

TOWN OF RANSOM CANYON, TEXAS

ANNUAL FINANCIAL REPORT

September 30, 2017

TOWN OF RANSOM CANYON, TEXAS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the City Council
Town of Ransom Canyon, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Ransom Canyon, Texas as of and for the year ended September 30, 2017, 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.

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 of 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 Town of Ransom Canyon, Texas as of September 30, 2017, 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 Required Ratios and the Schedule of Contributions on pages 2 through 9 and 42 through 46 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.

David L Hettler PC

David L Hettler PC
November 24, 2017

TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

As management of the Town of Ransom Canyon (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. This discussion and analysis is designed to provide an objective and easy to read analysis of the City's financial activities based on currently known facts, decisions or conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the City's activities based on information presented in the financial report and fiscal policies that have been adopted by the Council. Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the adopted budget) and identify individual fund issues or concerns. As with other sections of this financial report, the information contained within this Management Discussion & Analysis (MD&A) should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

Key Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year ending September 30, 2017 by \$3,969,650 (net position). Of this amount, \$612,042 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. Net position increased by \$39,630 for the year ended September 30, 2017, a 1.0% increase over the previous year.
- The City's total assets increased by \$202,650; a 4.0% increase from the prior fiscal year. The City's liabilities increased by \$162,615; a 12.8% increase from the prior fiscal year.
- The City's enterprise fund ended the year with an operating income of \$246,973 and a change in net position after transfers of \$23,792.
- The City completed construction on the new City Hall facility.

Overview of the Financial Statements

This annual report consists of two parts - management's discussion and analysis (this section) and the basic financial statements. This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

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

TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

- Proprietary funds statements offer short-term and long-term financial information about the activities the City operates like businesses, such as water, sewer and sanitation services.
- Fiduciary funds statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

This report also contains other supplementary information in addition to 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 financial position, in a manner similar to a private-sector business. The two government-wide statements report the City's net position and how it has changed. The *Statement of Net Position* presents information on all of the City's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. Net position is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position is an indicator of whether its financial position is improving or deteriorating. The *Statement of Activities* presents information on how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of the timing of the 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., uncollected taxes and earned but not used vacation leave). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in governmental fund financial statements.

Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads and streets, sidewalks, etc.) to assess the overall health or financial condition of the City.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental Activities – Most of the City's basic services are reported here, including the general administration, police, fire, streets, library, and parks. Property taxes, RV lot revenue, and franchise fees finance most of these activities.
- Business-type Activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and sanitation solid waste collection are reported here.

All of these activities are collectively referred to in the financial statements as those of the *primary government*.

TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

- Governmental funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Essentially the same functions are reported in the governmental funds as in the governmental activities section of the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on the 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. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- The City maintains a single governmental fund which is considered to be a major fund. Information for the General Fund is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.
- Proprietary funds – Services for which the City charges customers a fee generally are reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both short-term and long-term financial information. The City's proprietary fund is an enterprise fund, which is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail, such as cash flows.

TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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- The City maintains a single enterprise fund. The City uses enterprise funds to account for its water and sewer services and sanitation (solid waste disposal) services. The fund provides the same type of information as the government-wide statements, only in more detail. It is also considered to be a major fund of the City.
- Fiduciary funds – The City is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purpose and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide disclosures and additional information that is essential to a full understanding of the financial information presented in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information regarding the City's budgetary comparative information for the general fund and information about the City's net pension liability and pension contributions. This information follows the notes to the financial statements.

THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net position was \$3.970 million as of September 30, 2017. Analyzing the net position and net expenses of the governmental and business-type activities separately, the business-type activities net position is \$2.797 million. This analysis focuses on the net position (table 1) and changes in general revenues (table 2) and significant expense of the City's governmental and business-type activities.

A significant portion of the City's net position (approximately 82.42%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. The following table provides a summary of the City's net position for the years ended September 30, 2016 and 2017.

TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

Table 1
Summary of Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Current and other assets	\$ 255,366.11	\$ 311,966.07	\$1,536,864.36	\$1,306,640.92	\$1,792,230.47	\$1,618,606.99
Capital assets	<u>1,396,231.68</u>	<u>1,571,193.24</u>	<u>1,884,374.20</u>	<u>2,085,686.43</u>	<u>3,280,605.88</u>	<u>3,656,879.67</u>
Total assets	1,651,597.79	1,883,159.31	3,421,238.56	3,392,327.35	5,072,836.35	5,275,486.66
Deferred outflows of resources	93,594.29	95,156.60	29,528.55	27,560.62	123,122.84	122,717.22
Current liabilities	13,970.74	220,952.46	157,535.35	191,072.23	171,506.09	412,024.69
Long-term liabilities	<u>574,882.92</u>	<u>585,186.66</u>	<u>519,550.58</u>	<u>431,342.95</u>	<u>1,094,433.50</u>	<u>1,016,529.61</u>
Total liabilities	588,853.66	806,139.12	677,085.93	622,415.18	1,265,939.59	1,428,554.30
Net position						
Net investment in capital assets	1,396,231.68	1,571,193.24	1,409,374.20	1,700,686.43	2,805,605.88	3,271,879.67
Restricted			348,917.21	85,727.43	348,917.21	85,727.43
Unrestricted	<u>(239,893.26)</u>	<u>(399,016.45)</u>	<u>1,015,389.77</u>	<u>1,011,058.93</u>	<u>775,496.51</u>	<u>612,042.48</u>
Total net position	<u>\$1,156,338.42</u>	<u>\$1,172,176.79</u>	<u>\$2,773,681.18</u>	<u>\$2,797,472.79</u>	<u>\$3,930,019.60</u>	<u>\$3,969,649.58</u>

Governmental Activities

The City's governmental activities revenues were up by \$68,441 or approximately 8.97% from the prior fiscal year. The increase was due primarily to property taxes. Governmental expenditures were up by \$124,743 or 12.28% over the previous year. The most significant governmental expenses for the City are government administration and public safety which includes police and fire department.

Table 2
Governmental Activity Revenues

	<u>2016</u>	<u>2017</u>
Property taxes (including penalty and interest)	\$ 657,883.91	\$ 728,443.00
Permits	22,331.30	10,482.50
Municipal court revenue	1,043.30	1,967.10
Franchise fees	23,615.11	26,327.27
Library revenue	9,935.54	7,990.00
R V storage revenue	15,476.80	17,088.34
Interest revenue	1,991.79	2,519.67
Tax certificates	192.00	564.00
Sales tax revenue	12,089.68	10,679.09
Donated assets	10,888.00	-
Grant revenue	-	10,000.00
Other revenues	<u>7,816.19</u>	<u>15,643.95</u>
	<u>\$ 763,263.62</u>	<u>\$ 831,704.92</u>

TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

Business-type Activities

Total revenues of the City's business-type activities were \$1,182,165 for the year ended September 30, 2017. Expenses for the City's business-type activities were \$833,373 for the year, resulting in an income before transfers of \$348,792.

Charges for services were up \$22,967 or 2.20% over the previous year. Water purchases from the City of Lubbock were up \$14,562 from the previous year. Water revenues and water purchases were up for the year with approximately two million more gallons consumed in 2017.

Table 3
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 22,331.30	\$ 10,482.50	\$ 1,042,839.47	\$ 1,065,806.75	\$ 1,065,170.77	\$ 1,076,289.25
Grants and contributions:						
Operating	9,935.54	17,990.00			9,935.54	17,990.00
Capital					-	-
General revenues:						
Property taxes	657,883.91	728,443.00	105,487.06	102,719.61	763,370.97	831,162.61
Franchise fees	23,615.11	26,327.27			23,615.11	26,327.27
Other	<u>49,497.76</u>	<u>48,462.15</u>	<u>7,256.40</u>	<u>13,638.43</u>	<u>56,754.16</u>	<u>62,100.58</u>
Total Revenues	<u>763,263.62</u>	<u>831,704.92</u>	<u>1,155,582.93</u>	<u>1,182,164.79</u>	<u>1,918,846.55</u>	<u>2,013,869.71</u>
Expenses:						
General government	321,963.27	359,313.12			321,963.27	359,313.12
Operations	148,546.31	167,359.72			148,546.31	167,359.72
City Court	4,116.74	3,395.67			4,116.74	3,395.67
Public safety	345,955.97	399,388.10			345,955.97	399,388.10
Public works	158,181.13	176,844.69			158,181.13	176,844.69
Library	31,954.52	29,932.42			31,954.52	29,932.42
Emergency operation center	5,405.79	4,632.83			5,405.79	4,632.83
Water purchases			344,137.92	358,700.26	344,137.92	358,700.26
Water, sewer and sanitation			456,634.11	460,133.00	456,634.11	460,133.00
Interest			17,266.91	14,539.92	17,266.91	14,539.92
Total Expenses	<u>1,016,123.73</u>	<u>1,140,866.55</u>	<u>818,038.94</u>	<u>833,373.18</u>	<u>1,834,162.67</u>	<u>1,974,239.73</u>
Change in net position						
before transfers	(252,860.11)	(309,161.63)	337,543.99	348,791.61	84,683.88	39,629.98
Transfers	<u>325,000.00</u>	<u>325,000.00</u>	<u>(325,000.00)</u>	<u>(325,000.00)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>72,139.89</u>	<u>15,838.37</u>	<u>12,543.99</u>	<u>23,791.61</u>	<u>84,683.88</u>	<u>39,629.98</u>
Net position, October 1	<u>1,084,198.53</u>	<u>1,156,338.42</u>	<u>2,761,137.19</u>	<u>2,773,681.18</u>	<u>3,845,335.72</u>	<u>3,930,019.60</u>
Net position, September 30	<u>\$ 1,156,338.42</u>	<u>\$ 1,172,176.79</u>	<u>\$ 2,773,681.18</u>	<u>\$ 2,797,472.79</u>	<u>\$ 3,930,019.60</u>	<u>\$ 3,969,649.58</u>

TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2017 fiscal year, the City had \$3.657 million invested in a broad range of fixed assets, including buildings, streets, water and sewer lines and equipment, vehicles, police and fire department equipment.

Table 4
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Land	\$ 46,230.00	\$ 46,230.00	\$	\$	\$ 46,230.00	\$ 46,230.00
Construction in progress	46,982.65	-			46,982.65	-
Buildings	198,188.43	494,216.81		306,800.47	198,188.43	801,017.28
Street and infrastructure	732,299.20	675,526.01			732,299.20	675,526.01
Improvements	230,700.84	191,077.92			230,700.84	191,077.92
Vehicles and equipment	141,830.56	164,142.50		23,039.33	141,830.56	187,181.83
Water and sewer system			1,884,374.20	1,755,846.63	1,884,374.20	1,755,846.63
Totals	\$ 1,396,231.68	\$ 1,571,193.24	\$ 1,884,374.20	\$ 2,085,686.43	\$3,280,605.88	\$ 3,656,879.67

Debt

At year-end, the City had \$385,000 in debt outstanding as compared to \$475,000 at the end of the prior fiscal year a decrease of approximately 18.95%. The City retired \$90,000 in bonds. Table 5 indicates the outstanding debt at September 30, 2016 and 2017.

Table 5
Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
General Obligation						
Refunding Bonds						
Series 2010	\$ -	\$ -	\$ 475,000.00	\$ 385,000.00	\$ 475,000.00	\$ 385,000.00

General Fund Budgetary Highlights

The City's original budget was adopted prior to the beginning of the fiscal year and was amended during the year. For the year ended September 30, 2017 governmental revenues came in over the budgeted amount by \$61,637 while expenditures were \$126,231 under the budgeted amount.

**TOWN OF RANSOM CANYON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017-2018 budget, tax rate, and fees that will be charged for the business-type activities. Stable property valuations for the 2017-2018 fiscal year coupled with a small amount of growth within the City will help accomplish one of its top short-term goals, building cash for future capital improvement projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Elena Quintanilla, at the Town of Ransom Canyon, 24 Lee Kitchens Drive, Ransom Canyon, Texas 79366.

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2017

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and cash in bank	\$ 304,656.60	\$ 1,113,763.96	\$ 1,418,420.56
Receivables			
Taxes	5,032.81		5,032.81
Other governments	762.54		762.54
Franchise fees	1,514.12		1,514.12
Customer accounts, net		107,149.53	107,149.53
Restricted Assets			
Cash and cash in bank		85,727.43	85,727.43
Capital Assets, nondepreciable			
Land	46,230.00		46,230.00
Capital Assets, (net of accumulated depreciation)			
Buildings	494,216.81	306,800.47	801,017.28
Streets and infrastructure	675,526.01		675,526.01
Improvements	191,077.92		191,077.92
Vehicles, equipment and machinery	164,142.50	23,039.33	187,181.83
Water and sewer system		1,755,846.63	1,755,846.63
Total Assets	<u>1,883,159.31</u>	<u>3,392,327.35</u>	<u>5,275,486.66</u>
Deferred Outflows of Resources			
Deferred amount on refunding		6,249.77	6,249.77
Deferred pension contribution	95,156.60	21,310.85	116,467.45
	<u>95,156.60</u>	<u>27,560.62</u>	<u>122,717.22</u>

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

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	215,810.11	66,424.04	282,234.15
Accrued compensation payable	5,142.35		5,142.35
Utility deposits		33,190.00	33,190.00
Payable from restricted assets			
Accrued interest payable		1,458.19	1,458.19
Non-current Liabilities			
Net pension liability	585,186.66	136,342.95	721,529.61
Due within one year:			
General obligation refunding bonds payable		90,000.00	90,000.00
Due in more than one year:			
General obligation refunding bonds payable		295,000.00	295,000.00
Total Liabilities	<u>806,139.12</u>	<u>622,415.18</u>	<u>1,428,554.30</u>
Net Position			
Net investment in capital assets	1,571,193.24	1,700,686.43	3,271,879.67
Restricted for debt service		85,727.43	85,727.43
Unrestricted	(399,016.45)	1,011,058.93	612,042.48
Total Net Position	<u>\$ 1,172,176.79</u>	<u>\$ 2,797,472.79</u>	<u>\$ 3,969,649.58</u>

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

**TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Functions / Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental Activities:							
General government	\$ 359,313.12	\$ 10,482.50	\$	\$	\$ (348,830.62)	\$	\$ (348,830.62)
Operations	167,359.72				(167,359.72)		(167,359.72)
City court	3,395.67				(3,395.67)		(3,395.67)
Public safety - police department	302,418.78				(302,418.78)		(302,418.78)
Public safety - fire department	96,969.32		10,000.00		(86,969.32)		(86,969.32)
Public works - street department	176,844.69				(176,844.69)		(176,844.69)
Library	29,932.42		7,990.00		(21,942.42)		(21,942.42)
Emergency operations	4,632.83				(4,632.83)		(4,632.83)
Total Governmental Activities	1,140,866.55	10,482.50	17,990.00	-	(1,112,394.05)	-	(1,112,394.05)
Business-type Activities:							
Water and sewer fund	833,373.18	1,065,806.75				232,433.57	232,433.57
Total Business-type Activities	833,373.18	1,065,806.75	-	-	-	232,433.57	232,433.57
Total Primary Government	\$ 1,974,239.73	\$ 1,076,289.25	\$ 17,990.00	\$ -	(1,112,394.05)	232,433.57	(879,960.48)
Property taxes					728,443.00	102,719.61	831,162.61
Franchise fees					26,327.27		26,327.27
Sales tax revenue					10,679.09		10,679.09
Interest					2,519.67	13,638.43	16,158.10
Transfers					325,000.00	(325,000.00)	-
RV storage revenue					17,088.34		17,088.34
Tax certificates					564.00		564.00
Other					17,611.05		17,611.05
Total general revenues and transfers					1,128,232.42	(208,641.96)	919,590.46
Change in net position					15,838.37	23,791.61	39,629.98
Net position, October 1					1,156,338.42	2,773,681.18	3,930,019.60
Net position, September 30					\$ 1,172,176.79	\$ 2,797,472.79	\$ 3,969,649.58

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

TOWN OF RANSOM CANYON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2017

	<u>General</u>	<u>Total Governmental Funds</u>
Assets		
Cash and cash in bank	\$ 304,656.60	\$ 304,656.60
Receivables (net of allowance for uncollectibles)		
Taxes	5,032.81	5,032.81
Franchise fees	1,514.12	1,514.12
Other governments	762.54	762.54
Total Assets	<u>\$ 311,966.07</u>	<u>\$ 311,966.07</u>
Liabilities and Fund Balance		
Liabilities		
Accounts payable	<u>\$ 215,810.11</u>	<u>\$ 215,810.11</u>
Total Liabilities	215,810.11	215,810.11
Deferred Inflows of Resources		
Unavailable revenue - property taxes	<u>5,032.81</u>	<u>5,032.81</u>
Total Deferred Inflows of Resources	5,032.81	5,032.81
Fund Balance		
Unassigned	<u>91,123.15</u>	<u>91,123.15</u>
Total Fund Balance	<u>91,123.15</u>	<u>91,123.15</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 311,966.07</u>	<u>\$ 311,966.07</u>

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

TOWN OF RANSOM CANYON, TEXAS
RECONCILIATION OF THE STATEMENT OF NET POSITION
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF SEPTEMBER 30, 2017

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

Total fund balance per balance sheet	\$ 91,123.15
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Capital assets used in the operation of governmental funds are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	46,230.00	
Buildings	622,650.38	
Streets and infrastructure	2,908,921.20	
Improvements	744,884.34	
Vehicles, equipment and machinery	1,167,122.24	
Accumulated depreciation	<u>(3,918,614.92)</u>	
		1,571,193.24

Other long-term assets are not available to pay for current period expenditures and are therefore deferred in the funds and recognized as revenue in the statement of activities.

Deferred property taxes	5,032.81
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Deferred outflows related to pensions are not financial resources and therefore are not reported in governmental funds	95,156.60
------------------------------------------------------------------------------------------------------------------------	-----------

Long-term liabilities of governmental funds are not due and payable in the current period and therefore, are not reported in the funds. These consist of:

Accrued compensation	(5,142.35)	
Net pension liability	<u>(585,186.66)</u>	

Net position of governmental activities	<u>\$ 1,172,176.79</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General</u>	Total Governmental <u>Funds</u>
Revenues		
Property taxes	\$ 722,299.05	\$ 722,299.05
Penalties and interest	4,056.30	4,056.30
Permits	10,482.50	10,482.50
Franchise fees	26,327.27	26,327.27
Library revenue	7,990.00	7,990.00
R V storage revenue	17,088.34	17,088.34
Municipal court revenue	1,967.10	1,967.10
Tax certificates	564.00	564.00
Interest revenue	2,519.67	2,519.67
Sales tax revenue	10,679.09	10,679.09
Grant revenue	10,000.00	10,000.00
Miscellaneous	15,643.95	15,643.95
Total Revenues	<u>829,617.27</u>	<u>829,617.27</u>
Expenditures		
Current:		
General government	340,808.34	340,808.34
Operations	167,160.38	167,160.38
City court	3,395.67	3,395.67
Public safety - police department	267,083.91	267,083.91
Public safety - fire department	72,858.85	72,858.85
Public works - street department	83,160.89	83,160.89
Library	29,202.57	29,202.57
Emergency operations	2,151.93	2,151.93
Capital outlay	341,633.63	341,633.63
Total Expenditures	<u>1,307,456.17</u>	<u>1,307,456.17</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(477,838.90)	(477,838.90)
Other Financing Sources (Uses)		
Transfers in	325,000.00	325,000.00
Total Other Financing Sources and Uses	<u>325,000.00</u>	<u>325,000.00</u>
Net Change in Fund Balance	(152,838.90)	(152,838.90)
Fund Balance, October 1	243,962.05	243,962.05
Fund Balance, September 30	<u>\$ 91,123.15</u>	<u>\$ 91,123.15</u>

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

TOWN OF RANSOM CANYON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

Net change in fund balance -- total governmental funds	\$ (152,838.90)
--------------------------------------------------------	-----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	341,633.63	
Depreciation expense	<u>166,672.07</u>	
		174,961.56

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	2,087.65
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued compensation	369.49	
Pension expense	<u>(8,741.43)</u>	

Change in net position of governmental activities	<u>\$ 15,838.37</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2017

	<u>Enterprise</u>	<u>Total</u>
Assets		
Current Assets		
Cash and cash in bank	\$ 1,113,763.96	\$ 1,113,763.96
Receivables (net of allowance for uncollectibles)		
Customer accounts	<u>107,149.53</u>	<u>107,149.53</u>
Total Current Assets	<u>1,220,913.49</u>	<u>1,220,913.49</u>
Non-current Assets		
Restricted Assets		
Cash and cash in bank	<u>85,727.43</u>	<u>85,727.43</u>
Total Restricted Assets	<u>85,727.43</u>	<u>85,727.43</u>
Capital Assets		
Water and sewer system	4,715,358.85	4,715,358.85
Buildings	306,800.47	306,800.47
Furniture	23,039.33	23,039.33
Accumulated depreciation	<u>(2,959,512.22)</u>	<u>(2,959,512.22)</u>
Total Capital Assets	<u>2,085,686.43</u>	<u>2,085,686.43</u>
Total Non-current Assets	<u>2,171,413.86</u>	<u>2,171,413.86</u>
Total Assets	<u>3,392,327.35</u>	<u>3,392,327.35</u>
 Deferred Outflows of Resources		
Deferred interest on refunding	6,249.77	6,249.77
Deferred pension contribution	<u>21,310.85</u>	<u>21,310.85</u>
Total Deferred Outflows of Resources	<u>\$ 27,560.62</u>	<u>\$ 27,560.62</u>

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

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2017

	<u>Enterprise</u>	<u>Total</u>
Liabilities		
Current Liabilities (payable from current assets)		
Accounts payable	\$ 66,424.04	\$ 66,424.04
Utility deposits	<u>33,190.00</u>	<u>33,190.00</u>
Total Current Liabilities (payable from current assets)	99,614.04	99,614.04
Current Liabilities (payable from restricted assets)		
Accrued interest payable	1,458.19	1,458.19
General obligation refunding bonds payable, current	<u>90,000.00</u>	<u>90,000.00</u>
Total Current Liabilities (payable from restricted assets)	91,458.19	91,458.19
Non-current Liabilities		
Net pension liability	136,342.95	136,342.95
General obligation refunding bonds payable, non-current	<u>295,000.00</u>	<u>295,000.00</u>
Total Non-current Liabilities	<u>431,342.95</u>	<u>431,342.95</u>
Total Liabilities	622,415.18	622,415.18
Net Position		
Net investment in capital assets	1,700,686.43	1,700,686.43
Restricted for debt service	85,727.43	85,727.43
Unrestricted	<u>1,011,058.93</u>	<u>1,011,058.93</u>
Total Net Position	<u>\$ 2,797,472.79</u>	<u>\$ 2,797,472.79</u>

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

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

		Business-type Activities	
		Enterprise Funds	Total
Revenues			
Water		\$ 632,399.13	\$ 632,399.13
Sewer		147,697.17	147,697.17
Sanitation		149,401.34	149,401.34
Mosquito spraying		17,759.70	17,759.70
Penalty revenue		5,197.67	5,197.67
Tap connect fees		2,400.00	2,400.00
Turn on revenue		1,200.00	1,200.00
Sewer revenue - Buffalo Lake		109,751.74	109,751.74
Total Operating Revenues		1,065,806.75	1,065,806.75
Operating Expenses			
Water purchases		358,700.26	358,700.26
Payroll		133,558.32	133,558.32
Utilities		37,669.14	37,669.14
Chemicals		4,925.99	4,925.99
Supplies, repairs and maintenance		26,832.17	26,832.17
Fees, permits, inspections		3,460.75	3,460.75
Depreciation		128,527.57	128,527.57
Lab charges		5,015.34	5,015.34
Mosquito spraying expense		4,321.52	4,321.52
Insurance		1,097.00	1,097.00
Solid waste collection contract		114,725.20	114,725.20
Total Operating Expenses		818,833.26	818,833.26
Operating Income		246,973.49	246,973.49
Non-operating Revenue (Expense)			
Interest income		13,638.43	13,638.43
Tax receipts		102,719.61	102,719.61
Interest expense		(14,539.92)	(14,539.92)
Total Non-operating Revenue (Expense)		101,818.12	101,818.12
Income Before Operating Transfers		348,791.61	348,791.61
Operating transfers out		(325,000.00)	(325,000.00)
Change in Net Position		23,791.61	23,791.61
Total Net Position, October 1		2,773,681.18	2,773,681.18
Total Net Position, September 30		\$ 2,797,472.79	\$ 2,797,472.79

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

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities	
	Enterprise Funds	Total
Cash Flows From Operating Activities		
Cash received from customers	\$ 1,058,255.18	\$ 1,058,255.18
Cash payments to suppliers	(526,669.62)	(526,669.62)
Cash payments to employees	(131,649.81)	(131,649.81)
Net Cash Provided by Operating Activities	399,935.75	399,935.75
Cash Flows From Non-capital Financing Activities		
Operating transfers out	(325,000.00)	(325,000.00)
Net Cash Provided By (Used For) Non-capital Financing Activities	(325,000.00)	(325,000.00)
Cash Flows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(329,839.80)	(329,839.80)
Tax receipts	102,719.61	102,719.61
Repayment of long-term debt	(90,000.00)	(90,000.00)
Interest payment long-term debt	(13,029.00)	(13,029.00)
Net Cash Provided By (Used For) Capital and Related Financing Activities	(330,149.19)	(330,149.19)
Cash Flows From Investing Activities		
Interest received	13,638.43	13,638.43
Net Cash Provided By Investing Activities	13,638.43	13,638.43
Net Increase (Decrease) in Cash and Cash Equivalents	(241,575.01)	(241,575.01)
Cash and cash equivalents, October 1	1,441,066.40	1,441,066.40
Cash and cash equivalents, September 30	\$ 1,199,491.39	\$ 1,199,491.39
Cash and cash in bank	\$ 1,113,763.96	\$ 1,113,763.96
Restricted cash and cash in bank	85,727.43	85,727.43
Total cash and cash equivalents	\$ 1,199,491.39	\$ 1,199,491.39

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

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities	
	Enterprise Funds	Total
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income	\$ 246,973.49	\$ 246,973.49
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	128,527.57	128,527.57
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(11,351.57)	(11,351.57)
(Increase) decrease in deferred outflows - pension	116.14	116.14
Increase (decrease) in accounts payable	30,077.75	30,077.75
Increase (decrease) in accrued compensation	-	-
Increase (decrease) in net pension liability	1,792.37	1,792.37
Increase (decrease) in utility deposits	3,800.00	3,800.00
Net cash provided by operating activities	<u>\$ 399,935.75</u>	<u>\$ 399,935.75</u>

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

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2017

	Assets	<u>Pension Trust Fund</u>
Current Assets		
Equity in investments		\$ 67,704.34
Total Assets		<u>\$ 67,704.34</u>
Net Position		
Held in trust for pension benefits		<u>\$ 67,704.34</u>

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

TOWN OF RANSOM CANYON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Pension Trust Fund</u>
Additions	
Contributions	\$ -
Net increase in fair value of investments	<u>7,395.06</u>
Total additions	7,395.06
Deductions	
Benefits	<u>-</u>
Total deductions	-
Change in net position	7,395.06
Net position held in trust for pension benefits, October 1	<u>60,309.28</u>
Net position held in trust for pension benefits, September 30	<u>\$ 67,704.34</u>

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

TOWN OF RANSOM CANYON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2017

1. Summary of Significant Accounting Policies

The Town of Ransom Canyon, Texas (the City) operates under a mayor – council (5 council members) form of government and provides the following services: Public Safety (Police and Fire protection), Streets, Sanitation, Public Improvements (Water and Sewer Systems), Library, Planning and Zoning, and General Administrative Services. Volunteers staff the fire and ambulance services.

The financial statements of the City have been prepared to conform with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental units. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Financial Reporting Entity

Financial information of the City is presented as follows:

- *Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Basic Financial Statements:* Government-wide financial statements consist of a statement of net position and a statement of activities to display information about the City as a whole.

These statements report all of the non-fiduciary activities of the government. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges from services and are usually intended by management to be financially self-sustaining.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including all taxes and other items, are presented as general revenues.

- *Fund Financial Statements* consist of a series of statements focusing on information about the City's major governmental and enterprise funds. Separate financial statements are presented for the governmental and enterprise funds.

As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, if applicable. The City's financial statements include the accounts of all City operations. Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organizations to provide specific financial benefits to, or impose specific financial burdens on, the City.

TOWN OF RANSOM CANYON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2017

The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statement of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the Town of Ransom Canyon has no component units.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund 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 non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. For the most part, the effect of interfund activity has been removed from these statements. The previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model as defined by GASB Statement No. 34 the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. 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 activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, sales taxes, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental fund is the general fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements, if applicable.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories.

TOWN OF RANSOM CANYON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2017

Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. 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 revenue as soon as all eligibility requirements have been met.

Governmental fund level 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 collected within the current period or soon enough thereafter 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. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Ad valorem and franchise tax revenues in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirement of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customer for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following major funds are used by the City:

1. Governmental Funds:

→ The following is a description of the Governmental Funds of the City:

The following is a description of the Governmental Funds of the City:

TOWN OF RANSOM CANYON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2017

- a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, General Administration, etc.) and is the primary operating unit of the City.
- b. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds, when applicable.

2. Proprietary Funds:

The following is a description of the major Proprietary Funds of the City:

- a. The enterprise fund accounts for the operation of the City's water and sewer utility and solid waste pickup. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

Additionally, the City reports the following fund types:

- Fiduciary Trust Fund – Account for the resources legally held in trust or agency capacity for others and which therefore cannot be used to support the government's own programs. The fiduciary fund category includes a pension trust fund and an agency fund to account for resources held in a purely custodial capacity for individuals or organizations outside the City.

D. Encumbrances

The City does not use an encumbrance system of accounting.

E. Cash, Cash Equivalents and Investments

The City maintains a pooled cash account that is shared by the General Fund and Enterprise Fund. Each fund's portion of this pooled cash is allocated through its cash and cash in bank account on the balance sheet or statement of net position. The funds pool their operating cash for the purpose of cash management and to increase income through combined investment activities. In addition, non-pooled cash is separately held and reflected in each fund's balance sheet when applicable.

The cash and cash equivalents reflected in the statement of cash flows for the Proprietary Funds are made up of cash on hand, cash in the City's depository bank, and certificates of deposit. Investments are considered to be cash equivalents if they are highly liquid with maturities of three months or less. Cash deposits and investments are reported at carrying amount (cost), which equals fair value, in accordance with GASB Statement No. 31. At year end September 30, 2017 the City had no investments. The Texas Public Funds Investment Act governs items such as investment strategies and policies, training for investment officers, reporting requirements, and types of investments allowed. See Note 2.

F. Prepaid Items

Prepaid balances, when applicable, are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

TOWN OF RANSOM CANYON, TEXAS
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G. Inventories

Inventories in Governmental and Proprietary Funds consist of expendable supplies. These amounts are not significant and thus no provision has been made for these amounts in the financial statements. Inventory items are expensed when purchased.

H. Interfund Receivables and Payables

Interfund receivables and payables are eliminated at the end of the fiscal year by reclassifying them as operating transfers if management does not expect the receiving fund to be able to repay the payable within a reasonable time. Interfund transfers are made to cover expenditures in funds with inadequate cash balances to cover the expenses. These transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

I. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are carried at estimated fair market value on the date donated. Public domain (infrastructure) fixed assets consisting of roads, streets and sidewalks have been recorded at estimated historical cost. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized.

Assets capitalized have an original cost of \$2,500 or more and a life expectancy of over three years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and land improvements	10 – 40 years
Streets	30 years
Water and sewer system	0 – 40 years
Machinery and equipment	5 – 10 years

J. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The City's policy allows full time, permanent employees to accumulate a limited amount of earned but unused vacation leave. Full time, permanent employees are allowed to accrue up to twenty days of sick leave. It is the City's policy to not pay employees for unused sick leave upon separation of service from the City. For the year ended September 30, 2017 compensated absences relating to vacation and comp time amounted to \$5,142.35.

K. Restricted Assets

Certain resources of the enterprise fund have been set aside for construction and repayment of debt and are classified as restricted on the balance sheet or statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond ordinances. The City records these reserves to indicate that a portion of cash and fund equity is legally segregated for a specific future use. At September 30, 2017 the proprietary funds had \$85,727.43 reserved for debt service. When an expense is incurred for which both restricted and unrestricted net position are available it is the City's policy to first apply restricted resources to the expense.

L. Reclassifications

Certain reclassifications have been made to fiscal year 2016 amounts to conform to the fiscal year 2017 presentation.

TOWN OF RANSOM CANYON, TEXAS
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M. Bond Issuance and Deferred Debt Expense

Bond and certificate of obligation issuance costs are expensed in the period incurred. The difference between the reacquisition price and the net carrying value of proprietary refunded debt is capitalized and amortized over the terms of the respective bonds and certificates of obligation using the straight-line method.

N. Capitalized Interest

In conformity with Financial Accounting Standards No. 34, "Capitalization of Interest Cost," the City capitalized interest costs for business-type activities only, net of related interest earned, from the date of borrowing until the projects acquired with those funds are ready for their intended use. For the fiscal year ended September 30, 2017 there were no capitalized interest costs.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has two items which qualify for reporting in this category, contributions made to the pension plan in the 2017 calendar year and an unamortized interest amount which resulted from a bond refunding.

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

Q. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance – Generally, fund balance represents the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources under the current financial resources management focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Fund balances are classified as follows:

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Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by the City Council. Approval of a resolution after a formal vote of the City Council is required to establish a commitment of fund balance. Similarly, the City Council may only modify or rescind the commitment by formal vote and adoption of a subsequent resolution.

Assigned – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council, through City Ordinance, has expressly delegated to the City Administrator the authority to assign funds for particular purposes or through adoption or amendment of the budget as intended for a specific purpose.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund.

Flow Assumptions – When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance as needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: (1) Committed, (2) Assigned, (3) Unassigned.

Net Position – Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in reporting which utilizes the economic resources measurement focus. In the government-wide financial statements, net position is classified in the following categories:

Net investment in capital assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.

Restricted net position - This category represents external restrictions imposed either: 1) by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category represents the net position of the City which are not restricted for any project or other purpose.

Flow Assumptions – The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

R. 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

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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.

2. Deposits and Investments

The City's cash and investments can be subject to five types of risk which are examined in more detail as follows:

CUSTODIAL CREDIT RISK OF BANK 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. State statutes require that all deposits in financial institutions and investments be fully collateralized by U.S. Government obligations or obligations of the State of Texas and its agencies that have a market value of not less than the deposit amounts. The City's deposits were fully insured or collateralized as required by state statutes at September 30, 2017. At year-end, the carrying amount of the City's deposits was \$1,503,997.99 and the respective bank balances totaled \$1,521,147.07. The City had no investments at September 30, 2017 however from time to time the City may investment in certificates of deposit. The City's deposits were covered by Federal Depository Insurance in the amount of \$250,000. The remainder was covered by collateral with a par value of \$2,090,000 and a market value of \$2,235,380 at September 30, 2017 held by the bank's agent and pledged to the Town of Ransom Canyon in accordance with State law.

CUSTODIAL CREDIT RISK OF INVESTMENTS – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This type of credit risk is inapplicable to the City's investments because the only investments are certificates of deposit as described above.

INTEREST RATE RISK – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This type of risk is also inapplicable to the City because the only investments are certificates of deposit whose value is not dependent upon the rate of interest.

CREDIT RISK – Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. The City's investment policy minimizes credit risk by limiting investments to the safest types of securities.

CONCENTRATION OF CREDIT RISK – Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. This type of risk is also inapplicable to the City because the only investments are certificates of deposit.

FOREIGN CURRENCY RISK – Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or a deposit. The City's policy is not to invest in foreign currencies which rules out any exposure to foreign currency risk.

Investments - Texas statutes authorize the types of investments allowable by the City. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the State of Texas. The City is also authorized to invest in direct obligations of the State of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, reverse repurchase agreements, prime domestic bankers' acceptances, money market funds, and government pools.

The City from time to time invests in certificates of deposit however at September 30, 2017 the City had no investments in certificates of deposit. The City pools cash resources of its various funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements.

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3. Debt and Interest Expense

At September 30, 2017 debt outstanding consisted of the following individual issues:

Series 2010 General Obligation Refunding Bonds issued at an interest rate of 3.03%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2017 was \$385,000 of which \$90,000 is due within one year.

For the year ended September 30, 2017 the City paid interest in the amount of \$13,029.00 with the accrual basis interest expense being \$14,539.92.

General Obligation Refunding Bonds

The General Obligation Refunding Bonds are direct obligations issued on a pledge of the general taxing power and the revenues of the Enterprise Fund for the payment of the debt obligations of the City. These Bonds require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year certificates of obligation are outstanding) funds to pay interest and principal at maturity for any amounts not paid from the revenues of the Enterprise Fund. These Bonds are secured both by a pledge of ad valorem taxes levied on all taxable property within the City and by a lien on and pledge of revenues to be generated by the Enterprise Fund.

Changes in Outstanding Debt

Transactions for the year ended September 30, 2017 are summarized as follows:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Amount Due Within One Year
<u>Business-type Activities</u>					
General Obligation Refunding Bonds	\$ 475,000.00	\$ -	\$ (90,000.00)	\$ 385,000.00	\$ 90,000.00
Total Business-type Activities	<u>\$ 475,000.00</u>	<u>\$ -</u>	<u>\$ (90,000.00)</u>	<u>\$ 385,000.00</u>	<u>\$ 90,000.00</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities of the City's debt for the years subsequent to September 30, 2017 are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 90,000.00	\$ 10,302.00	\$ 100,302.00
2019	95,000.00	7,499.25	102,499.25
2020	100,000.00	4,545.00	104,545.00
2021	100,000.00	1,515.00	101,515.00
	<u>\$ 385,000.00</u>	<u>\$ 23,861.25</u>	<u>\$ 408,861.25</u>

4. Deferred Compensation Plan

At one time the City offered its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permitted City employees to defer a portion of their salary until future years. The City placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This plan is no longer offered by the City. The City has no

TOWN OF RANSOM CANYON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS September 30, 2017

administrative involvement and does not perform the investing function for the plan. At September 30, 2017 the value of the investments in the plan was \$67,704.34 as presented by the plan administrator.

5. Interfund Transfers

The purpose of these interfund transfers is to fund routine government operations. Interfund transfers during the year ended September 30, 2017 were as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 325,000.00	\$
Enterprise Fund		325,000.00
	<u>\$ 325,000.00</u>	<u>\$ 325,000.00</u>

6. Accounts Receivable and Due From Other Governments

Accounts receivable for the City's governmental and business-type activities, including the applicable allowance for uncollectible accounts at September 30, 2017 are as follows:

	<u>Accounts Receivable</u>	<u>Allowance For Uncollectible</u>	<u>Total</u>
Governmental activities:			
General Fund:			
Property taxes	\$ 5,032.81	\$ -	\$ 5,032.81
Franchise fees	1,514.12		1,514.12
Other governments	<u>762.54</u>	<u>-</u>	<u>762.54</u>
Total Governmental activities	7,309.47	-	7,309.47
Business-type activities:			
Water, sewer and sanitation customers	<u>122,750.72</u>	<u>(15,601.19)</u>	<u>107,149.53</u>
Total Business-type activities	<u>122,750.72</u>	<u>(15,601.19)</u>	<u>107,149.53</u>
Total accounts receivable	<u>\$ 130,060.19</u>	<u>\$ (15,601.19)</u>	<u>\$ 114,459.00</u>

7. Defined Benefit Pension Plans

Plan Description

The Town of Ransom Canyon participates as one of 872 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 publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees (full-time and employees who work in excess of 1,000 hours per year) of the City are required to participate in TMRS.

TOWN OF RANSOM CANYON, TEXAS

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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 governing state statutes governing TMRS.

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

	<u>Plan Year 2016</u>	<u>Plan Year 2017</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2015 and 2016 valuation and measurement dates, the following employees were covered by the benefit terms:

	<u>12/31/2015</u>	<u>12/31/2016</u>
Inactive employees or beneficiaries currently receiving benefits	2	2
Inactive employees entitled to but not yet receiving benefits	1	2
Active employees	<u>11</u>	<u>11</u>
Total	14	15

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 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 Town of Ransom Canyon were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the Town of Ransom Canyon were 14.60% and 15.54% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$83,265.20, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

TOWN OF RANSOM CANYON, TEXAS

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Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuations was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%.

For Cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

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 male 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, 2016, 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. 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). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

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<u>Asset Class</u>	<u>Target Allocation</u>	Long-Term Expected
		Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

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.

Change in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/15	\$ 1,625,614	\$ 916,180	\$ 709,434
Changes for the year:			
Service cost	58,412		58,412
Interest	110,872		110,872
Change of benefit terms			
Difference between expected and actual experience	10,383		10,383
Changes of assumptions			-
Contributions - employer		75,041	(75,041)
Contributions - employee		31,264	(31,264)
Net investment income		62,002	(62,002)
Benefit payments, including refunds of employee contributions	(24,547)	(24,547)	-
Administrative expense		(699)	699
Other changes		(38)	38
Net changes	155,120	143,023	12,097
Balance at 12/31/16	\$ 1,780,734	\$ 1,059,203	\$ 721,531

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

The following presents the net position 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:

TOWN OF RANSOM CANYON, TEXAS
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	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	\$ 954,355	\$ 721,531	\$ 526,029

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.

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

For the year ended September 30, 2017, the city recognized pension expense of \$92,786.

At September 30, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ (19,089.00)	\$
Changes in actuarial assumptions	36,405.00	
Difference between projected and actual investment earnings	38,066.00	
Contributions subsequent to the measure date December 31, 2016	61,085.45	
Total	<u>\$ 116,467.45</u>	<u>\$ -</u>

\$61,085.45 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2017	\$ 15,871.00
2018	15,869.00
2019	14,020.00
2020	2,522.00
2021	2,554.00
Thereafter	4,546.00
Total	<u>\$ 55,382.00</u>

8. Supplemental Death Benefit Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected by ordinance to provide group-term life insurance coverage to both current and retired employees. Although it has no plans to do so, the City may terminate coverage

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under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

The following summarizes the SDBF coverage provided by the City for the prior two years:

	<u>Plan Year 2016</u>	<u>Plan Year 2017</u>
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

Contributions are made monthly to the SDBF based on the covered payroll of the City. The contributions to the TMRS SDBF during the years ended September 30, 2017, 2016 and 2015 were \$1,129.16, \$1,010.56 and \$904.74, respectively, which equaled the required contributions for each period. The rate was 0.20% for October through December 2016 and 0.21% for January through September 2017 of the covered payroll for the period covered by this report. The City has two retirees since adoption of the plan; any contributions made for retirees which would be considered an other post-employment benefit are insignificant.

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

Plan Year	Annual Required Contribution	Actual Contribution Made	Percentage of ARC Contributed
<u>Ending</u>	<u>Rate</u>	<u>Rate</u>	
2014	0.00%	0.00%	100%
2015	0.01%	0.01%	100%
2016	0.01%	0.01%	100%

9. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a public entity risk pool managed by the Texas Municipal League whereby the risk is pooled with other entities. Participation in this pool allows the City to share liability, crime, motor vehicle and property damage risks. The Intergovernmental Risk Pool (the Pool) allows the City to manage risk by purchasing property, liability, and workers compensation insurance through the Texas Municipal League. The Pool provides property, liability and workers' compensation coverage for certain governmental entities of the State of Texas. Member entities include municipalities, housing authorities, councils of governments, hospital districts, water districts and tax appraisal districts. The Pool consists of five separate funds: the Workers' Compensation Fund, the Liability Fund, the Property Fund, the Reinsurance Fund and the Stability Fund. The financial results of these coverages are accounted for in separate funds by the Pool.

TOWN OF RANSOM CANYON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2017

The Texas Workers' Compensation Fund Joint Insurance Fund (the Workers' Compensation Fund) provides coverage that conforms to the workers' compensation law of Texas. As part of the coverage, the Pool provides risk management services with emphasis on loss control.

The City purchased \$1,000,000 liability coverage and approximately \$3,429,669 property coverage. For insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three preceding years.

The premiums paid for Workers' Compensation Coverage are based on estimated payroll amounts and are subject to fluctuations based upon an audit of payroll costs by the insurer. Any increase or decrease is not expected to be material to the financial statements.

10. Property Tax

Property taxes are levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by law. In Texas, central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. The Lubbock Central Appraisal District establishes appraised values at 100% of estimated fair market value and collects property taxes for the City. The 2016 certified tax roll for the City was \$125,444,790.

Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31. Tax liens are automatic on January 1 of each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The 2016 tax rate was \$0.65929 per \$100 valuation. The tax rate was allocated \$0.57702 for maintenance and operations and \$0.08227 for principal and interest on debt. Current tax collections for the year ended September 30, 2017 were 99.53% of the tax levy.

In the governmental fund financial statements, property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue.

11. Leases and Lease Purchase Agreements

The City currently leases office equipment under certain operating type leases. These leases are annual leases and expire after 12 months. Rental payments under these operating leases totaled \$4,345.02 for the year ended September 30, 2017.

12. Contingent Liabilities

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be significant.

From time to time the City is party to various legal proceedings which normally occur in governmental operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of City management, after consultation with legal counsel, these legal proceedings are not likely to have a significant adverse impact on the affected funds of the City.

TOWN OF RANSOM CANYON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2017

13. Capital Assets

Capital asset activity for the year ended September 30, 2017 was as follows:

	<u>Balance</u> <u>10/1/2016</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Retirements</u>	<u>Balance</u> <u>9/30/2017</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 46,230.00	\$ -	\$ -	\$ 46,230.00
Construction in progress	46,982.65	-	(46,982.65)	-
Total capital assets, not being depreciated	93,212.65	-	(46,982.65)	46,230.00
Capital assets, being depreciated				
Buildings	315,849.92	306,800.46		622,650.38
Streets and infrastructure	2,908,921.20			2,908,921.20
Improvements	744,884.34			744,884.34
Vehicles	688,565.29	58,776.48		747,341.77
Equipment	396,741.13	23,039.34		419,780.47
Total capital assets, being depreciated	5,054,961.88	388,616.28	-	5,443,578.16
Less accumulated depreciation for:				
Buildings	117,661.49	10,772.08		128,433.57
Streets and infrastructure	2,176,622.00	56,773.19		2,233,395.19
Improvements	514,183.50	39,622.92		553,806.42
Vehicles	584,567.62	46,834.35		631,401.97
Equipment	358,908.24	12,669.53		371,577.77
Total accumulated depreciation	3,751,942.85	166,672.07	-	3,918,614.92
Total capital assets being depreciated, net	1,303,019.03	221,944.21	-	1,524,963.24
Governmental activities capital assets, net	<u>\$ 1,396,231.68</u>	<u>\$ 221,944.21</u>	<u>\$ (46,982.65)</u>	<u>\$ 1,571,193.24</u>
Business-type activities:				
Capital assets, being depreciated				
Water and sewer system	\$ 4,715,358.85	\$ -	\$ -	\$ 4,715,358.85
Buildings	-	306,800.47		306,800.47
Furniture	-	23,039.33		23,039.33
Total capital assets, being depreciated	4,715,358.85	329,839.80	-	5,045,198.65
Less accumulated depreciation for:				
Water and sewer system	2,830,984.65	128,527.57		2,959,512.22
Buildings	-			-
Furniture	-			-
Total accumulated depreciation	2,830,984.65	128,527.57	-	2,959,512.22
Business-type activities capital assets, net	<u>\$ 1,884,374.20</u>	<u>\$ 201,312.23</u>	<u>\$ -</u>	<u>\$ 2,085,686.43</u>

TOWN OF RANSOM CANYON, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2017

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

Governmental activities:

General government	\$ 14,618.55
Public safety - police department	32,097.60
Public safety - fire department	24,110.47
Public works - street department	92,634.70
Emergency operations	2,480.90
Library	729.85
Total depreciation expense -- governmental activities	<u>\$ 166,672.07</u>

Business-type activities:

Water and sewer system	<u>\$ 128,527.57</u>
Total depreciation expense -- business-type activities	<u>\$ 128,527.57</u>

14. Individual Fund Disclosures

The water and sewer system of the City services approximately 568 properties. During the year ended September 30, 2017 the City sold approximately 66,872,000 gallons of water.

The City provides solid waste pickup and mosquito spraying services for its citizens with revenues and expenses recorded in the enterprise fund. The City contracts with a private company for waste collection and disposal. This waste is disposed of at the City of Lubbock's regional landfill or a landfill owned by a private company where the City is charged a fee based on weight to dispose of its waste. These fees will cover the City's share of any post-closure expenses and thus no provision is made in the financial statements for future costs associated with the landfill. Mosquito spraying is done on an as needed basis. Citizens are charged a monthly fee to cover the costs of these services.

15. Debt Refunding

The City issued the Series 2010 General Obligation Refunding Bonds on November 18, 2010 for \$980,000. The proceeds were used to retire the Series 2001 Certificates of Obligation and to pay for the issuance costs of the Series 2010 General Obligation Refunding Bonds. These refunding bonds were issued to reduce the total debt service over the next 10 years by approximately \$70,000. This results in a net present value benefit (difference between the present value of the debt service payment on the old and the new debt) of \$57,106.66.

16. Budget

The City's budget contained expenditures in excess of revenues for the year ended September 30, 2017. A significant portion of the excess could be attributed to capital expenditures for a new City Hall facility. The excess expenditures are covered by drawing on reserves saved for this new facility and transfers from the enterprise fund. The City Council also approved any expenditures in excess of budgeted amounts for each account on the books.

17. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to September 30, 2017 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2017. Management has performed their analysis through November 24, 2017, the date the financial statements were available for issuance.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF RANSOM CANYON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts		Variance With
				Adjustments to Budgetary Basis	Final Budget Positive (Negative)
	Original	Final	Actual	Actual on Budgetary Total	
Revenues					
Property taxes	\$ 687,000.00	\$ 687,000.00	\$ 722,299.05	\$ 722,299.05	\$ 35,299.05
Penalties and interest	3,000.00	3,000.00	4,056.30	4,056.30	1,056.30
Permits	5,000.00	5,000.00	10,482.50	10,482.50	5,482.50
Franchise fees	25,200.00	25,200.00	26,327.27	26,327.27	1,127.27
Library revenue	8,000.00	8,000.00	7,990.00	7,990.00	(10.00)
R V storage revenue	12,400.00	12,400.00	17,088.34	17,088.34	4,688.34
Municipal court revenue	500.00	500.00	1,967.10	1,967.10	1,467.10
Tax certificates	100.00	100.00	564.00	564.00	464.00
Interest revenue	2,500.00	2,500.00	2,519.67	2,519.67	19.67
Sales tax revenue	8,000.00	8,000.00	10,679.09	10,679.09	2,679.09
Grant revenue		10,000.00	10,000.00	10,000.00	-
Miscellaneous	6,280.00	6,280.00	15,643.95	15,643.95	9,363.95
Total Revenues	757,980.00	767,980.00	829,617.27	-	61,637.27
Expenditures					
Current:					
General government	347,495.00	361,788.00	340,808.34	340,808.34	20,979.66
Operations	190,588.00	191,877.00	167,160.38	167,160.38	24,716.62
City court	5,600.00	5,600.00	3,395.67	3,395.67	2,204.33
Public safety - police department	273,762.00	277,646.00	267,083.91	267,083.91	10,562.09
Public safety - fire department	47,175.00	57,562.00	72,858.85	72,858.85	(15,296.85)
Public works - street department	97,525.00	97,525.00	83,160.89	83,160.89	14,364.11
Library	27,655.00	29,189.00	29,202.57	29,202.57	(13.57)
Emergency operations	3,000.00	3,000.00	2,151.93	2,151.93	848.07
Capital outlay	399,500.00	409,500.00	341,633.63	341,633.63	67,866.37
Total Expenditures	1,392,300.00	1,433,687.00	1,307,456.17	-	126,230.83
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(634,320.00)	(665,707.00)	(477,838.90)	-	187,868.10
Other Financing Sources (Uses)					
Note proceeds	325,000.00	325,000.00	-	-	(325,000.00)
Transfers in	524,473.00	524,473.00	325,000.00	-	(199,473.00)
Total Other Financing Sources and Uses	849,473.00	849,473.00	325,000.00	-	(524,473.00)
Net Change in Fund Balance	215,153.00	183,766.00	(152,838.90)	-	(336,604.90)
Fund Balance, October 1	243,962.05	243,962.05	243,962.05		
Fund Balance, September 30	\$ 459,115.05	\$ 427,728.05	\$ 91,123.15	\$ -	\$ (336,604.90)

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

TOWN OF RANSOM CANYON, TEXAS
Schedule of Changes in Net Pension Liability and Related Ratios
(unaudited)

	Calendar Year		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 51,485	\$ 52,228	\$ 58,412
Interest (on the Total Pension Liability)	95,992	104,470	110,872
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(4,679)	(32,917)	10,383
Change of assumptions	-	47,799	-
Benefit payments, including refunds of employee contributions	<u>(19,564)</u>	<u>(24,547)</u>	<u>(24,547)</u>
Net Change in Total Pension Liability	123,234	147,033	155,120
Total Pension Liability - Beginning	<u>1,355,347</u>	<u>1,478,581</u>	<u>1,625,614</u>
Total Pension Liability - Ending (a)	<u>\$ 1,478,581</u>	<u>\$ 1,625,614</u>	<u>\$ 1,780,734</u>
 Plan Fiduciary Net Position			
Contributions - employer	\$ 64,870	\$ 71,479	\$ 75,041
Contributions - employee	28,981	29,703	31,264
Net investment income	41,427	1,239	62,002
Benefit payments, including refunds of employee contributions	(19,564)	(24,547)	(24,547)
Administrative expense	(432)	(754)	(699)
Other	<u>(36)</u>	<u>(37)</u>	<u>(38)</u>
Net Change in Plan Fiduciary Net Position	115,246	77,083	143,023
Plan Fiduciary Net Position - Beginning	<u>723,851</u>	<u>839,097</u>	<u>916,180</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 839,097</u>	<u>\$ 916,180</u>	<u>\$ 1,059,203</u>
 Net Pension Liability - Ending (a) -(b)	\$ 639,484	\$ 709,434	\$ 721,531
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	56.75%	56.36%	59.48%
 Covered Employee Payroll	\$ 483,020	\$ 495,055	\$ 521,071
 Net Pension Liability as a Percentage of Covered Employee Payroll	132.39%	143.30%	138.47%

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

TOWN OF RANSOM CANYON, TEXAS
Schedule of Contributions
(unaudited)

	Fiscal Year End		
	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>
Actuarially Determined Contribution	\$ 70,339.27	\$ 73,802.64	\$ 82,136.04
Contributions in relation to the actuarially determined contribution	<u>70,339.27</u>	<u>73,802.64</u>	<u>82,136.04</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 490,102.60	\$ 512,101.94	\$ 544,652.06
Contributions as a percentage of covered employee payroll	14.35%	14.41%	15.08%

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

TOWN OF RANSOM CANYON, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2017

Budgetary Control - Policy and Practice

The City operates on a twelve-month fiscal year which begins on October 1. The City Administrator prepares the budget under the supervision of the Mayor and the City Council. The Mayor is the budget officer and submits a budget of estimated revenues and expenditures to the City Council. Upon receipt of the budget estimates the City Council holds a budget workshop and a public budget hearing. Prior to October 1, the budget is legally enacted through approval by the City Council. Once approved, the Council may amend the legally adopted budget by a majority vote when unexpected modifications are required in estimated revenues and appropriations. In addition to the legally adopted budget the Council approves payment of expenditures at each monthly Council meeting. Unused appropriations for all annually budgeted funds lapse at the end of the fiscal year. Budgets are prepared on the modified accrual basis and include debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Fund does not include depreciation as a budgetary expense.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures of governmental funds and proprietary funds are also budgeted on a detailed line item basis. Management may at its discretion transfer appropriations between line item amounts so long as the total budgeted appropriation is not changed. The total budget constitutes the legal level of control. Expenditures may not exceed appropriations at the total levels. Budget revisions at this level are subject to final review by the City Council.

The City prepares its budget on a government wide basis; that is the funds are not separated and budgeted individually. The budget for the year ended September 30, 2017 provided for expenditures that exceeded revenues by \$660,771.

The Budgetary Comparison Schedule, included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results.

TOWN OF RANSOM CANYON, TEXAS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017**

Schedule of Contributions

Valuation Date:

Notes 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	20 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

Staff Reports