CITY OF CHANDLER, TEXAS

BASIC FINANCIAL STATEMENTS and REQUIRED SUPPLEMENTARY and OTHER INFORMATION

FISCAL YEAR ENDED SEPTEMBER 30, 2017

Gollob Morgan Peddy PC
CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF CHANDLER, TEXAS

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Gollob Morgan Peddy
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Chandler, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Chandler, Texas , as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Chandler, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Chandler, 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 on pages 3-8 be presented to supplement the basic financial statements. Such information,

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although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Chandler, Texas' basic financial statements. The additional supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

Emphasis of Matter

As discussed in Note 10 to the financial statements, there was a prior period adjustment to beginning fund balance. The adjustment was made to transfer a portion of the TMRS net pension liability to the Business-Type Activities from the Governmental Type Activities. Our opinions are not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018 on our consideration of City of Chandler, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Chandler, Texas' internal control over financial reporting and compliance.

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
April 30, 2018

Management's Discussion and Analysis

As management of the City of Chandler, 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.

Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by $8,083,660 (net position). Of this amount $1,017,647 may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of $2,002,029. Of this amount $402,791 (20.12%) is available for spending at the government's discretion.
- The total net position of $8,083,660 is made up of $5,245,298 in capital assets net of related debt and $2,838,362 in other net position.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial statements are prepared using Governmental Accounting Statement No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.*

The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Chandler's finances, in a manner similar to a private sector business.

> The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, other nonfinancial factors must also be considered.
>
> The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Chandler that are principally supported by taxes and other governmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety and streets and drainage. The business-type activities include water and sewer.

The fund financial statements are presented using fund designations. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

> *Governmental funds.* These funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and

outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, economic development fund and capital project fund. Data from the other governmental funds is presented as a single aggregated presentation.

Proprietary funds. The City of Chandler maintains one type of proprietary fund – an enterprise fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City used enterprise funds to account for its water and sewer operations and capital projects.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer as well as for the capital projects. A combination of the two funds was presented in the government-wide financial statements.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. As of the end of the fiscal year, September 30, 2017, the City's assets exceeded liabilities by $8,083,660.

By far the largest portion of the City's net position, $5,245,298, reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less any related debt used to acquire these assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. This amount decreased by $520,621 from the prior year primarily from depreciation. The amount of unrestricted net position $1,017,647 increased by $330,462 from the prior year primarily due to an increase in property tax and sales tax revenue.

City of Chandler's Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 2,136,265	$ 794,348	$ 2,296,240	$ 1,883,197	$ 4,432,505	$ 2,677,545
Capital assets	4,216,945	3,767,134	5,287,609	5,373,215	9,504,554	9,140,349
Total assets	**6,353,210**	**4,561,482**	**7,583,849**	**7,256,412**	**13,937,059**	**11,817,894**
Deferred outflows	60,548	86,045	14,583	-	75,131	86,045
Current liabilities	122,708	202,746	79,600	384,417	202,308	587,163
Noncurrent liabilities	2,140,908	538,108	3,579,579	3,522,970	5,720,487	4,061,078
Total liabilities	**2,263,616**	**740,854**	**3,659,179**	**3,907,387**	**5,922,795**	**4,648,241**
Deferred inflows	4,622	7,273	1,113	-	5,735	7,273
Net invested in capital assets	2,338,019	3,452,946	2,907,279	2,312,973	5,245,298	5,765,919
Restricted	1,599,238	364,288	221,477	431,033	1,820,715	795,321
Unrestricted	208,263	82,166	809,384	605,019	1,017,647	687,185
Total net position	**$ 4,145,520**	**$ 3,899,400**	**$ 3,938,140**	**$ 3,349,025**	**$ 8,083,660**	**$ 7,248,425**

Governmental activities. Governmental activities net position increased by $204,394 during the year which was primarily attributable to higher property tax and sales tax revenue and expenditures being under budget. The business-type activities resulted in a $630,841 increase due to settlement revenue and a reduction and water sewer operations expenses.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Charges for services	$ 1,027,009	$ 965,918	$ 1,217,793	$ 1,460,459	$ 2,244,802	$ 2,426,377
Capital grants and contributions	29,059	-	-	-	29,059	-
General Revenue						
Property taxes	935,724	815,054	-	-	935,724	815,054
Franchise taxes	133,978	129,186	-	-	133,978	129,186
Sales and use taxes	857,572	673,481	-	-	857,572	673,481
Settlement Revenue	-	-	399,912	-	399,912	-
Insurance Proceeds	38,282	-	-	-	38,282	-
Interest income	5,723	1,149	3,183	2,405	8,906	3,554
Total revenue	**3,027,347**	**2,584,788**	**1,620,888**	**1,462,864**	**4,648,235**	**4,047,652**
Expenses						
General government	1,022,571	1,091,883	-	-	1,022,571	1,091,883
Public safety	778,805	679,942	-	-	778,805	679,942
Public works	563,587	984,867	-	-	563,587	984,867
Community center	7,302	12,679	-	-	7,302	12,679
Parks and recreation	239,798	-	-	-	239,798	-
City library	61,726	55,990	-	-	61,726	55,990
Interest	76,552	21,109	122,131	132,674	198,683	153,783
Bond issue cost	69,792	-	-	-	69,792	-
Water and sewer operations	-	-	870,736	1,723,805	870,736	1,723,805
Total expenses	**$ 2,820,133**	**$ 2,846,470**	**$ 992,867**	**$ 1,856,479**	**$ 3,813,000**	**$ 4,702,949**

Other						
Transfers	$ (2,820)	$ 251,913	$ 2,820	$ (251,913)	$ -	$ -
Total other	**(2,820)**	**251,913**	**2,820**	**(251,913)**	**-**	**-**
Change in net position	204,394	(9,769)	630,841	(645,528)	835,235	(655,297)
Net position, beginning, as originally stated	3,899,400	3,909,169	3,349,025	3,994,553	7,248,425	7,903,722
Prior period adjustment	41,726	-	(41,726)	-	-	-
Net position, beginning, as restated	3,941,126	3,909,169	3,307,299	3,994,553	7,248,425	7,903,722
Net position, end of the year	$ 4,145,520	$ 3,899,400	$ 3,938,140	$ 3,349,025	$ 8,083,660	$ 7,248,425

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the City's governmental funds reported an ending fund balance of $2,002,029 of which $402,791 is unrestricted and available for spending at the City's discretion. The remainder is reserved to indicate that it is not available for new spending because it has already been committed for future capital improvements and court technology.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net position of the proprietary fund amounted to $809,384. The total net position increased by $630,841 for the year.

General Fund Budgetary Highlights

Over the year, the City of Chandler made revisions to its original budget. At the end of the year, revenues were higher than the budgeted amount by $24,284. Actual expenditures were less than budgeted amounts by $28,509, Transfers between the governmental funds and proprietary funds resulted in an actual decrease to fund balance of $2,820 at year end.

Capital Assets and Debt Administration

Capital Assets. The City of Chandler's investment in capital assets for the governmental and business-type activities as of September 30, 2017, amounts to $5,245,298 net of accumulated depreciation and related debt. This investment in capital assets includes land, construction in progress, buildings, machinery and equipment, water and sewer systems, and infrastructure. The total decrease in the City's investment in fixed assets for the current year was $520,621.

During the year, the City made additions to the water and sewer system, made various additions to machinery and equipment.

City of Chandler's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	$ 595,874	$ 595,874	$ 124,933	$ 124,933	$ 720,807	$ 720,807
Construction in Progress	395,163	-	52,888	-	448,051	-
Buildings and improvements	957,007	955,717	-	-	957,007	955,717
Infrastructure	1,788,215	1,764,310	-	-	1,788,215	1,764,310
Machinery and equipment	480,686	451,233	58,961	65,597	539,647	516,830
Water and sewer system	-	-	5,050,827	5,182,685	5,050,827	5,182,685
Combined total	**$ 4,216,945**	**$ 3,767,134**	**$ 5,287,609**	**$ 5,373,215**	**$ 9,504,554**	**$ 9,140,349**

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total debt outstanding of $5,720,487. Of this amount, $4,775,000 comprises debt backed by revenue bonds, refunding bonds and certificates of obligation.

Several of the City's bonds are insured thus holding a Triple A rating from both Moody's and Standard & Poor's. Additional information on the City's long-term debt can be found in the footnotes to this financial report.

City of Chandler's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Compensated absences	$ 26,940	$ 33,986	$ -	$ -	$ 26,940	$ 33,986
Net pension liability	235,042	293,741	56,609	-	291,651	293,741
Revenue bonds	1,505,000	-	3,270,000	3,555,000	4,775,000	3,555,000
Premium on Bond Issue	67,794		-		67,794	-
Note payable	306,132	314,188	252,970	291,551	559,102	605,739
Combined total	**$ 2,140,908**	**$ 641,915**	**$ 3,579,579**	**$ 3,846,551**	**$ 5,720,487**	**$ 4,488,466**

Economic Factors and Next Year's Budgets and Rates

Economic trends in the area mirror those of Tyler, Texas that is located in a U. S. Census metropolitan economic region within commuting distance of most of the City's citizens. In the region, unemployment has remained steady and is generally better than that of the whole country.

The City strives to keep expenditures to a minimum. With controlled spending and use of reserves, the City should be able to absorb any unexpected inflationary price change such as fuel and power costs.

The City expects to see an increase in sales tax revenue for the next couple years due to increased commercial development.

All of these factors were considered in preparing the City's budget for the 2018 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the City of Chandler's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Chandler, Attn: Finance Director, P. O. Box 425, Chandler, TX 75758 or call 903-849-6853 or email sbarnes@chandlertx.com.

BASIC FINANCIAL STATEMENTS

Exhibit 1

CITY OF CHANDLER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	$ 712,908	$ 889,066	$ 1,601,974
Inventory	-	39,819	39,819
Receivables (net of allowance for doubtful accounts)	194,047	156,774	350,821
Internal balances	153,537	(153,537)	-
Restricted Assets:			
Temporarily restricted:			
Revenue bond debt service	-	221,477	221,477
Cash for construction	1,075,773	1,142,641	2,218,414
Capital Assets (net of accumulated depreciation):			
Land	595,874	124,933	720,807
Construction in progress	395,163	52,888	448,051
Buildings and improvements	957,007	-	957,007
Water and sewer system	-	5,050,827	5,050,827
Machinery and equipment	480,686	58,961	539,647
Infrastructure	1,788,215	-	1,788,215
Total Assets	6,353,210	7,583,849	13,937,059
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on TMRS pension	60,548	14,583	75,131
Total Deferred Outflows of Resources	60,548	14,583	75,131
LIABILITIES			
Accounts payable and accrued expenses	122,708	79,600	202,308
Non-current liabilities:			
Due within one year	120,128	334,561	454,689
Due in more than one year	2,020,780	3,245,018	5,265,798
Total Liabilities	2,263,616	3,659,179	5,922,795
DEFERRED INFLOWS OF RESOURCES			
Deferred charge on TMRS pension	4,622	1,113	5,735
Total Deferred Inflows of Resources	4,622	1,113	5,735
NET POSITION			
Investment in capital assets, net of related debt	2,338,019	2,907,279	5,245,298
Restricted for:			
Debt service	-	221,477	221,477
Economic development	496,669	-	496,669
Future construction	1,102,569	-	1,102,569
Unrestricted	208,263	809,384	1,017,647
Total Net Position	$ 4,145,520	$ 3,938,140	$ 8,083,660

The notes to the financial statements are an integral part of this statement.

Exhibit 2

CITY OF CHANDLER, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2017

PROGRAM ACTIVITIES	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: PRIMARY GOVERNMENT: GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: PRIMARY GOVERNMENT: BUSINESS-TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT:						
Governmental activities:						
General government	$ 1,022,571	$ 492,250	$ -	$ (530,321)	$ -	$ (530,321)
Public safety	778,805	359,384	-	(419,421)	-	(419,421)
Public works	563,587	-	-	(563,587)	-	(563,587)
Community center	7,302	-	-	(7,302)	-	(7,302)
Parks and recreation	239,798	152,586	29,059	(58,153)	-	(58,153)
City library	61,726	22,789	-	(38,937)	-	(38,937)
Bond issue cost	69,792	-	-	(69,792)	-	(69,792)
Interest and fees	76,552	-	-	(76,552)	-	(76,552)
Total governmental activities	2,820,133	1,027,009	29,059	(1,764,065)	-	(1,764,065)
Business-type activities:						
Water and sewer	870,736	1,217,793	-	-	347,057	347,057
Interest	122,131	-	-	-	(122,131)	(122,131)
Total business-type activities	992,867	1,217,793	-	-	224,926	224,926
Total primary government	$ 3,813,000	$ 2,244,802	$ 29,059	(1,764,065)	224,926	(1,539,139)
General revenues:						
Property taxes				935,724	-	935,724
Franchise taxes				133,978	-	133,978
Sales and use taxes				857,572	-	857,572
Interest income				5,723	3,183	8,906
Settlement revenue				-	399,912	399,912
Insurance proceeds				38,282	-	38,282
Transfers				(2,820)	2,820	-
Total general revenues and transfers				1,968,459	405,915	2,374,374
Change in Net Position				204,394	630,841	835,235
Net Position - beginning of year				3,899,400	3,349,025	7,248,425
Prior period adjustment (Note 10)				41,726	(41,726)	-
Net Position - beginning of year, as restated				3,941,126	3,307,299	7,248,425
Net Postition - end of year				$ 4,145,520	$ 3,938,140	$ 8,083,660

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	GENERAL	ECONOMIC DEVELOPMENT FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	ELIMINATIONS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and Cash Equivalents	$ 275,916	$ 435,101	$ 1,044,627	$ 33,037	$ -	$ 1,788,681
Receivables:						
Sales Tax Receivable	94,844	31,615	-	-	-	126,459
Trash Services Receivable	29,876	-	-	-	-	29,876
Grants Receivable	20,965	-	-	-	-	20,965
Property Tax Receivable (net of allowance for estimated uncollectibles)	9,399	-	-	3,909	-	13,308
Other Receivables	3,439	-	-	-	-	3,439
Due from Other Funds	153,537	30,113	-	-	(30,113)	153,537
Total Assets	$ 587,976	$ 496,829	$ 1,044,627	$ 36,946	$ (30,113)	$ 2,136,265
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES:						
Accounts Payable	$ 97,737	$ 160	$ -	$ -	$ -	$ 97,897
Due to other funds	30,113	-	-	-	(30,113)	-
Accrued Compensated Absences	26,940	-	-	-	-	26,940
Total Liabilities	154,790	160	-	-	(30,113)	124,837
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue - property taxes	9,399	-	-	-	-	9,399
Total Deferred Inflows of Resources	9,399	-	-	-	-	9,399
FUND BALANCES:						
Restricted:						
Capital Improvements	-	-	1,044,627	35,055	-	1,079,682
City Programs	-	-	-	1,891	-	1,891
Economic Development	-	496,669	-	-	-	496,669
Court Security and Technology	20,996	-	-	-	-	20,996
Unassigned	402,791	-	-	-	-	402,791
Total Fund Balances	423,787	496,669	1,044,627	36,946	-	2,002,029
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 587,976	$ 496,829	$ 1,044,627	$ 36,946	$ (30,113)	

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit 1)

	Total Governmental Funds
Total fund balances governmental funds (Exhibit 3 page 1)	$ 2,002,029
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	4,216,945
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	9,399
Deferred outflows represent the consumption of net position that are applicable to a future reporting period.	60,548
Deferred inflows is an acquisition of net assets that is applicable to a future reporting period.	(4,622)
Interest payable on long-term debt does not require current financial resources and, therefore, interest payable is not reported as a liabiliity in governmental funds balance sheet.	(24,811)
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(2,113,968)
Net position of governmental activities	$ 4,145,520

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	GENERAL	ECONOMIC DEVELOPMENT FUND	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	ELIMINATIONS	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Property taxes	$ 900,838	$ -	$ -	$ 35,046	$ -	$ 935,884
Sales tax	643,669	213,903	-	-	-	857,572
Franchise tax	133,978	-	-	-	-	133,978
Fines	359,384	-	-	-	-	359,384
Licenses and permits	30,610	-	-	-	-	30,610
Zoning and platting fees	1,601	-	-	-	-	1,601
Library	22,789	-	-	-	-	22,789
Little league fees	87,035	-	-	-	-	87,035
Concession revenue	65,551	-	-	-	-	65,551
Interest	673	749	4,287	14	-	5,723
Rents	21,923	-	-	-	-	21,923
Miscellaneous	25,460	371	10	-	-	25,841
Grants	29,059	-	-	-	-	29,059
Trash and tax collection	398,090	-	-	-	-	398,090
Lease income	14,185	-	-	-	-	14,185
Total Revenues	2,734,845	215,023	4,297	35,060	-	2,989,225
EXPENDITURES						
General government	843,759	129,966	1,562	59	-	975,346
Public safety	469,440	-	-	-	-	469,440
Public works	419,308	-	-	-	-	419,308
Community center expense	7,302	-	-	-	-	7,302
Municipal court	250,685	-	-	-	-	250,685
City Library	61,563	-	-	-	-	61,563
Parks and recreation	182,598	-	-	-	-	182,598
Capital outlay	361,822	-	389,663	-	-	751,485
Debt service - principal	90,960	-	-	-	-	90,960
Debt service - interest	51,741	-	-	-	-	51,741
Total Expenditures	2,739,178	129,966	391,225	59	-	3,260,428
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,333)	85,057	(386,928)	35,001	-	(271,203)
Other Financing Sources (Uses):						
Insurance proceeds	28,490	-	9,792	-	-	38,282
Loan proceeds	82,904	-	-	-	-	82,904
Bond proceeds	-	-	1,572,794	-	-	1,572,794
Bond issue cost	-	-	(69,792)	-	-	(69,792)
Transfers in	60,570	61,585	-	1,945	(82,100)	42,000
Transfers out	(44,820)	(861)	(81,239)	-	82,100	(44,820)
Total Other Financing Sources (Uses)	127,144	60,724	1,431,555	1,945	-	1,621,368
Net Change in Fund Balances	122,811	145,781	1,044,627	36,946	-	1,350,165
Fund Balance, October 1, 2016	300,976	350,888	-	-	-	651,864
Fund Balance, September 30, 2017	$ 423,787	$ 496,669	$ 1,044,627	$ 36,946	$ -	$ 2,002,029

The notes to the financial statements are an integral part of this statement.

Exhibit 5

CITY OF CHANDLER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2017

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	$	1,350,165
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 outlay exceeded depreciation in the current period.		449,811
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(160)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on financial position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(1,589,549)
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		(5,873)
Change in net position of governmental activities	$	204,394

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property taxes	$ 901,226	$ 901,226	$ 900,838	$ (388)
Sales tax	718,500	718,500	642,815	(75,685)
Franchise tax	137,000	137,000	133,978	(3,022)
Fines	300,000	313,720	359,384	45,664
Licenses and permits	25,000	29,000	30,610	1,610
Library	19,776	22,776	22,789	13
Little league fees	92,505	105,005	87,035	(17,970)
Interest	350	350	673	323
Rents	25,000	23,300	21,923	(1,377)
Grants	-	-	29,059	29,059
Miscellaneous	18,375	19,550	25,460	5,910
Trash and tax collection	365,000	365,000	398,090	33,090
Lease income	13,000	13,885	14,185	300
Zoning & platting fees	600	600	1,601	1,001
Concession revenue	54,795	59,795	65,551	5,756
Total Revenues	2,671,127	2,709,707	2,733,991	24,284
EXPENDITURES				
General government	1,039,526	1,065,880	1,019,476	46,404
Public safety	536,628	606,567	585,251	21,316
Public works	614,214	627,180	624,894	2,286
Community center expense	11,850	11,850	7,302	4,548
Municipal court	245,136	246,636	261,474	(14,838)
City Library	64,773	63,773	62,142	1,631
Parks and recreation	159,000	170,725	203,563	(32,838)
Total Expenditures	2,671,127	2,792,611	2,764,102	28,509
Revenues Over (Under) Expenditures	-	(82,904)	(30,111)	52,793
OTHER FINANCIING SOURCES (USES)				
Transfers in	-	-	60,570	60,570
Transfers out	-	-	(44,820)	(44,820)
Insurance proceeds	-	-	28,490	28,490
Loan proceeds	-	82,904	82,904	-
Total Other Financing Sources (Uses)	-	82,904	127,144	44,240
Revenues and Other Sources Over (Under) Expenditures and Other Uses - Budget Basis	-	-	97,033	97,033
Budget Basis to GAAP Basis Adjustments (Note A)	-	-	25,778	25,778
Revenues and Other Sources Over (Under) Expenditures and Other Uses - GAAP Basis	-	-	122,811	122,811
Net Change in Fund Balances	-	-	122,811	122,811
Fund Balance, October 1, 2016	-	-	300,976	300,976
Fund Balance, September 30, 2017	$ -	$ -	$ 423,787	$ 423,787

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2017

Note A - Explanation of Differences Between Budget Basis Presentation and GAAP Basis Presentation:

Sources/Inflows of Resources:	
Differences - Budget to GAAP	
Increase in accrued sales taxes	$ 854
Total Sources/Inflows of Resources	854
Uses/Outflows of Resources:	
Differences - Budget to GAAP	
Decrease in accrued expenses	24,924
Total Uses/Outflows of Resources	24,924
Net Change in Budget Basis Presentation and GAAP Basis Presentation	$ 25,778

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND OPERATING FUND
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 889,066
Inventory	39,819
Accounts receivable (Net)	156,774
Total Current Assets	1,085,659
Restricted Assets:	
Temporarily Restricted	
Revenue bond debt service	221,477
Cash for construction	1,142,641
Total Restricted Assets	1,364,118
Capital Assets:	
Land	124,933
Water and sewer system	7,675,024
Machinery & equipment	177,738
Construction in progress	52,888
Less: Accumulated depreciation	(2,742,974)
Total Capital Assets Net Of Accumulated Depreciation	5,287,609
Total Assets	7,737,386
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on TMRS pension	14,583
Total Deferred Outflows of Resources	14,583
LIABILITIES	
Current Liabilities:	
Accounts payable	28,487
Accrued interest	51,113
Due to other funds	153,537
Noncurrent liabilities - current portion	334,561
Total Current Liabilities	567,698
Noncurrent Liabilities:	
Net pension liability	56,609
Revenue bonds payable	3,188,409
Total Liabilities	3,812,716
DEFERRED INFLOWS OF RESOURCES	
Deferred charge on TMRS pension	1,113
Total Deferred Inflows of Resources	1,113
NET POSITION	
Invested in capital assets, net of related debt	2,907,279
Restricted for debt service	221,477
Unrestricted	809,384
Total Net Position	$ 3,938,140

The notes to the financial statements are an integral part of this statement.

Exhibit 8

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND OPERATING FUND
OPERATING REVENUES	
Water sales and sewer service	$ 1,157,962
Charges for services	59,831
Total Operating Revenues	1,217,793
OPERATING EXPENSES	
Water and sewer operations	690,808
Depreciation	179,928
Total Operating Expenses	870,736
Operating Income (Loss)	347,057
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(122,131)
Settlement revenue	399,912
Interest income	3,183
Transfers in	44,820
Transfers out	(42,000)
Total Non-Operating Revenues (Expenses)	283,784
Change in Net Position	630,841
Net Position, October 1, 2016	3,349,025
Prior period adjustment (Note 10)	(41,726)
Net Position, October 1, 2016 as restated	3,307,299
Net Position, September 30, 2017	$ 3,938,140

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

Increase (Decrease) in Cash and Cash Equivalents

	OPERATING FUND
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	$ 1,318,981
Cash paid to suppliers for goods and services	(473,186)
Cash paid to employees for services	(193,021)
Net cash provided by operating activities	652,774
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Settlement revenue	399,912
Transfers in	44,820
Transfers out	(42,000)
Net cash provided by non-capital financing activities	402,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset purchases	(94,322)
Interest paid	(126,555)
Principal paid on bonds	(323,581)
Net cash used in capital and related financing activities	(544,458)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned on investments	3,183
Net cash provided by investing activities	3,183
Net increase in cash	514,231
Cash, beginning of period	1,738,953
Cash, end of period	$ 2,253,184
Reconciliation of Cash on Exhibit 7:	
Cash and certificates of deposit	$ 889,066
Cash - restricted assets	1,364,118
Total Cash	$ 2,253,184
Reconciliation of Operating Income To Net Cash Provided by Operating Activities:	
Operating income	$ 347,057
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation expense	179,928
Increase in accounts receivable	(15,826)
Increase in due to other funds	117,014
Decrease in deferred outflows of resources	2,118
Increase in accounts payable	23,188
Increase in deferred inflows of resources	(299)
Decrease in net pension liability	(406)
Total adjustments	305,717
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 652,774

The notes to the financial statements are an integral part of this statement.

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Chandler, Texas (the "City") was incorporated on January 9, 1913, under the provisions of the State of Texas. The City operates under a council form of government and provides the following services as authorized by state law: public safety (police), streets, health and social services, culture, recreation, public improvements, planning, general administrative services, and utilities operations.

The accounting policies of the City of Chandler, Texas conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

B. The Reporting Entity

These financial statements present all of the funds of the City.

The financial statements of the City of Chandler, Texas include all funds and other organizations for which the City is financially accountable. Financial accountability is determined on the basis of appointment of a voting majority of the respective governing board, imposition of will, financial benefit or burden and financial accountability as a result of fiscal dependency. In determining the financial reporting entity, the City complies with the provisions of Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", and includes all component units of which the City appointed a voting majority of the units' board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

The Chandler Area Economic Development Corporation, Inc. was formed in 1998, and is governed by a seven-member board of directors, which includes the City's council members. For financial reporting purposes, the Chandler Area Economic Development Corporation, Inc. has been presented as a blended component unit of the City and is reported as a Capital Projects Fund, because its purpose is to account for construction activities funded by the revenues generated by the one-half cent sales tax. The Chandler Area Economic Development Corporation, Inc. does not issue separate financial statements.

C. Government-wide 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 the taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

> The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> The Economic Development Fund is used to account for the use of the one-half cent sales tax proceeds for capital improvement projects of the City.
>
> The Capital Projects Fund is used to account for construction projects of the City.

The government reports the following major proprietary fund:

> The Water and Sewer Fund is used to account for sale of water and wastewater treatment by the City to businesses and residential customers, as well as the construction of related construction projects and the payment of the debt on these projects.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided and (2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for 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.

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

governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Assets, Liabilities, and Financial Position or Equity

1. Cash and cash equivalents – the City considers all cash in demand deposit accounts and petty cash accounts to be cash and cash equivalents, as well as certificates of deposit with original maturities of 90 days or less.

2. Receivables and Payables

   Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds:" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

   Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

   All receivables are shown net of an allowance for uncollectible.

   The City provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience.

   Property taxes are levied October 1 on the assessed value of property at January 1 and are due by January 31 of the following year. Unpaid taxes attach as an enforceable lien on property as of January 31. Revenue from taxes assessed is recorded as deferred revenue on October 1. The deferred revenue from taxes is then recognized as revenue during the year as the taxes are actually received.

3. Due from Other Funds

   Current portions of long-term interfund loans receivable (reported in "Due from" asset accounts) are considered "available spendable resources".

4. Inventory – is stated at cost using the first in/first out method. Quantities are determined by physical counts made at year end.

5. Capital Assets – includes property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

   Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20
Machinery and equipment	5
Infrastructure	20
Police vehicles	3

6. Construction in progress – Expenditures on incomplete capital projects have been capitalized as construction in progress. The assets resulting from these projects will be transferred from the construction in progress accounts to the appropriate asset accounts as the projects are completed.

7. Bond issue costs – The City has implemented GASB Statement No. 65. Under GASB Statement No. 65, bond issue costs are expensed when incurred.

8. Compensated Absences - A liability for unused vacation time for all full time employees is calculated and reported in the proprietary fund and government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

   Leave or compensation is attributable to services already rendered
   Leave or compensation is not contingent on a specific event (such as illness)

   Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the proprietary fund and government-wide statements.

   Vacation time is earned based on years of service. Regular full-time employees after one year of service up to four years of service earn ten days of vacation, regular full-time employees with five to fourteen years of service earn fifteen days of vacation, and regular full-time employees with sixteen or more years of service earn twenty days of vacation. Employees must use their vacation within the twelve month period after it is earned. They are not allowed to carry over unused vacation.

   The regular workweek is based on 40 hours actually worked. Overtime, unless required to be paid by Federal statutes, is accumulated as compensatory (comp) time and earned at time and a half for non-exempt employees and at straight time for exempt employees. Comp time is accumulated and may be taken off with approval.

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

10. Deferred Outflows / Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. The item is a deferred charge on the TMRS pension. The TMRS pension expense and net pension liability are reported as of the date of the last actuarial study, which was December 31, 2016. The deferred outflow shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2016 and September 30, 2017.

    In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources (revenue) until that time. The City has two items that qualify for reporting in this category. The first is an item which arises only under a modified accrual basis of accounting. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The second is reported in the government-wide statement of net position. It is a deferred charge related to the TMRS retirement pension. This represents the differences between expected and actual actuarial gains and losses, and projected and actual pension plan investment gains and losses. This amount will be amortized in future periods.

11. Fund Balance Classification – During the fiscal year ended September 30, 2012, the City adopted GASB Statement No. 54, which redefined how fund balances of governmental funds are presented in the financial statements. Fund balances are classified as follows:

    Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes any budgeted reserve account.

Assigned – Amounts that are designated by City Council for a specific purpose but are not spendable until a budget ordinance is passed.

Unassigned – All amounts not included in other spendable classifications.

12. Net Position – The City has adopted GASB Statement No. 63, which redefines how net assets are presented in the financial statements. The Statement of Net Assets is now the Statement of Net Position. Net position represents the difference between assets and liabilities. Amounts invested in capital assets, net of related debt, consists of the City's capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets. Amounts reported as restricted are those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors, or other laws and regulations.

13. Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

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

NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of financial position - One element of that reconciliation states that "Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet." The details of this $4,216,945 difference are as follows:

Capital assets, October 1, 2016 net of accumulated depreciation	$ 3,767,134
Capital asset additions, net of retirements	751,485
Depreciation of capital assets, net of retirements, current year	(301,674)
	$ 4,216,945

B. Explanation of certain differences between the governmental fund statement of revenue, expenditures, and changes in fund balance and the government-wide statement of activities - One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated to their estimated useful lives and reported as depreciation expense." The detail of this $449,811 difference are as follows:

Capital outlay, asset additions, net of retirements	$ 751,485
Depreciation expense, net of retirements	(301,674)
	$ 449,811

NOTE 3 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. The budget for the General Fund is adopted essentially on the cash basis. The budgetary comparisons for this fund are on this non-GAAP budgetary basis.

2. Appropriations lapse at year end.

4. Encumbrance accounting is not used.

NOTE 4 — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2017, the City had the following deposits and investments:

Statement of net position:	
Primary Government	
Cash and cash equivalents	$ 1,601,974
Restricted cash and cash equivalents	2,439,891
Total Cash and cash equivalents	$ 4,041,865
Cash on hand	$ 698
Savings and checking accounts	4,041,167
Total Cash and Investments	$ 4,041,865

Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits.

At September 30, 2017, the carrying value of the City's bank deposits was $4,041,865 while the bank balance was $4,144,604. As of September 30, 2017, $780,419 was not covered by federal depository insurance or collateral held in the pledging financial institutions' trust department in the City's name.

Interest Rate Risk – The City's investment policy allows for investments in certificates of deposit and money market funds to be made in order to achieve the highest return of interest on excess cash.

B. Receivables

Receivables as of year end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Economic Development Fund	TIF Fund	Water & Sewer Fund	Total
Receivables:					
Taxes	$ 24,836	$ -	$ 3,909	$ -	$ 28,745
Sales Tax	94,844	31,615	-	-	126,459
Grants	20,965	-	-	-	20,965
Accounts (services)	33,315	-	-	168,027	201,342
Gross Receivables	173,960	31,615	3,909	168,027	377,511
Less: Allowance for Uncollectibles	(15,437)	-	-	(11,253)	(26,690)
Net Receivables	$ 158,523	$ 31,615	$ 3,909	$ 156,774	$ 350,821

C. Capital Assets

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

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	$ -	$ 395,163	$ -	$ 395,163
Land	595,874	-	-	595,874
Total Capital Assets, Not Being Depreciated	595,874	395,163	-	991,037
Capital Assets, Being Depreciated:				
Buildings and Improvements	2,162,463	85,939	-	2,248,402
Infrastructure	3,231,870	166,908	-	3,398,778
Machinery and Equipment	1,294,708	103,475	-	1,398,183
Total Capital Assets, Being Depreciated	6,689,041	356,322	-	7,045,363
Less Accumulated Depreciation For:				
Buildings and Improvements	(1,206,746)	(84,649)	-	(1,291,395)
Infrastructure	(1,467,560)	(143,003)	-	(1,610,563)
Machinery and Equipment	(843,475)	(74,022)	-	(917,497)
Total Accumulated Depreciation	(3,517,781)	(301,674)	-	(3,819,455)
Net Total Assets Being Depreciated	3,171,260	54,648	-	3,225,908
Governmental Activities Capital Assets, Net	$ 3,767,134	$ 449,811	$ -	$ 4,216,945

PRIMARY GOVERNMENT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	$ -	$ 52,888	$ -	$ 52,888
Land	124,933	-	-	124,933
Total Capital Assets, Not Being Depreciated	124,933	52,888	-	177,821
Capital Assets, Being Depreciated:				
Water and Sewer System	7,649,053	25,971	-	7,675,024
Machinery and Equipment	162,275	15,463	-	177,738
Total Capital Assets, Being Depreciated	7,811,328	41,434	-	7,852,762
Less Accumulated Depreciation For:				
Water and Sewer System	(2,466,368)	(157,829)	-	(2,624,197)
Machinery and Equipment	(96,678)	(22,099)	-	(118,777)
Total Accumulated Depreciation	(2,563,046)	(179,928)	-	(2,742,974)
Net Total Assets Being Depreciated	5,248,282	(138,494)	-	5,109,788
Business-Type Activities Capital Assets, Net	$ 5,373,215	$ (85,606)	$ -	$ 5,287,609

The City has the following construction projects in progress at 9/30/2017:

Project	Spent-to-Date	Estimated Remaining
Sawmill Road Project	$ 395,163	$ 639,342
Water Well #7 Project	$ 52,888	$ 294,762

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

Governmental Activities:	
General Government	$ 45,654
Public Safety	55,818
Parks & Recreation	57,200
Public Service	143,002
Total depreciation expense, governmental activities	$ 301,674
Business-Type Activities:	
Water, Sewer and Sanitation Operations	$ 179,928

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2017 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water & Sewer	$ 153,537

Interfund transfers:

Fund	Transfers In	Transfers Out
Water & Sewer Fund	$ -	$ 2,820
General Fund	2,820	-

E. Leases

Operating Leases

Effective March 15, 2005, the City entered into a 10-year agreement to lease land to Alltel Communications, formerly Sprint Cellular, for a communications tower site. Effective August 14, 2007, the lease agreement was amended. The lease term was extended with Alltel Communications having the option to extend the agreement for each of four additional five year terms. Commencing on March 15, 2008, the rent increased to $9,000 per year. On March 15, 2015 and on each March 15th thereafter, rent shall increase by an amount equal to 3% of the rent payable for the year immediately preceding such increase.

On April 26, 2016 the City agreed to amend the lease with Verizon Wireless (American Towers, LLC, formerly Alltel Communications) in return for a signing bonus of $30,000, which would provide six additional five year extensions. Under the new agreement, in March 2035, the rent will escalate 15%. The annual 3% escalation previously agreed to will remain in effect.

During the year ended September 30, 2017, the City received $9,834 in rent under this agreement.

Future rentals to be earned by the City under this agreement are as follows:

Year Ended	Amount
2018	10,129
2019	10,433
2020	10,746
2021	11,068
2022	11,400
2023-2027	62,340
2028-2032	72,267
2033-2037	89,805
2038-2042	108,434
2043-2047	125,705
2048-2052	145,727
2053-2057	168,937
2058-2062	195,844
2063-2065	132,179
	$ 1,155,014

The City also entered into a lease agreement to rent a piece of property for a monthly amount of $600. Effective April 10, 2007, this lease agreement was amended and the rent was increased to $650 per month. The City will sublease a portion of this property to an organization for $300 per month. Under these two agreements, the City paid $7,800 in rent and received $3,600 in rent during the year ended September 30, 2017.

F. Long-term debt

Revenue Bonds and Certificates of Obligation

The government has issued bonds where the government pledges tax revenue and income derived from the acquired or constructed assets to pay debt service. The bonds issued by the City in prior years were to fund construction projects to improve or expand the water and sewer system. Income derived from the sale of water will be used to service the debt requirements. In prior years, the City issued refunding bonds to refinance a portion of its old bonds and the City also issued certificates of obligation to pay for wastewater system and street improvements.

Revenue bonds outstanding are as follows:

Governmental Activities:

Issue	Purpose	Interest Rates	Amount
Series - 2017	Certificate of Obligation	2.00% - 4.00%	1,505,000

Business-Type Activities:

Issue	Purpose	Interest Rates	Amount
Series - 2006	Refunding Issue	4.90%	$ 385,000
Series - 2006	Certificate of Obligation	4.90%	1,145,000
Series - 2014	Refunding Issue	2.93%	1,035,000
Series - 2014	Revenue Bond	2.40%	705,000
Total Outstanding Revenue Bonds and Certificates of Obligation			$ 3,270,000

The respective bond ordinances of the issues listed above require the following of the City: (a) creation of an interest and sinking fund for each issue; (b) establish a minimum balance to be held by each issue in order to pay the next interest and sinking requirement due; and (c) maintain tax revenue and net income from the City's water and sewer system sufficient to meet annual debt service requirement for all bond issues before the passage of a resolution authorizing the issuance of any new obligations.

As of September 30, 2017, the City was in compliance with all of its bond ordinances.

Annual debt service requirements to maturity for bonds are as follows:

Governmental Activities:

Year Ending September 30	Principal	Interest
2018	$ -	$ 53,083
2019	60,000	51,900
2020	60,000	50,700
2021	60,000	49,500
2022	65,000	47,925
2023-2027	345,000	209,625
2028-2032	410,000	143,400
2033-2037	505,000	52,100
	$ 1,505,000	$ 658,233

Business-Type Activities:

Year Ending September 30	Principal	Interest
2018	$ 295,000	$ 109,335
2019	310,000	99,357
2020	320,000	88,828
2021	330,000	78,028
2022	340,000	66,677
2023-2027	1,335,000	163,699
2028-2031	340,000	20,364
	$ 3,270,000	$ 626,288

Revenue bond ordinances require that the following information concerning insurance coverage as of September 30, 2017 be disclosed.

ANNUAL PREMIUM	POLICY NO.	NATURE OF COVERAGE	AMOUNT OF COVERAGE	POLICY PERIOD
$ 19,177	#H5490-01	Workers Compensation	Statutory Limits	10-1-17 to 10-1-2018
$ 12,914	#NYA803565	Liability General	$2,000,000/occurrence	10-1-17 to 10-1-2018
		Auto and Law Enforcement	$1,000,000/occurrence	10-1-17 to 10-1-2018
		Property:		
		Real & Personal	7,351,614	10-1-17 to 10-1-2018
		Mobile Equipment	388,819	10-1-17 to 10-1-2018
		Boiler & Machinery	$100,000/accident	10-1-17 to 10-1-2018
$ 3,752	#NYA812114	Errors & Omissions	$1,000,000	10-1-17 to 10-1-2018

Governmental Notes Payable

The City entered into a note payable with an individual: original loan amount of $385,000; bearing 6% interest; payable in equal annual installments of $52,317.95, due May 1 of each year beginning in 2011 and ending in 2021; secured by land.	$ 175,975
Government Capital Corporation; original loan amount of $133,767; bearing 2.28% interest; payable in equal annual installments of $35,370, due September 4 of each year beginning in 2016 and ending in 2019; secured by equipment.	68,391

Government Capital Corporation; original loan amount of $82,904; bearing 3.29% interest; payable in equal annual installments of $21,958, due March 30 of each year beginning in 2017 and ending in 2020; secured by equipment.	61,766
Total	$ 306,132
Less: Current Portion	(93,188)
LONG-TERM PORTION	$ 212,944

Annual debt service requirements to maturity for the City's Governmental notes payable are as follows:

Year Ending September 30	Principal	Interest
2018	$ 93,188	$ 16,457
2019	97,499	12,146
2020	66,690	7,585
2021	48,755	3,564
	$ 306,132	$ 39,752

Business-Type Notes Payable

Government Capital Corporation; original loan amount of $329,175; bearing 2.542% interest; payable in equal annual installments of $45,990, due September 4 of each year beginning in 2016 and ending in 2023; secured by equipment.	$ 252,970
Total	$ 252,970
Less: Current Portion	(39,561)
LONG-TERM PORTION	$ 213,409

Annual debt service requirements to maturity for the City's Business-Type notes payable are as follows:

Year Ending September 30	Principal	Interest
2018	$ 39,561	$ 7,410
2019	40,567	6,429
2020	41,598	5,424
2021	42,655	4,393
2022	43,739	336
2023	44,850	3,392
	$ 252,970	$ 27,384

Changes in long-term liabilities

Long term liability activity for the year ended September 30, 2017 was as follows:

	Beginning Balance 10/1/2016	Additions	Reductions	Ending Balance 9/30/2017	Due Within One Year
Governmental Activities:					
Revenue Bonds	$ -	$ 1,505,000	$ -	$ 1,505,000	$ -
Premium on issue of 2017 Bond	-	67,794	-	67,794	-
Notes Payable	314,188	82,904	90,960	306,132	93,188
Net Pension Liability	236,726	-	1,684	235,042	-
Compensated Absences	33,986	-	7,046	26,940	26,940
Governmental Activity Long-Term Liabilities	$ 584,900	$ 1,655,698	$ 99,690	$ 2,140,908	$ 120,128
Business-Type Activities:					
Revenue Bonds	$ 3,555,000	$ -	$ 285,000	$ 3,270,000	$ 295,000
Net Pension Liability	57,015	-	406	56,609	-
Notes Payable	291,551	-	38,581	252,970	39,561
Business-Type Activity Long-Term Liabilities	$ 3,903,566	$ -	$ 323,987	$ 3,579,579	$ 334,561

NOTE 5 — GROUP CONCENTRATIONS OF CREDIT RISK

The City provides water and sewer services as well as solid waste collection and disposal services to its residents. Residents use the City's water and sewer system and the solid waste collection services and are billed each month for usage in the prior month. The credit granted by the City for usage of these services is all with residents of the City. As of September 30, 2017, the City had $190,089 in net receivables from its residents for the usage of these services.

NOTE 6 — RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance and insurance with the Texas Municipal League (TML), a public entity risk pool for municipalities. The City pays premiums in monthly installments for this coverage. As of September 30, 2017, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended September 30, 2017, there was no reduction in insurance coverage from the prior year. There were no settlements in the prior three fiscal years which exceeded insurance coverage carried by the City.

NOTE 7 — COMMITMENTS

The City has a contract with the Chandler Volunteer Fire Department in which it makes an annual contribution of $36,000 in exchange for fire protection for residents of the City. During the year ended September 30, 2017, the City paid $36,000 under this contract.

The City has a contract with Sanitation Solutions for solid waste collection and disposal services for the residents of the City. The contract began May 1, 2007 and is effective until September 30, 2012. This contract has been extended until September 30, 2017. The City paid $246,028 under this contract as of September 30, 2017.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Chandler 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 publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2015	Plan Year 2016
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Year 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	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms.

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

	12/31/2015	12/31/2016
Inactive employees or beneficiaries currently receiving benefits	5	5
Inactive emplyees entitled to but not yet receiving benefits	8	8
Active employees	24	23
	37	36

Contributions

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

Employees for the City of Chandler were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Chandler were 4.72% and 4.58% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were $44,690, 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.

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.50% to 10.50% per year
Investment Rate of Return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustments 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 subject to the 3% floor.

Actual assumptions used in the December 31, 2016 valuation were based in 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 estimated 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:

Asset Class	Target Allocation	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.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2015	$ 813,265	$ 519,524	$ 293,741
Changes for the year:			
Service cost	65,449	-	65,449
Interest	56,313	-	56,313
Change of benefit terms	-	-	-
Difference between expected and actual experience	1,259	-	1,259
Changes of assumptions	-	-	-
Contributions - employer	-	43,862	(43,862)
Contributions - employee	-	46,483	(46,483)
Net investment income	-	35,184	(35,184)
Benefit payments, including refunds of employee contributions	(23,460)	(23,460)	-
Administrative expense	-	(397)	397
Other changes	-	(21)	21
Net changes	99,561	101,651	(2,090)
Balance at 12/31/2016	$ 912,826	$ 621,175	$ 291,651

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 403,069	$ 291,651	$ 197,953

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the City recognized pension expense of $51,958.

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	$ 1,646	$ (5,642)
Changes in actuarial assumtions	18,908	-
Difference between projected and actual investment earnings	20,257	(93)
Contributions subsequent to the meaurement date	34,320	-
Total	$ 75,131	$ (5,735)

$34,320 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 December 31	
2017	$ 11,329
2018	11,327
2019	10,326
2020	1,970
2021	124
Thereafter	-
	$ 35,076

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were $2,326, $2,247 and $2,219 respectively, which equaled the required contributions each year.

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2017, expenditures exceeded appropriations in the following departments of the General Fund: Municipal Court by $14,838, and Parks and Recreation by $32,838. This over expenditure was funded by excess revenues and excess appropriations in the General Fund.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

In prior years, payroll costs for employees working in the water department were included in payroll costs for the General Fund. Therefore all associated pension costs were recorded in the General Fund as well. During 2017, payroll costs for water department employees were recorded in the Proprietary Fund. Due to this change, the associated pension costs were also moved to the Proprietary Fund. The following accounts were effected:

	Governmental Activities	Business-Type Activities
Decrease (increase) in Beginning Net Position	(41,726)	41,726
Increase (decrease) in Deferred Outflow	(16,701)	16,701
Decrease (increase) in Deferred Inflow	1,412	(1,412)
Decrease (Increase) in Beginning Net Pension Liability	57,015	(57,015)

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to year end, the city issued $750,000 in Series 2018 Combination Tax and Surplus Revenue Certificates of Obligation, in order to fund improvements to the city's waterworks.

The city entered into a new contract with Sanitation Solutions for solid waste collections. The new contract effective date is October 1, 2017 and is for a period of 60 months through September 30, 2022. No change in rates will occur until 2019, when the base rates can be adjusted for changes in the consumer price index.

Subsequent events were evaluated through April 30, 2018, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHANDLER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	2014	2015	2016
Total pension liability			
Service Cost	$ 43,368	$ 61,646	$ 65,449
Interest (on the Total Pension Liability)	44,712	50,490	56,313
Changes in benefit terms	-	-	-
Difference between expected and actual results	1,313	(8,904)	1,259
Change of assumptions	-	29,836	-
Benefit payments, including refunds of employee contributions	(11,468)	(20,526)	(23,460)
Net Change in Total Pension Liability	77,925	112,542	99,561
Total Pension Liability - Beginning	622,798	700,723	813,265
Total Pension Liability - Ending (a)	$ 700,723	$ 813,265	$ 912,826
Plan Fiduciary Net Position			
Contributions - Employer	$ 40,817	$ 46,596	$ 43,862
Contributions - Employee	39,097	45,063	46,483
Net Investment Income	20,573	662	35,184
Benefit payments, including refunds of employee contributions	(11,468)	(20,526)	(23,460)
Administrative Expense	(215)	(403)	(397)
Other	(18)	(21)	(21)
Net Change in Plan Fiduciary Net Position	88,786	71,371	101,651
Plan Fiduciary Net Position - Beginning	359,367	448,153	519,524
Plan Fiduciary Net Position - Ending (b)	$ 448,153	$ 519,524	$ 621,175
Net Pension Liability - Ending (a)-(b)	252,570	293,741	291,651
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.96%	63.88%	68.05%
Covered Employee Payroll	$ 781,938	$ 901,263	$ 929,668
Net Pension Liability as a Percentage of Covered Employee Payroll	32.30%	32.59%	31.37%

CITY OF CHANDLER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	2014	2015	2016	2017
Actuarially Determined Contribution	$ 38,587	$ 45,953	$ 45,726	$ 44,690
Contributions in relation to the actuarilly determined contributions	38,587	45,953	45,726	44,690
Contribution deficiency	$ -	$ -	$ -	$ -
Covered employee payroll	$ 741,286	$ 886,693	$ 946,240	$ 969,053
Contributions as a percentage of covered employee payroll	5.22%	5.17%	4.72%	4.61%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:	Actuarially determined contribution rates are calculated as of December 31 a become effective in January 13 months later.
Methods and Assumptions Used to Determine Contribution Rates:	
Actuarial Cost Method	Entry Age Normal
Amortzation Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information:	There were no benefit changes during the year.

ADDITIONAL SUPPLEMENTAL INFORMATION

Schedule 1

CITY OF CHANDLER, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	TIF FUND	DONATION FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS			
Cash and cash equivalents	$ 31,146	$ 1,891	$ 33,037
Property tax receivable	3,909	-	3,909
Prepaid expenditures	-	-	-
Total Assets	$ 35,055	$ 1,891	$ 36,946
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ -	$ -	$ -
Due to other funds	-	-	-
Total Liabilities	-	-	-
Fund Balances:			
Restricted for:			
Capital improvements	35,055	-	35,055
City Programs	-	1,891	1,891
Total Fund Balances	35,055	1,891	36,946
Total Liabilities and Fund Balances	$ 35,055	$ 1,891	$ 36,946

Schedule 2

CITY OF CHANDLER, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2017

	TIF FUND	DONATION FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES			
Property taxes	$ 35,046	$ -	$ 35,046
Interest	14	-	14
Total Revenues	35,060	-	35,060
EXPENDITURES			
General government	5	54	59
Total Expenditures	5	54	59
Excess (deficiency) of revenues over (under) expenditures	35,055	(54)	35,001
OTHER FINANCING SOURCES (USES)			
Transfers in	-	1,945	1,945
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	1,945	1,945
Net Change in Fund Balances	35,055	1,891	36,946
Fund Balance, October 1, 2016	-	-	-
Fund Balance, September 30, 2017	$ 35,055	$ 1,891	$ 36,946

Schedule 3

CITY OF CHANDLER, TEXAS

DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL

(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Water and sewer service	$ 1,100,000	$ 1,113,667	$ 1,090,406	$ (23,261)
Interest income	450	450	3,183	2,733
Water connections	23,000	23,000	28,335	5,335
Sewer connections	14,000	14,000	13,350	(650)
Initial turn on	9,400	9,400	8,975	(425)
Reconnection fees	3,000	3,000	1,545	(1,455)
Trash & Tax Collection	362,232	362,232	-	(362,232)
Customer Service Inspections	1,200	1,200	1,650	450
Settlement revenue	-	-	399,912	399,912
Miscellaneous	450	450	5,976	5,526
Total Revenues - Budget Basis	$ 1,513,732	$ 1,527,399	1,553,332	$ 25,933
Financial Statement Adjustments:				
Decrease in accrued revenues			67,556	
Transfers in			44,820	
TOTAL REVENUES - GAAP BASIS			$ 1,665,708	

Schedule 4

CITY OF CHANDLER, TEXAS

DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2017

EXPENSES	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Contract services	$ 29,830	$ 29,830	$ 33,779	$ (3,949)
Material and supplies	135,000	135,000	119,545	15,455
Personnel services	193,439	200,176	193,021	7,155
Other expenses	202,305	205,975	200,844	5,131
Bond principal	285,060	285,060	323,581	(38,521)
Bond interest and fees	119,108	119,108	126,555	(7,447)
Trash collection	360,000	360,000	-	360,000
Capital improvements	188,990	192,250	217,683	(25,433)
Total Expenses - Budget Basis	$ 1,513,732	$ 1,527,399	1,215,008	$ 312,391
Financial Statement Adjustments:				
Expenses reclassified as decreases in liabilities			(323,581)	
Adjust pension expense for GASB 68			1,413	
Transfers out			42,000	
Increase in accrued expenses			14,421	
Expenses reclassified as capital assets			(94,322)	
Depreciation			179,928	
TOTAL EXPENSES - GAAP BASIS			$ 1,034,867	

OTHER REPORTS

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

Independent Auditors' Report

The Governing Body
City of Chandler, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chandler, Texas as of and for the year ended September 30, 2017 and the related notes to the financial statements, which collectively comprise the City of Chandler, Texas' basic financial statements, and have issued our report thereon dated April 30, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material.

Reconciling of Accounts

It was noted during the audit that the accounts for cash, accounts payable, transfers and due to due from were not properly reconciled. This caused materially incorrect balances to be reflected on the City's records. Due to numerous journal entries and not using the accounting software correctly, it was difficult to reconcile those account balances. Material adjustments were necessary in order to properly state the balance in those accounts. We recommend that the City reconcile these accounts in a timely manner to prevent material errors in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chandler, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City of Chandler, Texas' Response to Findings

The City of Chandler, Texas' response to the findings identified in our audit is described in the accompanying letter of response. City of Chandler, Texas' response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas
April 30, 2018

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CHANDLER * TEXAS

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"City With A Heart"

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RE: Management Response to Internal Control Deficiency Findings

May 7, 2018

The purpose of this letter is to provide a management response to certain deficiencies that were considered to be material weaknesses in the Independent Auditor's Report.

Reconciling of Accounts

"It was noted during the audit that the accounts for cash, accounts payable, transfers and due to due from were not properly reconciled. This caused materially incorrect balances to be reflected on the City's records. Due to numerous journal entries and not using the accounting software correctly, it was difficult to reconcile those account balances. Material adjustments were necessary in order to properly state the balances in those accounts. We recommend that the City reconcile these accounts in a timely manner to prevent material errors in the future."

Management Response

During FY 2017, the accounts mentioned above were not reconciled properly because the City did not have a Finance Director and staff did not have a professional background in governmental accounting and did not have the knowledge, skills and ability to properly reconcile the accounts. The City also changed accounting systems in 2016 and staff had difficulty adjusting to the new software due to a lack of knowledge in governmental accounting.

The City now has a Finance Director on staff with the accounting knowledge, skills, and ability to reconcile these accounts properly and to utilize the accounting software.

The City has also implemented changes to improve efficiency and to make sure that these accounts are reconciled in a timely manner. For example, the City previously had over 20 bank accounts which needed to be reconciled each month. The City now uses the consolidated cash approach to cash management and will only have two accounts to reconcile each month which will enable the reconciliations to be completed more efficiently.

Sincerely,

John M. Taylor, CPM
City Administrator