

CITY OF CHANDLER, TEXAS

**BASIC FINANCIAL STATEMENTS and
REQUIRED SUPPLEMENTARY and OTHER
INFORMATION**

FISCAL YEAR ENDED SEPTEMBER 30, 2016

Gollob Morgan Peddy PC
CERTIFIED PUBLIC ACCOUNTANTS

1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section

CITY OF CHANDLER, TEXAS

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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 the City of Chandler, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Chandler, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The 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 the City of Chandler, Texas, as of September 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8; and the Schedule of Changes in the City's Net Pension Liability and Related Ratios on pages 37-38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chandler, Texas' basic financial statements. The additional supplemental information is presented for purposes of additional analysis and are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2017 on our consideration of the 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 the City of Chandler, Texas' internal control over financial reporting and compliance.



Certified Public Accountants

Tyler, Texas
February 28, 2017

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, 2016.

Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by \$7,248,425 (net position). Of this amount \$687,185 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 \$651,864. Of this amount \$287,576 (44.12%) is available for spending at the government's discretion.
- The total net position of \$7,248,425 is made up of \$5,765,919 in capital assets net of related debt and \$1,493,493 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 two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental fund is presented as a single aggregated presentation as it is considered a nonmajor governmental fund.

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, 2016, the City's assets exceeded liabilities by \$7,248,425.

By far the largest portion of the City's net position, \$5,765,919, 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 \$533,515 from the prior year primarily from depreciation and expensing of cost related to water well #7 that did not make. The amount of unrestricted net position \$687,185 decreased by \$97,665 from the prior year due to the current year shortfall in budgeted revenue primarily due to a lower than projected sales tax.

City of Chandler's Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 794,348	\$ 843,549	\$ 1,883,197	\$ 2,330,958	\$ 2,677,545	\$ 3,174,507
Capital assets	3,767,134	3,809,525	5,373,215	5,892,689	9,140,349	9,702,214
Total assets	4,561,482	4,653,074	7,256,412	8,223,647	11,817,894	12,876,721
Deferred outflows	86,045	39,126	-	-	86,045	39,126
Current liabilities	202,746	119,068	384,417	64,919	587,163	183,987
Noncurrent liabilities	538,108	663,963	3,522,970	4,164,175	4,061,078	4,828,138
Total liabilities	740,854	783,031	3,907,387	4,229,094	4,648,241	5,012,125
Deferred inflows	7,273	-	-	-	7,273	-
Net invested in capital assets	3,452,946	3,428,758	2,312,973	2,870,676	5,765,919	6,299,434
Restricted	364,288	388,919	431,033	430,519	795,321	819,438
Unrestricted	82,166	91,492	605,019	693,358	687,185	784,850
Total net position	\$ 3,899,400	\$ 3,909,169	\$ 3,349,025	\$ 3,994,553	\$ 7,248,425	\$ 7,903,722

Governmental activities. Governmental activities decreased net position by \$9,769 during the year which is \$296,950 less than the prior year's decrease which was primarily attributable to excess expenditures over budgeted amounts. The business-type activities resulted in a \$645,528 decrease to net position due to transfers out and expensing cost incurred with construction-in-progress on water well #7.

City of Chandler's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Charges for services	\$ 965,918	\$ 773,517	\$ 1,460,459	\$ 1,448,421	\$ 2,426,377	\$ 2,221,938
Capital grants and contributions	-	5,000	-	-	-	5,000
General Revenue						
Property taxes	815,054	762,209	-	-	815,054	762,209
Franchise taxes	129,186	129,019	-	-	129,186	129,019
Sales and use taxes	673,481	716,804	-	-	673,481	716,804
Interest income	1,149	968	2,405	2,490	3,554	3,458
Total revenue	2,584,788	2,387,517	1,462,864	1,450,911	4,047,652	3,838,428
Expenses						
General government	1,091,883	952,107	-	-	1,091,883	952,107
Public safety	679,942	684,623	-	-	679,942	684,623
Public works	984,867	782,654	-	-	984,867	782,654
Community center	12,679	15,091	-	-	12,679	15,091
Parks and recreation	-	85,654	-	-	-	85,654
City library	55,990	62,673	-	-	55,990	62,673
Interest	21,109	21,642	132,674	134,462	153,783	156,104
Bond issue cost	-	-	-	29,258	-	29,258
Water and sewer operations	-	-	1,723,805	865,988	1,723,805	865,988
Total expenses	2,846,470	2,604,444	1,856,479	1,029,708	4,702,949	3,634,152

Other						
Transfers	251,913	144,395	(251,913)	(144,395)	-	-
Total other	251,913	144,395	(251,913)	(144,395)	-	-
Change in net position	(9,769)	(72,532)	(645,528)	276,808	(655,297)	204,276
Net position, beginning, as originally stated	3,909,169	4,215,888	3,994,553	3,717,745	7,903,722	7,933,633
Prior period adjustment for GASB 68	-	(234,187)	-	-	-	(234,187)
Net position, beginning, as originally stated	3,909,169	3,981,701	3,994,553	3,717,745	7,903,722	7,699,446
Net position, end of the year	\$ 3,899,400	\$ 3,909,169	\$ 3,349,025	\$ 3,994,553	\$ 7,248,425	\$ 7,903,722

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 \$651,864 of which \$287,576 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 \$605,019. The total net position decreased by \$645,528 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 less than the budgeted amount by \$74,770. Actual expenditures were more than budgeted amounts by \$46,126 and GAAP adjustments of \$(33,315) and transfers between the governmental funds and proprietary funds resulted in an actual decrease to fund balance of \$7,662 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, 2016, amounts to \$5,765,919 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 \$533,515.

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	
	2016	2015	2016	2015	2016	2015
Land	\$ 595,874	\$ 575,760	\$ 124,933	\$ 124,933	\$ 720,807	\$ 700,693
Construction in Progress	-	-	-	353,312	-	353,312
Buildings						
and improvements	955,717	1,033,240	-	-	955,717	1,033,240
Infrastructure	1,764,310	1,844,763	-	-	1,764,310	1,844,763
Machinery and equipment	451,233	355,762	65,597	86,324	516,830	442,086
Water and sewer system	-	-	5,182,685	5,328,120	5,182,685	5,328,120
Combined total	\$ 3,767,134	\$ 3,809,525	\$ 5,373,215	\$ 5,892,689	\$ 9,140,349	\$ 9,702,214

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 \$4,488,466. Of this amount, \$3,555,000 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	
	2016	2015	2016	2015	2016	2015
Compensated absences	\$ 33,986	\$ 30,626	\$ -	\$ -	\$ 33,986	\$ 30,626
Net pension liability	293,741	252,570	-	-	293,741	252,570
Revenue bonds	-	-	3,555,000	3,835,000	3,555,000	3,835,000
Note payable	314,188	380,767	291,551	329,175	605,739	709,942
Combined total	\$ 641,915	\$ 663,963	\$ 3,846,551	\$ 4,164,175	\$ 4,488,466	\$ 4,828,138

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 2017 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: City Secretary, P. O. Box 425, Chandler, TX 75758 or call 903-849-6853 or email sparker@chandler.tx.com.

BASIC FINANCIAL STATEMENTS

CITY OF CHANDLER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	PRIMARY GOVERNMENT		
	GOVERNMENTAL	BUSINESS-	
	ACTIVITIES	TYPE	TOTAL
		ACTIVITIES	
ASSETS			
Cash and cash equivalents	\$ 591,797	\$ 521,610	\$ 1,113,407
Inventory	-	39,819	39,819
Receivables (net of allowance for doubtful accounts)	166,028	140,948	306,976
Internal balances	36,523	(36,523)	-
Restricted Assets:			
Temporarily restricted:			
Revenue bond debt service	-	431,033	431,033
Cash for construction	-	786,310	786,310
Capital Assets (net of accumulated depreciation):			
Land	595,874	124,933	720,807
Buildings and improvements	955,717	-	955,717
Water and sewer system	-	5,182,685	5,182,685
Machinery and equipment	451,233	65,597	516,830
Infrastructure	1,764,310	-	1,764,310
Total Assets	4,561,482	7,256,412	11,817,894
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on TMRS pension	86,045	-	86,045
Total Deferred Outflows of Resources	86,045	-	86,045
LIABILITIES			
Accounts payable and accrued expenses	98,939	60,836	159,775
Non-current liabilities:			
Due within one year	103,807	323,581	427,388
Due in more than one year	538,108	3,522,970	4,061,078
Total Liabilities	740,854	3,907,387	4,648,241
DEFERRED INFLOWS OF RESOURCES			
Deferred charge on TMRS pension	7,273	-	7,273
Total Deferred Outflows of Resources	7,273	-	7,273
NET POSITION			
Investment in capital assets, net of related debt	3,452,946	2,312,973	5,765,919
Restricted for:			
Debt service	-	431,033	431,033
Future construction	364,288	-	364,288
Unrestricted	82,166	605,019	687,185
Total Net Position	\$ 3,899,400	\$ 3,349,025	\$ 7,248,425

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

**CITY OF CHANDLER, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

		PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
				PRIMARY GOVERNMENT BUSINESS- TYPE		
PROGRAM ACTIVITIES	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	ACTIVITIES	TOTAL
PRIMARY GOVERNMENT:						
Governmental activities:						
General government	\$ 1,091,883	\$ 641,197	\$ -	\$ (450,686)	\$ -	\$ (450,686)
Public safety	679,942	304,695	-	(375,247)	-	(375,247)
Public works	984,867	-	-	(984,867)	-	(984,867)
Community center	12,679	-	-	(12,679)	-	(12,679)
City library	55,990	20,026	-	(35,964)	-	(35,964)
Interest and fees	21,109	-	-	(21,109)	-	(21,109)
Total governmental activities	2,846,470	965,918	-	(1,880,552)	-	(1,880,552)
Business-type activities:						
Water and sewer	1,723,805	1,460,459	-	-	(263,346)	(263,346)
Interest	132,674	-	-	-	(132,674)	(132,674)
Total business-type activities	1,856,479	1,460,459	-	-	(396,020)	(396,020)
Total primary government	\$ 4,702,949	\$ 2,426,377	\$ -	(1,880,552)	(396,020)	(2,276,572)
General revenues:						
				815,054	-	815,054
				129,186	-	129,186
				673,481	-	673,481
				1,149	2,405	3,554
				251,913	(251,913)	-
				1,870,783	(249,508)	1,621,275
Change in Net Position						
				(9,769)	(645,528)	(655,297)
Net Position - beginning of year						
				3,909,169	3,994,553	7,903,722
Net Postition - end of year						
				\$ 3,899,400	\$ 3,349,025	\$ 7,248,425

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

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Cash Equivalents	\$ 272,239	\$ 319,558	\$ 591,797
Receivables:			
Sales Tax Receivable	93,990	31,330	125,320
Trash Services Receivable	29,876	-	29,876
Property Tax Receivable (net of allowance for estimated uncollectibles)	9,559	-	9,559
Other Receivables	1,273	-	1,273
Due from Other Funds	36,523	-	36,523
Total Assets	<u>\$ 443,460</u>	<u>\$ 350,888</u>	<u>\$ 794,348</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts Payable	\$ 98,939	\$ -	\$ 98,939
Accrued Compensated Absences	33,986	-	33,986
Total Liabilities	<u>132,925</u>	<u>-</u>	<u>132,925</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue - property taxes	<u>9,559</u>	<u>-</u>	<u>9,559</u>
Total Deferred Inflows of Resources	<u>9,559</u>	<u>-</u>	<u>9,559</u>
FUND BALANCES:			
Restricted:			
Capital Improvements	-	350,888	350,888
Court Security and Technology	13,400	-	13,400
Unassigned	<u>287,576</u>	<u>-</u>	<u>287,576</u>
Total Fund Balances	<u>300,976</u>	<u>350,888</u>	<u>651,864</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 443,460</u>	<u>\$ 350,888</u>	

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

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

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)	\$ 651,864
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	3,767,134
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	9,559
Deferred outflows represent the consumption of net position that are applicable to a future reporting period.	86,045
Deferred inflows is an acquisition of net assets that is applicable to a future reporting period.	(7,273)
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.	(607,929)
Net position of governmental activities	\$ 3,899,400

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, 2016

	GENERAL	ECONOMIC DEVELOPMENT FUND	ELIMINATIONS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Property taxes	\$ 816,615	\$ -	\$ -	\$ 816,615
Sales tax	505,337	168,144	-	673,481
Franchise tax	129,186	-	-	129,186
Fines	304,695	-	-	304,695
Licenses and permits	20,965	-	-	20,965
Zoning and platting fees	876	-	-	876
Library	20,026	-	-	20,026
Little league fees	90,324	-	-	90,324
Concession revenue	46,107	-	-	46,107
Interest	428	721	-	1,149
Rents	22,920	-	-	22,920
Expense reimbursements	194	-	-	194
Miscellaneous	50,191	-	-	50,191
Trash and tax collection	368,499	-	-	368,499
Lease income	41,121	-	-	41,121
Total Revenues	2,417,484	168,865	-	2,586,349
EXPENDITURES				
General government	854,058	139,074	-	993,132
Public safety	454,821	-	-	454,821
Public works	843,721	-	-	843,721
Community center expense	12,679	-	-	12,679
Municipal court	177,498	-	-	177,498
City Library	55,956	-	-	55,956
Capital outlay	243,638	-	-	243,638
Debt service - principal	66,579	-	-	66,579
Debt service - interest	21,109	-	-	21,109
Total Expenditures	2,730,059	139,074	-	2,869,133
Excess (Deficiency) of Revenues Over (Under) Expenditures	(312,575)	29,791	-	(282,784)
Other Financing Sources (Uses):				
Transfers in	304,913	-	(53,000)	251,913
Transfers out	-	(53,000)	53,000	-
Total Other Financing Sources (Uses)	304,913	(53,000)	-	251,913
Net Change in Fund Balances	(7,662)	(23,209)	-	(30,871)
Fund Balance, October 1, 2015	308,638	374,097	-	682,735
Fund Balance, September 30, 2016	\$ 300,976	\$ 350,888	\$ -	\$ 651,864

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

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, 2016

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

Net change in fund balances - total governmental funds	\$ (30,871)
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.	(42,391)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,561)
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.	66,579
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	(1,525)
Change in net position of governmental activities	<u>\$ (9,769)</u>

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, 2016

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Property taxes	\$ 814,144	\$ 814,144	\$ 816,615	\$ 2,471
Sales tax	710,000	653,200	499,781	(153,419)
Franchise tax	135,800	135,800	129,186	(6,614)
Fines	368,000	298,000	304,695	6,695
Licenses and permits	25,000	15,000	20,965	5,965
Library	19,026	19,776	20,026	250
Little league fees	4,500	74,096	90,324	16,228
Interest	350	350	428	78
Rents	20,100	23,400	22,920	(480)
Grants	-	16,000	-	(16,000)
Miscellaneous	8,095	8,100	50,385	42,285
Trash and tax collection	365,000	365,000	368,499	3,499
Lease income	13,000	20,600	41,121	20,521
Zoning & platting fees	600	600	876	276
Concession revenue	15,000	42,632	46,107	3,475
Total Revenues	2,498,615	2,486,698	2,411,928	(74,770)
EXPENDITURES				
General government	1,082,245	1,086,947	1,132,385	(45,438)
Public safety	534,239	522,551	528,459	(5,908)
Public works	844,684	855,003	860,116	(5,113)
Community center expense	9,100	11,850	12,679	(829)
Municipal court	179,946	162,946	161,140	1,806
City Library	65,733	64,733	55,377	9,356
Total Expenditures	2,715,947	2,704,030	2,750,156	(46,126)
Revenues Over (Under) Expenditures	(217,332)	(217,332)	(338,228)	(120,896)
OTHER FINANCING SOURCES (USES)				
Transfers in	217,332	217,332	304,913	87,581
Total Other Financing Sources (Uses)	217,332	217,332	304,913	87,581
Revenues and Other Sources Over (Under) Expenditures and Other Uses - Budget Basis	-	-	(33,315)	(33,315)
Budget Basis to GAAP Basis Adjustments (Note A)	-	-	25,653	25,653
Revenues and Other Sources Over (Under) Expenditures and Other Uses - GAAP Basis	-	-	(7,662)	(7,662)
Net Change in Fund Balances	-	-	(7,662)	(7,662)
Fund Balance, October 1, 2015	-	-	308,638	308,638
Fund Balance, September 30, 2016	\$ -	\$ -	\$ 300,976	\$ 300,976

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, 2016

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

\$ 5,556

Total Sources/Inflows of Resources

5,556

Uses/Outflows of Resources:

Differences - Budget to GAAP

Decrease in accrued expenses

20,097

Total Uses/Outflows of Resources

20,097

Net Change in Budget Basis Presentation and GAAP Basis Presentation

\$ 25,653

**CITY OF CHANDLER, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016**

	BUSINESS-TYPE ACTIVITIES <u>ENTERPRISE FUND</u> <u>OPERATING</u> <u>FUND</u>
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 521,610
Inventory	39,819
Accounts receivable (Net)	140,948
Due from other funds	<u>38,096</u>
Total Current Assets	<u>740,473</u>
Restricted Assets:	
Temporarily Restricted	
Revenue bond debt service	431,033
Cash for construction	<u>786,310</u>
Total Restricted Assets	<u>1,217,343</u>
Capital Assets:	
Land	124,933
Water and sewer system	7,649,053
Machinery & equipment	162,275
Less: Accumulated depreciation	<u>(2,563,046)</u>
Total Capital Assets Net Of Accumulated Depreciation	<u>5,373,215</u>
Total Assets	<u>7,331,031</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	5,299
Accrued interest	55,537
Due to other funds	74,619
Noncurrent liabilities - current portion	<u>323,581</u>
Total Current Liabilities	<u>459,036</u>
Noncurrent Liabilities:	
Revenue bonds payable	<u>3,522,970</u>
Total Liabilities	<u>3,982,006</u>
NET POSITION	
Invested in capital assets, net of related debt	2,312,973
Restricted for debt service	431,033
Unrestricted	<u>605,019</u>
Total Net Position	<u><u>\$ 3,349,025</u></u>

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

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2016

	BUSINESS-TYPE ACTIVITIES
	<u>ENTERPRISE FUND</u>
	<u>OPERATING FUND</u>
OPERATING REVENUES	
Water sales and sewer service	\$ 1,035,694
Charges for services	<u>424,765</u>
Total Operating Revenues	<u>1,460,459</u>
OPERATING EXPENSES	
Water and sewer operations	1,544,083
Depreciation	<u>179,722</u>
Total Operating Expenses	<u>1,723,805</u>
Operating Income (Loss)	<u>(263,346)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(132,674)
Interest income	2,405
Transfers out	<u>(251,913)</u>
Total Non-Operating Revenues (Expenses)	<u>(382,182)</u>
Change in Net Position	(645,528)
Net Position, October 1, 2015	<u>3,994,553</u>
Net Position, September 30, 2016	<u><u>\$ 3,349,025</u></u>

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, 2016**

Increase (Decrease) in Cash and Cash Equivalents

	<u>OPERATING FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 1,486,759
Cash paid to suppliers for goods and services	<u>(1,543,838)</u>
Net cash used in operating activities	<u>(57,079)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers out	<u>(251,913)</u>
Net cash used in non-capital financing activities	<u>(251,913)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Assets capitalized in prior year and expensed in current year	353,312
Capital asset purchases	(13,560)
Interest paid	(137,002)
Principal paid on bonds	<u>(317,624)</u>
Net cash used in capital and related financing activities	<u>(114,874)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned on investments	<u>2,405</u>
Net cash provided by investing activities	<u>2,405</u>
Net decrease in cash	(421,461)
Cash, beginning of period	<u>2,160,414</u>
Cash, end of period	<u><u>\$ 1,738,953</u></u>
Reconciliation of Cash on Exhibit 7:	
Cash and certificates of deposit	\$ 521,610
Cash - restricted assets	<u>1,217,343</u>
Total Cash	<u><u>\$ 1,738,953</u></u>
Reconciliation of Operating Loss To Net Cash Used In Operating Activities:	
Operating loss	\$ (263,346)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation expense	179,722
Decrease in accounts receivable	25,592
Increase in due to other funds	708
Increase in accounts payable	<u>245</u>
Total adjustments	<u>206,267</u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (57,079)</u></u>

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

CITY OF CHANDLER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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 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 \$2,000 (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:

<u>Assets</u>	<u>Years</u>
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, 2015. The deferred outflow shows the difference in contributions to the TMRS retirement plan that occurred between December 31, 2015 and September 30, 2016

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 one item that qualifies for reporting in this category. The item 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 \$3,767,134 difference are as follows:

Capital assets, October 1, 2015 net of accumulated depreciation	\$ 3,809,525
Capital asset additions, net of retirements	243,638
Depreciation of capital assets, net of retirements, current year	<u>(286,029)</u>
	<u>\$ 3,767,134</u>

- 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 (\$42,391) difference are as follows:

Capital outlay, asset additions, net of retirements	\$ 243,638
Depreciation expense, net of retirements	<u>(286,029)</u>
	<u>\$ (42,391)</u>

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, 2016, the City had the following deposits and investments:

Statement of net position:	
Primary Government	
Cash and cash equivalents	\$ 1,113,407
Restricted cash and cash equivalents	<u>1,217,343</u>
Total Cash and cash equivalents	<u><u>\$ 2,330,750</u></u>
Cash on hand	\$ 698
Savings and checking accounts	<u>2,330,052</u>
Total Cash and Investments	<u><u>\$ 2,330,750</u></u>

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, 2016, the carrying value of the City's bank deposits was \$2,330,052 while the bank balance was \$2,366,387. As of September 30, 2016, \$123,913 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	Water & Sewer Fund	Total
Receivables:				
Taxes	\$ 24,116	\$ -	\$ -	\$ 24,116
Sales Tax	93,990	31,330	-	125,320
Accounts (services)	31,149	-	152,946	184,095
Gross Receivables	149,255	31,330	152,946	333,531
Less: Allowance for Uncollectibles	(14,557)	-	(11,998)	(26,555)
Net Receivables	<u>\$ 134,698</u>	<u>\$ 31,330</u>	<u>\$ 140,948</u>	<u>\$ 306,976</u>

C. Capital Assets

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

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 575,760	\$ 20,114	\$ -	\$ 595,874
Total Capital Assets, Not Being Depreciated	575,760	20,114	-	595,874
Capital Assets, Being Depreciated:				
Buildings and Improvements	2,162,463	-	-	2,162,463
Infrastructure	3,171,822	60,048	-	3,231,870
Machinery and Equipment	1,131,232	163,476	-	1,294,708
Total Capital Assets, Being Depreciated	6,465,517	223,524	-	6,689,041
Less Accumulated Depreciation For:				
Buildings and Improvements	(1,129,223)	(77,523)	-	(1,206,746)
Infrastructure	(1,327,059)	(140,501)	-	(1,467,560)
Machinery and Equipment	(775,470)	(68,005)	-	(843,475)
Total Accumulated Depreciation	(3,231,752)	(286,029)	-	(3,517,781)
Net Total Assets Being Depreciated	3,233,765	(62,505)	-	3,171,260
Governmental Activities Capital Assets, Net	<u>\$ 3,809,525</u>	<u>\$ (42,391)</u>	<u>\$ -</u>	<u>\$ 3,767,134</u>

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 353,312	\$ -	\$ (353,312)	\$ -
Land	124,933	-	-	124,933
Total Capital Assets, Not Being Depreciated	478,245	-	(353,312)	124,933
Capital Assets, Being Depreciated:				
Water and Sewer System	7,635,493	13,560	-	7,649,053
Machinery and Equipment	162,275	-	-	162,275
Total Capital Assets, Being Depreciated	7,797,768	13,560	-	7,811,328
Less Accumulated Depreciation For:				
Water and Sewer System	(2,307,373)	(158,995)	-	(2,466,368)
Machinery and Equipment	(75,951)	(20,727)	-	(96,678)
Total Accumulated Depreciation	(2,383,324)	(179,722)	-	(2,563,046)
Net Total Assets Being Depreciated	5,414,444	(166,162)	-	5,248,282
Business-Type Activities Capital Assets, Net	<u>\$ 5,892,689</u>	<u>\$ (166,162)</u>	<u>\$ (353,312)</u>	<u>\$ 5,373,215</u>

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

Governmental Activities:	
General Government	\$ 98,558
Public Safety	46,970
Public Service	<u>140,501</u>
Total depreciation expense, governmental activities	<u>\$ 286,029</u>
Business-Type Activities:	
Water, Sewer and Sanitation Operations	<u>\$ 179,722</u>

During the year ended September 30, 2016, the City expensed \$372,735 associated with the water well #7 capital project. Of the total cost, \$353,312 was incurred in prior years and capitalized as construction-in-progress. Since the water well failed to produce, the total cost was expensed in the current year. This resulted in a negative budget variance of \$314,444 on schedule A-2 in the capital improvements expense line.

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2016 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water & Sewer	\$ 36,523

Interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Water & Sewer Fund	\$ -	\$ 251,913
General Fund	251,913	-

During the year the Water & Sewer Fund purchased capital project assets which are governmental assets. Thus, they were transferred to the governmental funds. The Water & Sewer fund also transferred funds for payroll expenses to the governmental funds.

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. During the year ended September 30, 2016, the City received \$7,520 in rent under this agreement.

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.

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

<u>Year Ended</u>	<u>Amount</u>
2017	9,834
2018	10,129
2019	10,433
2020	10,746
2021	11,068
2022-2026	60,524
2027-2031	70,163
2032-2036	85,296
2037-2041	105,276
2042-2046	122,044
2047-2051	141,482
2052-2056	164,017
2057-2061	190,140
2062-2065	173,696
	<u>\$ 1,164,848</u>

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, 2016.

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:

<u>Issue</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Series - 2006	Refunding Issue	4.90%	\$ 420,000
Series - 2006	Certificate of Obligation	4.90%	1,250,000
Series - 2014	Refunding Issue	2.93%	1,090,000
Series - 2014	Revenue Bond	2.40%	<u>795,000</u>
Total Outstanding Revenue Bonds and Certificates of Obligation			<u>\$ 3,555,000</u>

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, 2016, the City was in compliance with all of its bond ordinances.

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 285,000	\$ 119,106
2018	295,000	109,335
2019	310,000	99,357
2020	320,000	88,828
2021	330,000	78,028
2022-2026	1,595,000	219,242
2027-2031	<u>420,000</u>	<u>31,498</u>
	<u>\$ 3,555,000</u>	<u>\$ 745,394</u>

Revenue bond ordinances require that the following information concerning insurance coverage as of September 30, 2016 be disclosed.

<u>ANNUAL PREMIUM</u>	<u>POLICY NO.</u>	<u>NATURE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>POLICY PERIOD</u>
\$ 19,177	#H5490-01	Workers Compensation	Statutory Limits	10-1-16 to 10-1-17
\$ 12,914	#NYA803565	Liability General	\$2,000,000/occurrence	10-1-16 to 10-1-17
		Auto and Law		
		Enforcement	\$1,000,000/occurrence	10-1-16 to 10-1-17
		Property:		
		Real & Personal	7,351,614	10-1-16 to 10-1-17
		Mobile Equipment	388,819	10-1-16 to 10-1-17
		Boiler & Machinery	\$100,000/accident	10-1-16 to 10-1-17
\$ 3,752	#NYA812114	Errors & Omissions	\$1,000,000	10-1-16 to 10-1-17

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.

\$ 212,740

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.

\$ 101,448

Total \$ 314,188

Less: Current Portion \$ (69,821)

LONG-TERM PORTION \$ 244,367

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.

\$ 291,551

Total \$ 291,551

Less: Current Portion \$ (38,581)

LONG-TERM PORTION \$ 252,970

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 69,821	\$ 17,866
2018	73,263	14,425
2019	76,918	10,770
2020	45,432	6,886
2021	48,754	3,564
	<u>\$ 314,188</u>	<u>\$ 53,511</u>

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

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 38,581	\$ 7,410
2018	39,561	6,429
2019	40,567	5,424
2020	41,598	4,393
2021	42,655	336
2022 - 2023	88,589	3,392
	<u>\$ 291,551</u>	<u>\$ 27,384</u>

Changes in long-term liabilities

Long term liability activity for the year ended September 30, 2016 was as follows:

	<u>Beginning Balance 10/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 9/30/2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Notes Payable	\$ 380,767	\$ -	\$ 66,579	\$ 314,188	\$ 69,821
Net Pension Liability	252,570	41,171	-	293,741	-
Compensated Absences	30,626	3,360	-	33,986	33,986
Governmental Activity Long-Term Liabilities	<u>\$ 663,963</u>	<u>\$ 44,531</u>	<u>\$ 66,579</u>	<u>\$ 641,915</u>	<u>\$ 103,807</u>
Business-Type Activities:					
Revenue Bonds	\$ 3,835,000	\$ -	\$ 280,000	\$ 3,555,000	\$ 285,000
Notes Payable	329,175	-	37,624	291,551	38,581
Business-Type Activity Long-Term Liabilities	<u>\$ 3,835,000</u>	<u>\$ -</u>	<u>\$ 317,624</u>	<u>\$ 3,846,551</u>	<u>\$ 323,581</u>

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, 2016, the City had \$183,084 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, 2016, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended September 30, 2016, 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, 2016, 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 \$398,956 under this contract as of September 30, 2016.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Plan Description

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

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>
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, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>12/31/2014</u>	<u>12/31/2015</u>
Inactive employees or beneficiaries currently receiving benefits	2	5
Inactive employees entitled to but not yet receiving benefits	7	8
Active employees	<u>23</u>	<u>24</u>
	<u>32</u>	<u>37</u>

Contributions

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

Employees for the City 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 5.17% and 4.72% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$45,953, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

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

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on the pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected

rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2014	\$ 700,723	\$ 448,153	\$ 252,570
Changes for the year:			
Service cost	61,646	-	61,646
Interest	50,490	-	50,490
Change of benefit terms	-	-	-
Difference between expected and actual experience	(8,904)	-	(8,904)
Changes of assumptions	29,836	-	29,836
Contributions - employer	-	46,596	(46,596)
Contributions - employee	-	45,063	(45,063)
Net investment income	-	662	(662)
Benefit payments, including refunds of employee contributions	(20,526)	(20,526)	-
Administrative expense	-	(403)	403
Other changes	-	(21)	21
Net changes	112,542	71,371	41,171
Balance at 12/31/2015	\$ 813,265	\$ 519,524	\$ 293,741

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	\$ 391,894	\$ 293,741	\$ 211,293

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the City recognized pension expense of \$47,250.

At September 30, 2016, 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	\$ 847	\$ (7,273)
Changes in actuarial assumptions	24,372	-
Difference between projected and actual investment earnings	27,316	-
Contributions subsequent to the measurement date	33,510	-
Total	<u>\$ 86,045</u>	<u>\$ (7,273)</u>

\$33,510 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ended December 31
2016	\$ 11,125
2017	11,125
2018	11,123
2019	10,122
2020	1,767
Thereafter	-
	<u>\$ 45,262</u>

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 2016, 2015, and 2014 were \$2,247, \$2,219 and \$2,114 respectively, which equaled the required contributions each year.

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2016, expenditures exceeded appropriations in the following departments of the General Fund: General Government by \$45,438, Public Safety by \$5,908, Public Works by \$5,113, and Community Center by \$829. This over expenditure was funded by available fund balance in the General Fund.

For the year ended September 30, 2016 expenses exceeded appropriations in the Enterprise Fund by \$326,182. The over expenditure was funded by excess revenue and available fund balance in the Enterprise Fund.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 28, 2017, 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, 2016

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

**CITY OF CHANDLER, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 38,587	\$ 45,953	\$ 45,726
Contributions in relation to the actuarially determined contributions	<u>38,587</u>	<u>45,953</u>	<u>45,726</u>
Contribution deficiency	\$ -	\$ -	\$ -
Covered employee payroll	\$ 741,286	\$ 886,693	\$ 946,240
Contributions as a percentage of covered employee payroll	5.22%	5.17%	4.72%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates are calculated as of September 30, 2015 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	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 population. Last updated for the 2015 valuation pursuant to an experience study for the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjusted rates multiplied by 109% and female rates multiplied by 101% on a fully generational basis with scale BB

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

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF CHANDLER, TEXAS

DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL

(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<u>REVENUES</u>				
Water and sewer service	\$ 975,500	\$ 1,072,800	\$ 1,107,581	\$ 34,781
Interest income	350	450	2,405	1,955
Water connections	25,000	15,000	22,350	7,350
Sewer connections	23,000	10,000	11,800	1,800
Initial turn on	8,500	8,500	8,700	200
Reconnection fees	1,800	3,000	3,130	130
Trash & Tax Collection	352,840	356,000	370,853	14,853
Customer Service Inspections	1,500	1,000	1,275	275
Miscellaneous	250	250	6,657	6,407
Total Revenues - Budget Basis	<u>\$ 1,388,740</u>	<u>\$ 1,467,000</u>	1,534,751	<u>\$ 67,751</u>
Financial Statement Adjustments:				
Decrease in accrued revenues			(71,887)	
TOTAL REVENUES - GAAP BASIS			<u>\$ 1,462,864</u>	

CITY OF CHANDLER, TEXAS

DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<u>EXPENSES</u>				
Contract services	\$ 14,000	\$ 15,500	\$ 23,717	\$ (8,217)
Material and supplies	128,000	128,000	117,346	10,654
Personnel services	191,609	184,609	184,929	(320)
Other expenses	194,247	209,718	171,500	38,218
Bond principal	280,060	280,060	280,000	60
Bond interest and fees	128,824	128,824	137,001	(8,177)
Trash collection	355,000	355,000	398,956	(43,956)
Capital improvements	97,000	165,289	479,733	(314,444)
Total Expenses - Budget Basis	<u>\$ 1,388,740</u>	<u>\$ 1,467,000</u>	1,793,182	<u>\$ (326,182)</u>
Financial Statement Adjustments:				
Expenses reclassified as decreases in liabilities			(280,000)	
Expenses reclassified as a transfer			(184,929)	
Transfers out			251,913	
Increase in accrued expenses			8,752	
Expenses reclassified as capital assets			(13,560)	
Prior year capital expenses expensed in current year			353,312	
Depreciation			179,722	
TOTAL EXPENSES - GAAP BASIS			<u>\$ 2,108,392</u>	

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, 2016 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 February 28, 2017.

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.

Fixed Assets

It was noted during the audit that a significant amount of capital purchases, qualifying under the City's policy to be capitalized as fixed assets, were intermingled across three separate funds and multiple general ledger accounts. This creates a situation where fixed assets may not be capitalized or the amounts capitalized could be materially misstated due to difficulty in identifying the total cost of the fixed assets on the books. The City has developed a process to efficiently track all cost associated with capital purchases and utilize transfers between funds in order to pay for capital items in a single fund. This process was implemented toward the end of the 2016 fiscal year.

Budget

It was noted during the audit that purchases of capital assets were sometimes split among different accounts, some not related to asset purchases or repairs and maintenance cost. The purpose of recording the purchase transactions

this way was so the City would remain within the approved budget for each line item. By doing this, the cost of a capitalized asset may be understated and the true nature and amount of the expenditure misstated. We recommended previously that excess budget amounts be transferred through the budget amendment process so that expenditures may be recorded in total to the correct accounts. This recommendation was implemented toward the end of 2016.

Adjusting Journal Entries

There were a substantial number of adjusting journal entries required for the year ending September 30, 2016, some of which were material to the financial statements as a whole. The City should determine if the accounting staff requires additional training or oversight in order to record complex accounting transactions correctly.

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.

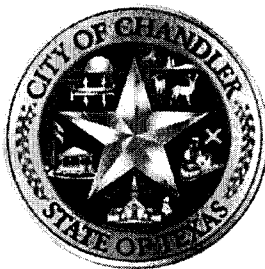
Purpose of this Report

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.



Certified Public Accountants

Tyler, Texas
February 28, 2017



RE: Management Response to Internal Control Deficiency Findings

March 1, 2017

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

Fixed Assets

"It was noted during the audit that a significant amount of capital purchases, qualifying under the City's policy to be capitalized as fixed assets, were intermingled across three separate funds and multiple general ledger accounts. This creates a situation where fixed assets may not be capitalized or the amounts capitalized could be materially misstated due to difficulty in identifying the total cost of the fixed assets on the books. The City has developed a process to efficiently track all cost associated with capital purchases and utilize transfers between funds in order to pay for capital items in a single fund. This process was implemented toward the end of the 2016 fiscal year."

Management Response

The city often has situations that require a capital asset or capital equipment to be shared between departments or between funds. An example of this was a purchase of a used Road Grader in 2015. This piece of equipment was purchased to be used on utility, street and drainage projects. To share that cost between these departments and funds, the asset was paid for directly out of these three budget lines and funds. While this process was not uncommon and follows common logic, it does not follow accepted governmental accounting principles.

A 2016 example of this situation involved a Texas Parks and Wildlife grant for lighting on Baseball Field #5. This was a project that had EDC funding, as well as, city funding. Therefore, it was paid directly out of the EDC account and a city account. To complicate the situation since it was a reimbursable grant, of a fairly large amount, money was borrowed from the Utility Reserve Fund to be reimbursed in the following weeks when the State reimbursed the expense.

This caused the capital asset of the baseball lights not to have been expensed out of one account and required numerous journal entries to be made.

Following the advice of our auditors we changed this process in late 2016. We now will pay for capital assets out of one account and transfer funds from the sharing departments or funds into the account that purchased the asset.

Budget

"It was noted during the audit that purchases of capital assets were sometimes split among different accounts, some not related to asset purchases or repairs and maintenance cost. The purpose of recording the purchase transactions this way was so the City would remain within the approved budget for each line item. By doing this, the cost of a capitalized asset may be understated and the true nature and amount of the expenditure misstated. We recommended previously that excess budget amounts be transferred through the budget amendment process so that expenditures may be recorded in total to the correct accounts. This recommendation was implemented toward the end of 2016."

Management Response

This is the same situation as described in "Fixed Assets" above and the management response is the same.

Adjusting Journal Entries

"There were a substantial number of adjusting journal entries required for the year ending September 30, 2016, some of which were material to the financial statements as a whole. The City should determine if the accounting staff requires additional training or oversight in order to record complex accounting transactions correctly. "

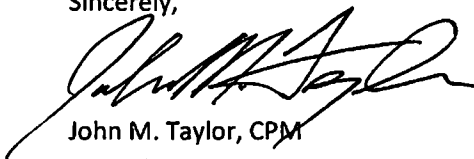
Management Response

The City of Chandler undertook a changeover of accounting systems in 2016. In January 2016, the city changed over from using QuickBooks to using a governmental accounting software STW. Numerous journal entries were required to bring over the months of 2015 into the STW system.

In addition, changing over from a generic accounting system such as QuickBooks to one that is specifically for governmental accounting, such as STW, required our accounting staff to have a higher level of knowledge, not only of governmental accounting, but of STW. In 2016, there were several journal entries made into STW that were incorrect and caused additional journal entries to be made to correct them. Most of the STW learning curve is now complete and there are many fewer incorrect journal entries being made. In the future, where the City of Chandler encounters complex transactions, we will work with Gollob Morgan Peddy to ensure proper recording.

Next year's audit should see many fewer journal entries with the exception that October and November 2016 will have a high number due to beginning the STW payroll system in October 2016 and the adjustments required for that changeover.

Sincerely,



John M. Taylor, CPM
City Administrator