, public safety and public works.

Additionally, the City reports the activities of its sole discretely presented component unit, the Iowa Colony Development Authority in the government-wide financial statements.

The government-wide financial statements can be found on pages 10 and 11 of this report.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

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 of Iowa Colony uses one governmental fund, the General Fund to ensure and demonstrate compliance with finance-related legal requirements.

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 evaluating a government's near-term financing requirements.

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

The City maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The general fund, or main operating fund of the City is considered to be a major fund.

The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to 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 16 through 29 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Iowa Colony's general fund budgetary comparisons and required supplementary pension plan information. Required supplementary information can be found starting on page 32 of this report.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

Below is a condensed schedule of Net Position as of September 30, 2016 and 2015:

City of Iowa Colony, Texas
Net Position (in thousands)
September 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Assets		
Current assets	\$ 1,176	\$ 1,671
Capital assets	2,317	2,071
Total Assets	3,493	3,742
Deferred outflows of resources - pension	85	43
Liabilities		
Current liabilities	72	265
Long term liabilities - net pension liability	332	359
Total Liabilities	404	624
Deferred inflows of resources - pension	16	
Net Position:		
Net investment in capital assets	2,317	2,071
Restricted	127	190
Unrestricted	714	899
Total Net Position	\$ 3,158	\$ 3,160

Net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$3.2 million. Of this amount, \$2.3 million was invested in capital assets, \$0.71 million was unrestricted and the balance was restricted for a combination of public safety and economic development activities.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

City of Iowa Colony, Texas
Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2016 and 2015

	Governmental Activities	
Revenues	2016	2015
Program Revenues:		
Charges for services		
Public Safety	\$ 234	\$ 115
Public Works	1,007	1,226
Operating grants	20	8
General revenues:		
Property taxes	389	403
Franchise taxes	40	39
Sales taxes	62	57
Other	9	2
Total Revenues	1,761	1,850
Expenses:		
General government	512	723
Public safety	224	163
Public works	881	699
Municipal court	146	84
Total Expenses	1,763	1,669
Change in net position	(2)	181
Beginning Net Position	3,160	2,979
Ending Net Position	\$ 3,158	\$ 3,160

Governmental activities. The government's net position decreased by \$1,394 during the current fiscal year. This decrease was due to an increase in public work spending on road maintenance projects within the City.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

City of Iowa Colony, Texas

Expenses, Program Revenues, and Net Cost of

Services - Governmental Activities (in thousands)

For the Fiscal Years Ended September 30, 2016 and 2015

	Expenses		Program Revenues		Net (Cost) of Services	
	2016	2015	2016	2015	2016	2015
Program:						
General government	\$ 512	\$ 723	\$ 20	\$ 8	\$ (492)	\$ (715)
Public safety	224	163	234	115	10	(48)
Public works	881	699	1,007	1,226	126	527
Municipal court	146	84			(146)	(84)
	<u>\$ 1,763</u>	<u>\$ 1,669</u>	<u>\$ 1,261</u>	<u>\$ 1,349</u>	<u>\$ (502)</u>	<u>\$ (320)</u>

As indicated above, governmental program expenses were supported by program revenues including permits and developer contributions. The balance of the program expenses were supported by general revenues.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's general fund reported an ending fund balance of \$1,075,693. This balance represents a decrease of \$313,588 from the prior year, the City's ending unassigned fund balance of \$948,445 decreased by \$85,085 during the year.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities as of September 30, 2016, amounted to \$2,317,190 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities and machinery and equipment. Additions in the current year primarily consisted of roads, bridges, and police equipment.

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements of this report.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

During the 2016 fiscal year, the City adopted an original budget for \$1,662,428 in revenues and \$1,662,344 in expenditures. Actual revenues exceeded estimated revenues by \$87,327 and total expenditures exceeded appropriations by \$273,838 resulting in an ending fund balance of \$1,075,693 which was \$186,511 lower than expected. The primary increases in revenues came from a higher than predicted license and permit revenues along with higher than projected fines and forfeitures. These increases in revenues. Expenditure overages were primarily related to inspection, engineering and road maintenance costs associated with the rapid development of the City.

Economic Factors and Next Year's Budgets and Rates

The city has adopted a General Fund operating budget for the 2016 fiscal year as follows:

	<u>Fiscal Year</u>
	<u>2017</u>
General Fund:	
Revenues	\$ 1,658,009
Expenditures	1,652,892

The 2017 Budget includes for a property tax of \$.444372 per \$100 of value on real and personal property within the City limits which will be used for general operations of the City.

BASIC FINANCIAL STATEMENTS

CITY OF IOWA COLONY, TEXAS
STATEMENT OF NET POSITION
September 30, 2016

	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
Assets		
Cash and temporary investments	\$ 1,132,392	\$ 17,762
Receivables, net of allowance for uncollectibles	43,364	
Capital assets not being depreciated	1,683,273	
Capital assets net of accumulated depreciation	<u>633,917</u>	
Total Assets	<u>3,492,946</u>	<u>17,762</u>
 Deferred outflows of resources - pension related	 <u>84,807</u>	
Liabilities		
Accounts payable and accrued expenses	71,644	9,043
Noncurrent liabilities:		
Due in more than one year - Net Pension Liability	<u>331,933</u>	
Total Liabilities	<u>403,577</u>	<u>9,043</u>
 Deferred inflows of resources - pension related	 <u>15,775</u>	
Net Position		
Investment in capital assets	2,317,190	
Restricted for:		
Economic/community development	127,248	8,719
Unrestricted	<u>713,963</u>	
Total Net Position	<u>\$ 3,158,401</u>	<u>\$ 8,719</u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government	Discretely Presented Component Unit
Governmental Activities					
General government	\$ 511,534	\$	\$ 20,000	\$ (491,534)	
Public safety	224,281	233,807		9,526	
Public works	881,470	1,007,300		125,830	
Municipal court	145,501			(145,501)	
Total Governmental Activities	<u>1,762,786</u>	<u>1,241,107</u>	<u>20,000</u>	<u>(501,679)</u>	
Total Primary Government	<u>\$ 1,762,786</u>	<u>\$ 1,241,107</u>	<u>\$ 20,000</u>	<u>\$ (501,679)</u>	
Component Unit					
Iowa Colony					
Development Authority	<u>\$ 135,910</u>	<u>\$</u>	<u>\$ 130,000</u>		\$ (5,910)
General revenues:					
Taxes:					
Property taxes				\$ 388,673	\$
Franchise taxes				40,338	
Sales taxes				61,797	
Unrestricted investment earnings				1,593	
Miscellaneous				7,884	
Total general revenues				<u>500,285</u>	
Change in net position				(1,394)	(5,910)
Net Position - beginning				3,159,795	14,629
Net Position - ending				<u>\$ 3,158,401</u>	<u>\$ 8,719</u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
BALANCE SHEET
GENERAL FUND
September 30, 2016

	<u>General Fund</u>
Assets	
Current assets:	
Cash and temporary investments	\$ 1,132,392
Property taxes receivable	8,980
Sales tax receivable	14,945
Fines and forfeitures receivable	<u>19,439</u>
Total Assets	<u><u>\$ 1,175,756</u></u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 71,048
Other liabilities	<u>596</u>
Total Liabilities	<u>71,644</u>
Deferred Inflows of Resources	
Unavailable property taxes receivable	8,980
Unavailable fine revenues	<u>19,439</u>
Total Deferred Inflows of Resources	<u>28,419</u>
Fund Balance:	
Restricted	
Economic/community development	127,248
Unassigned	<u>948,445</u>
Total Fund Balance	<u>1,075,693</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 1,175,756</u></u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2016

Total fund balance, governmental funds	\$ 1,075,693
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Amounts reported for governmental activities in the Statement of
Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	2,317,190
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Uncollected adjudicated fines and outstanding property taxes are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	28,419
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Some liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

Net pension liability	(331,933)
Deferred outflows related to pension activity	84,807
Deferred inflows related to pension activity	<u>(15,775)</u>

Net Position of Governmental Activities	<u>\$ 3,158,401</u>
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See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL FUND
For the Year Ended September 30, 2016

	<u>General Fund</u>
Revenues	
Property taxes	\$ 387,610
Sales and use taxes	61,797
Franchise taxes	40,338
Licenses and permits	1,006,947
Fines and forfeitures	223,210
Earnings on investments	1,946
Other	27,884
Total Revenues	<u>1,749,732</u>
Expenditures	
Current:	
General government	558,903
Public safety	207,336
Public works	885,297
Municipal courts	145,501
Capital outlay	266,283
Total Expenditures	<u>2,063,320</u>
Changes in Fund Balance	(313,588)
Fund Balances - Beginning of Year	<u>1,389,281</u>
Fund Balances - End of Year	<u><u>\$ 1,075,693</u></u>

See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES - GENERAL FUND TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Net change in fund balances - total governmental funds: \$ (313,588)

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense.

The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount capital outlay in the current period exceeded depreciation.

Capital outlay	289,106
Depreciation	(42,451)

Property tax revenues in the statement of activities that do not provide current financial resources are deferred as revenues in the fund statements.	1,063
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Fines and forfeiture revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	10,597
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Proceeds from capital leases increase long term liabilities in the Statement of Net Position but are considered other sources in the Fund Financial Statements.

Pension expense does not represent a use of current resources and is not recognized in the fund financial statements. The net difference between pension contributions made and pension expense is an increase in the net position of the City.

53,879

Change in net financial net position of governmental activities	<u>\$ (1,394)</u>
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See Notes to Financial Statements.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The City of Iowa Colony, Texas (the “City”) is a political subdivision incorporated in 1972 through the State of Texas operating as a type B, general law city. In 2005, a resolution was passed to change to a type A, general law city. The City is governed by an elected Mayor and five-member Council.

The City provides the following services: general government, public safety, public works and economic development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Board of Aldermen (the “Board”) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a primary government as defined by GAAP.

In March 2010, City Council formed the City of Iowa Colony Development Authority (ICDA) and the City of Iowa Colony Tax Increment Reinvestment Zone No. 2 (TIRZ 2) to facilitate development in connection with a residential neighborhood. The objective of the Zone is to facilitate quality mixed-use development with a self-sustaining tax base for the City of Iowa Colony, Brazoria County, and any other participating taxing entity. As of September 30, all financial activity of ICDA and TIRZ 2 has been funded privately by the developer and is reflected as a discretely presented component unit under the ICDA caption.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information about the City as a whole. These statements include all activities of the primary government. All activities of the City are classified as governmental activities, as they are supported primarily by taxes and non-exchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Franchise tax and sales tax revenues are recognized, for external reporting purposes, when the underlying sales or transaction occurs. Sales tax revenues are collected by individual commercial enterprises and filed with the State of Texas. The State of Texas remits the City's and Crime Control District's portion of the sales tax on a monthly basis, two months after the sales are reported. Interest is recorded when earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 if they are collectible within the current period or soon enough to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. As a practical matter, there is no material difference in the recognition of revenues between the government-wide and governmental fund financial statements. Expenditures for governmental funds are recorded when the related liability is incurred.

The City reports the following major governmental fund:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund include local property taxes, sales and use taxes, franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, public safety, public works, and economic development.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided (primarily inspection and platting fees, (2) operating grants and contributions (primarily retainer or development fees from developers), and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Net Position of the City and its component units are reported under the following captions:

- Investment in capital assets - This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of Net Position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted Net Position - This component of Net Position consists of Net Position that do not meet the definition of "restricted" or "investment in capital assets".

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

D. Investments

The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*. The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

E. Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Brazoria County Central Appraisal District (the "CAD"). Taxes are levied by the City Council based on the appraised values received from the CAD.

F. Receivables

All receivables are reported at their gross value. No provision has been made for an allowance for uncollectible amounts as management anticipates all to be collectible.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

G. NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital assets

Capital assets are reported in the applicable governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related fixed assets using the straight line method, as applicable.

<u>Asset</u>	<u>Estimated Useful Life</u>
Buildings, improvements and roads	10 - 40 years
Machinery and equipment	5 - 7 years

I. Compensated absences

No amounts have been reported for accrued but unpaid compensated absences at the date of the report.

J. Fund Equity

As of September 30, 2016, fund balances of the governmental funds are classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. The City has not adopted a minimum fund balance policy for the General Fund.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

K. NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Deferred Outflows / Inflows of Resources

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

- Deferred outflows of resources for pension activities – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual investment earnings and differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows relating to plan investment earnings will be amortized over a period of five year. The other pension related deferred outflows will be amortized over 6.52 years or the expected remaining service lives of all employees (active and inactive 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 statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension activities - Reported in the government wide financial statement of net position, these deferred inflows reflect the results of differences between expected and actual actuarial experiences. The other pension related deferred outflows will be amortized over 6.52 years or the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

M. 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.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.

O. New Accounting Standards

In the current fiscal year, the City implemented the following new standards:

- GASB Statement No. 72, Fair Value Measurement and Application, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, clarifies the application of certain provisions of Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- GASB Statement No. 79, Certain External Investment Pools and Pool Participants, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS *(continued)*

NOTE 3 - CASH AND TEMPORARY INVESTMENTS (CASH EQUIVALENTS)

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

The Council has adopted a written investment policy regarding the investment of City funds as required by the PFIA. Acceptable investments under this policy are limited to the instruments listed below:

- Fully insured or collateralized certificates of deposit from a bank in the State of Texas and under the terms of a written depository agreement with that bank;
- Obligations of the United States Government, its agencies and instrumentalities and government sponsoring enterprises;
- Texas Local Government Investment Pools as by the PFIA and have been authorized by the City Council.

The investments of the City are in compliance with the City's investment policy as to form.

Local Government Investment Pool

As of September 30, 2016, the City's investments included balances in the TexSTAR Public Funds Investment Pool. The investment pool investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk. Texas Short Term Asset Reserve Program ("TexSTAR") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools. J.P. Morgan Investment Management, Inc. ("JPMIM" or the "investment manager") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (the "Board"). The value of City portions in TexSTAR are the same as the value of the shares. Unlike money market mutual funds which are registered with the Securities and Exchange Commission, TexSTAR does not operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. The external pooled fund uses amortized cost rather than market value to report Net Position to compute share price, because such funds have daily liquidity. Although TexSTAR has weighted average maturities greater than one, the City considers the holdings in these funds to have a one-day weighted average maturity.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - CASH AND TEMPORARY INVESTMENTS (CASH EQUIVALENTS) (continued)

Deposit and Investment Amounts

The following schedule shows the City's recorded cash and investments at year-end:

	<u>Primary Government</u>	<u>Weighted Average Maturity (days)</u>
Cash and demand deposits	\$ 624,695	N/A
Certificate of deposit	405,146	175
Balances in public funds investment pools		
TexSTAR	<u>102,551</u>	50
Totals	<u>\$ 1,132,392</u>	150

At September 30, 2016, all of the cash and temporary investments of Iowa Colony Development Authority consisted of balances in demand deposit accounts.

Bank balances for demand and certificates of deposits for the primary government and the discretely presented component unit at year end totaled \$1,237,244 of which \$655,146 was covered by FDIC insurance leaving the balance unsecured.

The values of certificates of deposit are determined using level 2 inputs.

Investment Risks

Interest Rate Risk

In accordance with the City's investment policy, the maturity of investments (to include certificates of deposit) shall not exceed one year, or with the approval of City Council, two years. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio shall not exceed two years. `

Concentration of Credit Risk

The City's investment policy does not restrict or specify levels of concentration or diversification within the City's portfolio. It does provide that *"The City shall diversify its investments in order to minimize the risk of loss resulting from a concentration of assets in a specific maturity, a specific issuer, or a specific type of investment."*

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - RECEIVABLES

Amounts recorded as receivables as of September 30, 2016, are as follows:

	<u>General</u>
Receivables:	
Property taxes	\$ 8,980
Sales taxes	14,945
Adjudicated Fines	<u>362,127</u>
Gross receivables	386,052
Less: allowance for uncollectibles	<u>(342,688)</u>
Net total receivables	<u><u>\$ 43,364</u></u>

NOTE 5 - CAPITAL ASSETS

A summary of activity for capital assets for the year ended September 30, 2016, follows:

	<u>Balance 9/30/2015</u>	<u>Additions</u>	<u>Balance 9/30/2016</u>
Governmental activities:			
Capital assets, not being depreciated:			
Land and right of way	<u>\$ 1,683,273</u>	<u>\$ -</u>	<u>\$ 1,683,273</u>
Total capital assets not being depreciated	<u>1,683,273</u>		<u>1,683,273</u>
Capital assets being depreciated:			
Buildings, improvements and roads	613,227	289,106	902,333
Machinery and equipment	<u>126,685</u>		<u>126,685</u>
Total capital assets being depreciated	<u>739,912</u>	<u>289,106</u>	<u>1,029,018</u>
Less accumulated depreciation for:			
Buildings, improvements and roads	(261,294)	(25,506)	(286,800)
Machinery and equipment	<u>(91,356)</u>	<u>(16,945)</u>	<u>(108,301)</u>
Total accumulated depreciation	<u>(352,650)</u>	<u>(42,451)</u>	<u>(395,101)</u>
Total capital assets being depreciated, net	<u>387,262</u>	<u>246,655</u>	<u>633,917</u>
Governmental activities capital assets, net	<u><u>\$ 2,070,535</u></u>	<u><u>\$ 246,655</u></u>	<u><u>\$ 2,317,190</u></u>

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

General	\$ 6,510
Public safety	16,945
Public works	<u>18,996</u>
	<u><u>\$ 42,451</u></u>

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - RISK MANAGEMENT

General Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the City in the risk pool is limited to the payment of premiums. There has not been any significant reduction in insurance coverage from the previous year.

Worker's Compensation

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivision of the State of Texas. The company is not intended to operate as an insurance company but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation, and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM

Texas Municipal Retirement System

Effective October 20, 2014, City council approved the participation in the Texas Municipal Retirement System to provide pension benefits for full time employees. Subsequently, the City began making necessary contributions in accordance with the provisions of the plan.

Plan Description

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

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

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

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

Employee deposit rate	5%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	None
Annuity Increase to retirees	Ad Hoc

The City participates in Social Security.

Employees covered by benefit terms –

At the December 31, 2015, valuation and measurement date, the five active City employees were covered by the benefit terms.

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 consulting 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 5% of their annual gross earnings during the fiscal year. For fiscal year 2016, the City made contributions of 35.22% of the employees' annual gross income.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

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

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

Actuarial Assumptions (continued)

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

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 contributions will remain at the current 7% 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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 Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$362,194	\$331,935	\$ 305,157

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

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	\$ 370,603	\$ 11,200	\$ 359,403
Changes for the year:			
Service Cost	18,263		18,263
Interest	26,581		26,581
Difference between expected and actual experience	(18,632)		(18,632)
Changes in assumptions	16,153		16,153
Contributions - employer		61,097	(61,097)
Contributions - employee		8,730	(8,730)
Net Investment income		17	(17)
Administrative expense		(11)	11
Net changes	42,365	69,833	(27,468)
Balance at 12/31/2015	<u>\$ 412,968</u>	<u>\$ 81,033</u>	<u>\$ 331,935</u>

Pension Plan Fiduciary Net Position

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

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

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 \$35,112.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actuarial assumptions and actual experience	\$	\$ 15,774
Changes in actuarial assumptions used	13,676	
Differences between projects and actual investment earnings	614	
Contributions subsequent to the measurement date	70,517	
Total	<u>\$ 84,807</u>	<u>\$ 15,774</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2016 (i.e., recognized in the city's financial statements September 30, 2017). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2017	\$ (228)
2018	(228)
2019	(228)
2020	(226)
2021	(381)
Thereafter	(193)
Total	<u>\$ (1,484)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF IOWA COLONY, TEXAS**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND****CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)***For the Year Ended September 30, 2016*

	2016			2015
	Budgeted		Variance with	
	Original and		Final Budget	
	Amended	Actual	Positive /	Actual
			(Negative)	
Revenues				
Property taxes	\$ 368,228	\$ 387,610	\$ 19,382	\$ 395,367
Sales and use taxes	45,000	61,797	16,797	56,501
Franchise taxes	40,000	40,338	338	38,834
Licenses and permits	804,500	1,006,947	202,447	802,661
Fines and forfeitures	149,200	223,210	74,010	132,352
Earnings on investments	1,500	1,946	446	2,436
Other	254,000	27,884	(226,116)	431,114
Total Revenues	1,662,428	1,749,732	87,304	1,859,265
Expenditures				
Current:				
General government	454,961	558,903	(103,942)	400,238
Public safety	244,083	207,336	36,747	137,283
Public works	624,500	885,297	(260,797)	485,247
Municipal courts	113,800	145,501	(31,701)	84,081
Capital outlay	225,000	266,283	(41,283)	194,679
Total Expenditures	1,662,344	2,063,320	(400,976)	1,301,528
Changes in Fund Balance	84	(313,588)	(313,672)	557,737
Fund Balances - Beginning of Year	1,389,281	1,389,281		831,544
Fund Balances - End of Year	\$ 1,389,365	\$ 1,075,693	\$ (313,672)	\$ 1,389,281

CITY OF IOWA COLONY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION

Legal Compliance - Budgets

Typically, prior to September 1, the departments and agencies of the City transmit their estimates of their budgetary requirements to the Mayor. The Council may revise, alter, increase or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall also increase the total anticipated income. The Council approves the budget plan prior to September 30. One or more public hearings are conducted to obtain taxpayer comments. City Council members may transfer unencumbered appropriated balances, or portion thereof, from one department to another. During the year, Council made no amendments to the original budget.

The City's expenditures exceeded appropriations by \$300,695 for the year ended September 30, 2016.

CITY OF IOWA COLONY, TEXAS
REQUIRED SUPPLEMENTARY PENSION INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Two Measurement Years Ended December 31

	<u>2015</u>	<u>2014</u>
Total pension liability:		
Service cost	\$ 18,263	\$ 2,931
Interest	26,581	24,149
Difference between expected and actual experience	(18,632)	343,523
Change in assumptions	<u>16,153</u>	
Net change in total pension liability	42,365	370,603
Total pension liability - beginning	<u>370,603</u>	
Total pension liability - ending (a)	<u>412,968</u>	<u>370,603</u>
Plan fiduciary net position:		
Contributions - employer	61,097	9,799
Contributions - employee	8,730	1,401
Net investment income	17	
Administrative expense	<u>(11)</u>	
Net change in plan fiduciary net position	69,833	11,200
Plan fiduciary net position - beginning	<u>11,200</u>	
Plan fiduciary net position - ending (b)	<u>81,033</u>	<u>11,200</u>
Net pension liability - ending (a) - (b)	<u>\$ 331,935</u>	<u>\$ 359,403</u>
Plan fiduciary net position as a percentage of total pension liability	19.62%	3.02%
Covered employee payroll (measurement year)	\$ 174,599	\$ 28,020
Net pension liability as a percentage of covered employee payroll	190.11%	1282.67%

Note: The City began participating in TMS during the 2014 calendar year.

CITY OF IOWA COLONY, TEXAS
REQUIRED SUPPLEMENTARY PENSION INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
SCHEDULE OF CONTRIBUTIONS
Last Two Fiscal Years

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 76,809	\$ 52,491
Contribution in relation of the actuarially determined contribution	<u>76,809</u>	<u>52,491</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Covered employee payroll (fiscal year)	\$ 224,351	\$ 149,040
Contributions as a percentage of covered employee payroll	34.24%	35.22%

Note: The City began participating in TMS during the 2015 fiscal year.

Notes to Required Supplementary Information:

Valuation Date: Actuarial determined contribution rates are calculated as of December 31st each year and become effective in January, 12 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	15 years
Asset Valuation Method:	10 Year smoothed market; 15% soft corridor
Inflation:	3.0%
Salary Increases:	3.50% to 12.00% including inflation
Investment Rate of Return:	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan
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.