

CITY OF MONAHANS, TEXAS

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

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

CITY OF MONAHANS, TEXAS
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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LETTER OF TRANSMITTAL

City of Monahans, Texas
Name of City

Ward
County

We, the undersigned, certify that the attached Annual Financial and Compliance Report of the above named city was reviewed and (check one) _____ approved _____ disapproved for the year ended September 30, 2016 at a meeting of the Council of such city on the _____ day of _____, 2017.

Signature of Mayor

Signature of City Manager

If the City Council disapproved of the Annual Financial and Compliance Report, the reason(s) for disapproving it is (are): (attach list as necessary)

INDEPENDENT AUDITOR'S REPORT

City Council
City of Monahans, Texas
112 W. 2nd
Monahans, Texas 79756

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Monahans, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Monahans, Texas basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Monahans, TX, as of September 30, 2016, and the respective changes in financial position, 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 thru 9 and pension information listed in the table of contents and other-post-employment benefits information presented in the notes to the financial statements 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, statement of changes in assets and liabilities of agency funds, budget and actual comparison of the system fund and the financial statements of the discretely presented component unit are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, statement of changes in assets and liabilities of agency funds, budget and actual comparison of the system fund and the financial statements of the discretely presented component unit are the responsibility of management, and were derived from and related 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 to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, statement of changes in assets and liabilities of agency funds, budget and actual comparison of the system fund and the financial statements of the discretely presented component unit are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Smith & Rives, PC
Monahans, TX
March 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Monahans, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2015. Please read it in conjunction with the Independent Auditor's Report on page 1, and the City's Basic Financial Statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

The City's net position increased by \$686,560 as a result of this year's operations. While net position of our business-type activities increased by \$1,750,944 or nearly 14.81%, net position of our governmental activities decreased by \$1,064,384, or nearly 19.89%. (Exhibit B-1)

During the year, the City had expenditures that were \$1,606,218 more than the \$4,410,977 generated in tax and other revenues for the governmental programs. (Exhibit C-3) This compares to last year when expenditures exceeded revenues by \$417,614.

In the City's business-type activities, revenues decreased by \$33,294, or nearly 0.84%, while expenses decreased by \$121,387, or nearly 3.08%.

Total cost of the City's programs was \$5,351,967, while last year's cost was \$4,945,509. (Exhibit B-1)

The General Fund ended the year with a fund balance of \$311,070, while last year's General Fund balance was \$1,637,820.

The resources available for appropriation were \$1,715 less than budgeted for the General Fund due primarily to less fines and other revenues.

Actual expenditures were \$769 less than budgeted for the General Fund due primarily to capital expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11-12). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 13) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 24) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the City's individual funds.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 3. Its primary purpose is to show whether the City is better or worse as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who pay for the costs of programs (such as utility funds) and grants provided by outside parties and agencies (program revenues), and revenues provided by the taxpayers or other unrestricted sources (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base or the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the City into three kinds of activities:

Governmental Activities: Most of the City's basic services are reported here. Property, Sales & Use, and Franchise Taxes, along with State and Federal Grants finance most of these activities.

Business-type Activities: The City charges a fee to customers to help it cover all or most of the cost of services it provides in the System Fund.

Component Unit: The City includes a separate, legal entity in its report – the Monahans Economic Development Corporation. Although legally separate, this component unit is important because the City is financially accountable for it.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds, such as grants received from a government agency. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

Governmental Funds: Most of the City's basic services are reported in governmental funds. These use the modified accrual method of accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary Funds: The City reports the activities for which it charges users (whether outside customers or units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for money contributed for the benefit of fireman retirees and beneficiaries. All of the City's fiduciary activities are reported in the Statement of Fiduciary Net Position on page 23. We exclude these resources from the City's other financial statements because the City cannot use these assets to finance its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities were \$4,314,064. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were (\$661,216) at September 30, 2016.

Net position of the City's business-type activities were \$13,573,452, which included (\$868,673) in unrestricted net position and \$14,442,125 in Investment in capital assets, net of related debt.

Net position of the City's component unit was \$2,325,038, all of which were restricted for economic development.

**Table I
City of Monahans, Texas**

NET POSITION

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Current and other assets	\$ 713,916	\$ 1,917,575	\$ 918,992	\$ 1,713,763
Restricted assets	7,942	6,419	-	-
Capital assets	5,654,359	5,389,771	18,716,796	15,254,172
Total assets	\$ 6,376,217	\$ 7,313,765	\$ 19,635,788	\$ 16,967,935
Deferred Outflow Related to TMRS	\$ 630,388	\$ 201,233	\$ 330,311	\$ 108,357
Long-term liabilities	\$ 2,162,303	\$ 1,926,397	\$ 4,971,591	\$ 3,802,682
Other liabilities	295,520	227,832	1,299,628	1,446,421
Total liabilities	\$ 2,457,823	\$ 2,154,229	\$ 6,271,219	\$ 5,249,103
Deferred Inflow Related to TMRS	\$ 234,718	\$ 8,694	\$ 121,428	\$ 4,681
Net Position:				
Invested in capital assets, net of related debt	\$ 4,962,220	\$ 4,714,546	\$ 14,442,125	\$ 12,131,055
Restricted	13,060	14,068	-	-
Unrestricted	(661,216)	623,461	(868,673)	(308,547)
Total Net Position	\$ 4,314,064	\$ 5,352,075	\$ 13,573,452	\$ 11,822,508

Table II
City of Monahans, Texas

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 139,712	\$ 241,125	\$ 3,922,786	\$ 3,920,621
Operating Grants and Contributions	-	-	-	-
Capital Grants and Contributions	-	-	-	-
General Revenues:				
Maintenance and Operations Taxes	837,518	662,629	-	-
General Sales Taxes	1,803,963	2,150,269	-	-
Gross Receipts Business Tax	523,167	680,972	-	-
Franchise Taxes	523,560	520,182	-	-
Penalty & Interest	15,212	13,286	-	-
Grants & Contributions not restricted	65,550	1,098,345	-	-
Miscellaneous	586,893	398,557	56,432	161,659
Investment Earnings	3,093	6,934	788	1,829
	<u>4,498,668</u>	<u>5,772,299</u>	<u>3,980,006</u>	<u>4,084,109</u>
Total Revenue	\$ 4,498,668	\$ 5,772,299	\$ 3,980,006	\$ 4,084,109

	Governmental Activities		Business-type Activities	
	2016	2015	2015	2015
Expenses:				
Sewerage	\$ -	\$ -	\$ 300,765	\$ 530,630
Accounting & Collecting	-	-	449,045	586,385
Production/Distribution	-	-	1,136,276	1,235,596
Judicial	209,971	214,525	-	-
Administration	586,510	565,742	-	-
General Services	362,418	340,742	-	-
Police	1,905,253	1,847,174	-	-
Fire Protection	132,200	93,273	-	-
Highways and Streets	841,713	860,664	-	-
Cemetery	301,048	297,270	-	-
Landfill	91,620	-	967,234	860,650
Airport	400,340	23,366	-	-
Parks	499,940	374,061	-	-
Economic Developmental Assistance	20,954	320,515	-	-
Debt Service	-	8,177	-	-
Other Expenses	-	-	967,705	729,151
Total Expenses	\$ 5,351,967	\$ 4,945,509	\$ 3,821,025	\$ 3,942,412
Increase in Net Position before transfers	\$ (853,299)	\$ 826,790	\$ 158,981	\$ 141,697
Transfers In (Out)	(211,085)	(1,064,136)	1,712,316	-
Non-operating Transfer In (Out)	-	-	-	2,165,145
Interest Expense	-	-	(120,353)	(58,124)
Increase in Net Position	\$ (1,064,384)	\$ (237,346)	\$ 1,750,944	\$ 2,248,718
Net Position - October 1	5,352,075	6,300,097	11,822,508	9,956,135
Prior Period Adjustments	26,373	(710,676)	-	(382,345)
Net Position - September 30	\$ 4,314,064	\$ 5,352,075	\$ 13,573,452	\$ 11,822,508

The cost of all governmental activities this year was \$6,017,195. (Exhibit C-3) However, as shown in the Statement of Activities on pages 11 and 12, some of the costs were paid by those who directly benefited from the programs (\$139,712).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$324,130, which is below last year's total of \$1,651,888. This decrease is attributable mostly to the City's General Fund. The primary reason for this decrease is due to a drop in revenues, capital asset expenditures and debt service payments due to additional debt for infrastructure and equipment.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council made revisions to the City's budget. These budget amendments decreased expenditures by \$174,690.

For fiscal year 2016, actual expenditures were \$6.0 million as compared to the amended budget of \$6.0 million and the adopted budget of \$6.2 million. Decreases were due to prudent spending by the City.

The amended and adopted budgets for revenues were \$4.35 and \$4.53 million, respectively, as compared to actual revenues of \$4.35 million. The difference is due to a decrease of charges for other services and other revenue due to a drop in oil & gas activity.

The City has an actual ending general fund balance of \$311,070 as of the fiscal year-end, as compared to an amended budget fund balance of \$465,368 and an adopted budget fund balance of \$368,645. The variance in fund balance is due to prudent spending by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2016, the City had \$32,193,876 invested in a broad range of capital assets, including equipment, the water system, and the sewer system. This amount represents an increase of \$4,727,051, or 14.56%.

This year's major additions included:

East Parkway Subdivision Water & Sewer Project	\$	1,564,826
Phase III Water Line		1,824,260
Country Club Lift Station		233,143
Upgrade to Waste Water Sewer Treatment Plant		45,230
Various Additions to Infrastructure for Water/Sewer System		42,936
Vehicles		333,537
Caterpillar 299D2 XHP Compact Track Loader		118,136
2016 Freightliner M2-106 Trash Truck		184,327
930M Caterpillar Wheel Loader		151,237
Various Equipment		292,162
Donated Land		4,020
Building/Improvements		403,991
2016 Peterbilt 220 Cab/Chassis Pothole Patching Truck		195,018
		<hr/>
Total Additions	\$	<u>5,392,823</u>

The City also sold or retired the following assets:

1998 International 4900 Pak-Mor 29 Cubic Yard Refuse Truck	\$ 87,275
Vehicles	277,067
Building (demolished)	7,516
Equipment	27,906
2008 International 4300 Elgin Street Sweeper	152,552
Caterpillar 924H Wheelloader (traded-in)	<u>123,200</u>
Total Dispositions	<u>\$ 675,516</u>

Debt

At year-end, the City had \$4.96 million in capital leases and loans outstanding as compared to the prior year of \$3.80 million, an increase of 30.53%.

Capital lease/Loan obligations increased in the current year by \$2,618,080. The City incurred additional debt to purchase needed assets and to make improvement/upgrades to its infrastructure.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rate. One of those factors is the economy and, in particular, the oil & gas industry. The price of crude oil and natural gas has stabilized over the course of the current year, which contributes heavily upon the valuation of properties on the mineral roll. The City's population has held steady in recent years, and it is possible that it may continue into the foreseeable future.

These indicators were taken into account when adopting the General Fund budget for 2017. Amounts available for appropriation in the General Fund budget are \$4,795,390, an increase of 10.30% over the final 2016 budget of \$4,347,704. The increase is due to anticipation of continued stability in the oil and gas prices for 2017. Budgeted expenditures are expected to decrease by 8.08% to \$5,532,006 from \$6,015,829 in 2016. A majority of the decrease is due to less anticipated expenditures for capital equipment and infrastructure. There is a budgeted inter-fund transfer from the System Fund to the General Fund for 2017 in the amount of \$300,000.

If these estimates are realized, the City's budgetary General Fund Balance is expected to increase by \$436,616 by the close of 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's finance office at the City of Monahans, 112 W. 2nd, Monahans, Texas, 79756.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government			Component Unit	
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit	
ASSETS					
1010	Cash and Cash Equivalents	\$ 527,912	\$ 797,371	\$ 1,325,283	\$ 1,281,671
1150	Receivables (net of allowance for uncollectibles)	186,004	121,621	307,625	48,116
1410	Inventories	-	-	-	1,041,600
1430	Prepaid Items	-	-	-	10,000
Restricted Assets:					
1611	Temp. Restricted Asset (LEOSE)	7,942	-	7,942	-
Capital Assets:					
1710	Land	212,722	170,460	383,182	-
1720	Infrastructure, net	1,140,383	15,184,602	16,324,985	-
1730	Buildings, net	2,208,883	141,513	2,350,396	-
1750	Machinery and Equipment, net	1,558,090	2,807,875	4,365,965	-
1760	Vehicles, net	534,281	347,825	882,106	-
1990	Other Assets	-	64,521	64,521	-
1000	Total Assets	6,376,217	19,635,788	26,012,005	2,381,387
DEFERRED OUTFLOW OF RESOURCES					
1997	Deferred Outflow Related to Pension Plan	630,388	330,311	960,699	-
1500	Total Deferred Outflows of Resources	630,388	330,311	960,699	-
LIABILITIES					
2020	Accounts Payable	286,207	186,995	473,202	56,349
2070	Intergovernmental Payable	8,188	5,637	13,825	-
2220	Unearned Revenues	25	-	25	-
2240	Notes Payable - Current	-	942,519	942,519	-
2270	Other Current Liabilities	1,100	164,477	165,577	-
Noncurrent Liabilities					
2501	Due Within One Year	272,239	307,480	579,719	-
2502	Due in More Than One Year	837,019	4,664,111	5,501,130	-
2580	Net Pension Liability	1,053,045	-	1,053,045	-
2000	Total Liabilities	2,457,823	6,271,219	8,729,042	56,349
DEFERRED INFLOW OF RESOURCES					
2602	Deferred Inflow Related to Pension Plan	234,718	121,428	356,146	-
2500	Total Deferred Inflows of Resources	234,718	121,428	356,146	-
NET POSITION					
3200	Net Investment in Capital Assets	4,962,220	14,442,125	19,404,345	-
Restricted for:					
3810	Restricted for State Funds	13,060	-	13,060	-
3880	Restricted for Economic Development	-	-	-	2,325,038
3900	Unrestricted Net Position	(661,216)	(868,673)	(1,529,889)	-
3000	Total Net Position	\$ 4,314,064	\$ 13,573,452	\$ 17,887,516	\$ 2,325,038

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

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

Data Control Codes	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
12 Judicial	\$ 209,971	\$ 298
16 Administration	586,510	-
17 General Services	362,418	-
21 Police	1,905,253	2,380
22 Fire Protection	132,200	117,034
31 Highways and Streets	841,713	-
33 Cemetery	301,048	-
35 Airport	91,620	-
52 Parks	400,340	20,000
65 Economic Development and Assistance	499,940	-
78 Debt Service	20,954	-
Total Governmental Activities:	5,351,967	139,712
BUSINESS-TYPE ACTIVITIES:		
701	3,941,378	3,922,786
Total Business-Type Activities:	3,941,378	3,922,786
TOTAL PRIMARY GOVERNMENT:	\$ 9,293,345	\$ 4,062,498
Component Unit:		
1991	\$ 250,702	\$ -
TOTAL COMPONENT UNITS:	\$ 250,702	\$ -

Data Control Codes	General Revenues:
	Taxes:
5010	Property Taxes, Levied for General Purposes
5120	Sales Taxes
5150	Gross Receipts Business Tax
5170	Franchise Taxes
5190	Penalty and Interest
5600	Grants and Contributions Not Restricted
5700	Miscellaneous Revenue
5800	Investment Earnings
5800	Transfers In (Out)
	Total General Revenues and Transfers
	Change in Net Position
	Net Position - Beginning
	Prior Period Adjustment
	Net Position--Ending

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Nonmajor Component Unit
\$ (209,673)	\$ -	\$ (209,673)	\$ -
(586,510)	-	(586,510)	-
(362,418)	-	(362,418)	-
(1,902,873)	-	(1,902,873)	-
(15,166)	-	(15,166)	-
(841,713)	-	(841,713)	-
(301,048)	-	(301,048)	-
(91,620)	-	(91,620)	-
(380,340)	-	(380,340)	-
(499,940)	-	(499,940)	-
(20,954)	-	(20,954)	-
<u>(5,212,255)</u>	<u>-</u>	<u>(5,212,255)</u>	<u>-</u>
-	(18,592)	(18,592)	-
-	(18,592)	(18,592)	-
<u>(5,212,255)</u>	<u>(18,592)</u>	<u>(5,230,847)</u>	<u>-</u>
-	-	-	(250,702)
-	-	-	(250,702)
837,518	-	837,518	-
1,803,963	-	1,803,963	595,044
523,167	-	523,167	-
523,560	-	523,560	-
15,212	-	15,212	-
65,550	-	65,550	-
586,893	56,432	643,325	604,667
3,093	788	3,881	3,786
(211,085)	1,712,316	1,501,231	(1,501,231)
<u>4,147,871</u>	<u>1,769,536</u>	<u>5,917,407</u>	<u>(297,734)</u>
(1,064,384)	1,750,944	686,560	(548,436)
5,352,075	11,822,508	17,174,583	2,873,474
26,373	-	26,373	-
<u>\$ 4,314,064</u>	<u>\$ 13,573,452</u>	<u>\$ 17,887,516</u>	<u>\$ 2,325,038</u>

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

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
ASSETS			
1010 Cash and Cash Equivalents	\$ 514,852	\$ 13,060	\$ 527,912
1050 Taxes Receivable	83,489	-	83,489
1051 Allowance for Uncollectible Taxes (credit)	(6,679)	-	(6,679)
1150 Receivables (Net)	108,627	-	108,627
1260 Intergovernmental Receivables	567	-	567
1611 Temporarily Restricted Asset	7,942	-	7,942
1000 Total Assets	<u>\$ 708,798</u>	<u>\$ 13,060</u>	<u>\$ 721,858</u>
LIABILITIES			
2010 Accounts Payable	\$ 241,482	\$ -	\$ 241,482
2020 Wages and Salaries Payable	44,690	-	44,690
2070 Intergovernmental Payable	8,188	-	8,188
2090 Due to Others	35	-	35
2220 Unearned Revenues	25	-	25
2270 Other Current Liabilities	1,100	-	1,100
2000 Total Liabilities	<u>295,520</u>	<u>-</u>	<u>295,520</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	76,810	-	76,810
2603 Deferred Resource Inflow - Municipal Court Fines	25,398	-	25,398
2600 Total Deferred Inflows of Resources	<u>102,208</u>	<u>-</u>	<u>102,208</u>
FUND BALANCES			
3450 Federal or State Funds Grant Restriction	-	13,060	13,060
3600 Unassigned Fund Balance	311,070	-	311,070
3000 Total Fund Balances	<u>311,070</u>	<u>13,060</u>	<u>324,130</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 708,798</u>	<u>\$ 13,060</u>	<u>\$ 721,858</u>

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

CITY OF MONAHANS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016

Total Fund Balances - Governmental Funds	\$	324,130
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		3,668,887
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.		860,401
This is the second year of the implementation of GASB 68 for the TMRS Pension plan. This fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$1,053,045 and a Deferred Resource Outflow of \$630,388 and Inflow of \$234,718. The net effect of these was to decrease the ending net position by \$657,375.		(11,159)
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(630,403)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		102,208
Net Position of Governmental Activities	\$	4,314,064

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

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

EXHIBIT C-3

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 792,008	\$ -	\$ 792,008
5120 General Sales and Use Taxes	1,803,963	-	1,803,963
5150 Gross Receipts Business Tax	523,167	-	523,167
5170 Franchise Tax	523,560	-	523,560
5190 Penalty and Interest on Taxes	15,212	-	15,212
5200 Licenses and Permits	44,022	-	44,022
5300 Intergovernmental Revenue and Grants	-	61,530	61,530
5400 Charges for Services	139,711	-	139,711
5510 Fines	69,708	-	69,708
5610 Investment Earnings	3,093	-	3,093
5620 Rents and Royalties	11,435	-	11,435
5640 Contributions & Donations from Private Sources	4,020	-	4,020
5700 Other Revenue	416,090	3,458	419,548
5020 Total Revenues	<u>4,345,989</u>	<u>64,988</u>	<u>4,410,977</u>
EXPENDITURES:			
Current:			
General Government:			
0012 Judicial	177,717	2,135	179,852
0016 Administration	524,484	-	524,484
0017 General Services	436,923	-	436,923
Public Safety:			
0021 Police	1,768,516	-	1,768,516
0022 Fire Protection	360,108	-	360,108
0031 Highways and Streets	1,017,806	-	1,017,806
0033 Cemetery	278,472	-	278,472
0035 Airport	91,620	-	91,620
Culture and Recreation:			
0052 Parks	425,502	-	425,502
Conservation and Development:			
0065 Economic Development and Assistance	628,352	-	628,352
Debt Service:			
0078 Debt Service	305,560	-	305,560
6030 Total Expenditures	<u>6,015,060</u>	<u>2,135</u>	<u>6,017,195</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,669,071)</u>	<u>62,853</u>	<u>(1,606,218)</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	82,862	-	82,862
7913 Proceeds from Capital Leases	291,776	-	291,776
7915 Transfers In	197,668	63,861	261,529
8911 Transfers Out (Use)	(312,039)	(127,722)	(439,761)
7080 Total Other Financing Sources (Uses)	<u>260,267</u>	<u>(63,861)</u>	<u>196,406</u>
1200 Net Change in Fund Balances	(1,408,804)	(1,008)	(1,409,812)
0100 Fund Balance - October 1 (Beginning)	1,637,820	14,068	1,651,888
1300 Prior Period Adjustment	82,054	-	82,054
3000 Fund Balance - September 30 (Ending)	<u>\$ 311,070</u>	<u>\$ 13,060</u>	<u>\$ 324,130</u>

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

CITY OF MONAHANS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	(1,409,812)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase (decrease) the change in net position.		941,480
The implementation of the requirements of GASB 68 for this fiscal year resulted in a prior period adjustment to record the retroactive impact. This is NOT included in the explanation as to why the CHANGE in net position is different on Exhibit B-1 than the change in fund balance on Exhibit C-3. The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$217,636 and total debits to expenses were \$228,795. The net effect on the change in net position on Exhibit B-1 is an decrease of \$11,159.		(11,159)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(630,403)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.		45,510
Change in Net Position of Governmental Activities	\$	(1,064,384)

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

CITY OF MONAHANS, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT C-5

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 817,000	\$ 783,450	\$ 792,008	\$ 8,558
5120	General Sales and Use Taxes	2,100,000	1,795,977	1,803,963	7,986
5150	Gross Receipts Business Tax	500,000	490,000	523,167	33,167
5170	Franchise Tax	521,000	523,996	523,560	(436)
5190	Penalty and Interest on Taxes	10,000	13,500	15,212	1,712
5200	Licenses and Permits	14,530	31,600	44,022	12,422
5400	Charges for Services	143,000	151,000	139,711	(11,289)
5510	Fines	80,000	63,000	69,708	6,708
5610	Investment Earnings	3,000	1,600	3,093	1,493
5620	Rents and Royalties	8,000	11,900	11,435	(465)
5640	Contributions & Donations from Private Sources	-	-	4,020	4,020
5700	Other Revenue	332,760	481,681	416,090	(65,591)
5020	Total Revenues	4,529,290	4,347,704	4,345,989	(1,715)
EXPENDITURES:					
Current:					
General Government:					
0012	Judicial	182,844	181,921	177,717	4,204
0016	Administration	584,208	536,706	524,484	12,222
0017	General Services	341,900	349,802	436,923	(87,121)
Public Safety:					
0021	Police	1,916,990	1,848,262	1,768,516	79,746
0022	Fire Protection	297,819	357,430	360,108	(2,678)
0031	Highways and Streets	725,950	817,103	1,017,806	(200,703)
0033	Cemetery	272,748	286,722	278,472	8,250
0035	Airport	35,500	21,500	91,620	(70,120)
Culture and Recreation:					
0052	Parks	469,670	443,350	425,502	17,848
Conservation and Development:					
0065	Economic Development and Assistance	1,005,310	815,453	628,352	187,101
Debt Service:					
0078	Debt Service	357,580	357,580	305,560	52,020
6030	Total Expenditures	6,190,519	6,015,829	6,015,060	769
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,661,229)	(1,668,125)	(1,669,071)	(946)
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	10,000	113,619	82,862	(30,757)
7913	Proceeds from Capital Leases	-	-	291,776	291,776
7915	Transfers In	300,000	300,000	197,668	(102,332)
8911	Transfers Out (Use)	-	-	(312,039)	(312,039)
7080	Total Other Financing Sources (Uses)	310,000	413,619	260,267	(153,352)
1200	Net Change in Fund Balances	(1,351,229)	(1,254,506)	(1,408,804)	(154,298)
0100	Fund Balance - October 1 (Beginning)	1,637,820	1,637,820	1,637,820	-
1300	Prior Period Adjustment	82,054	82,054	82,054	-
3000	Fund Balance - September 30 (Ending)	\$ 368,645	\$ 465,368	\$ 311,070	\$ (154,298)

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

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

	Business-Type Activities - Enterprise Funds		
		Nonmajor Enterprise Funds	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 632,358	\$ 165,013	\$ 797,371
Accounts Receivable-Net of Uncollectible Allowance	121,621	-	121,621
Due from Other Funds	448	-	448
Total Current Assets	754,427	165,013	919,440
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	170,460	-	170,460
Infrastructure, net	15,184,602	-	15,184,602
Buildings, net	141,513	-	141,513
Machinery and Equipment, net	2,807,875	-	2,807,875
Vehicles, net	347,825	-	347,825
Other Asset - Intangible Assets	64,521	-	64,521
Total Noncurrent Assets	18,716,796	-	18,716,796
Total Assets	19,471,223	165,013	19,636,236
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	330,311	-	330,311
Total Deferred Outflows of Resources	330,311	-	330,311
LIABILITIES			
Current Liabilities:			
Accounts Payable	47,240	-	47,240
Wages and Salaries Payable	23,524	-	23,524
Compensated Absences Payable	116,231	-	116,231
Intergovernmental Payable	5,637	-	5,637
Due to Other Funds	-	448	448
Notes Payable - Current	942,519	-	942,519
Capital Leases Payable - Current	307,480	-	307,480
Other Current Liabilities	-	164,477	164,477
Total Current Liabilities	1,442,631	164,925	1,607,556
NonCurrent Liabilities:			
Notes Payable - Noncurrent	2,128,205	-	2,128,205
Capital Leases Payable - Noncurrent	896,467	-	896,467
Net Pension Liability	683,160	-	683,160
Other Noncurrent Liabilities	956,279	-	956,279
Total Noncurrent Liabilities	4,664,111	-	4,664,111
Total Liabilities	6,106,742	164,925	6,271,667
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	121,428	-	121,428
Total Deferred Inflows of Resources	121,428	-	121,428
NET POSITION			
Net Investment in Capital Assets	14,442,125	-	14,442,125

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

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

	Business-Type Activities - Enterprise Funds		
		Nonmajor Enterprise Funds	Total Enterprise Funds
Unrestricted Net Position	(868,761)	88	(868,673)
Total Net Position	<u>\$ 13,573,364</u>	<u>\$ 88</u>	<u>\$ 13,573,452</u>

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

CITY OF MONAHANS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-Type Activities - Enterprise Funds		
		Nonmajor Enterprise Funds	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Services	\$ 1,865,367	\$ -	\$ 1,865,367
Charges for Sewerage Service	645,659	-	645,659
Prop.Fund Charges for Services - Other	79,707	-	79,707
Sanitation Charges for Services	1,332,053	-	1,332,053
Other Revenue	29,386	-	29,386
Total Operating Revenues	<u>3,952,172</u>	<u>-</u>	<u>3,952,172</u>
OPERATING EXPENSES:			
Proprietary Fund Function - Sewerage			
Personnel Services - Salaries and Wages	61,610	-	61,610
Personnel Services - Employee Benefits	16,913	-	16,913
Other Operating Expenses	83,212	-	83,212
Supplies	139,030	-	139,030
Total Proprietary Fund Function - Sewerage	<u>300,765</u>	<u>-</u>	<u>300,765</u>
Accounting & Collecting			
Personnel Services - Salaries and Wages	209,329	-	209,329
Personnel Services - Employee Benefits	75,790	-	75,790
Purchased Professional & Technical Services	20,000	-	20,000
Purchased Property Services	9,235	-	9,235
Other Operating Expenses	79,955	-	79,955
Supplies	54,736	-	54,736
Total Accounting & Collecting	<u>449,045</u>	<u>-</u>	<u>449,045</u>
Production/Distribution			
Personnel Services - Salaries and Wages	577,542	-	577,542
Personnel Services - Employee Benefits	189,251	-	189,251
Other Operating Expenses	162,201	-	162,201
Supplies	207,282	-	207,282
Total Production/Distribution	<u>1,136,276</u>	<u>-</u>	<u>1,136,276</u>
Landfill			
Personnel Services - Salaries and Wages	432,664	-	432,664
Personnel Services - Employee Benefits	153,261	-	153,261
Purchased Professional & Technical Services	1,500	-	1,500
Purchased Property Services	91,740	-	91,740
Other Operating Expenses	81,683	-	81,683
Supplies	206,386	-	206,386
Total Landfill	<u>967,234</u>	<u>-</u>	<u>967,234</u>
Depreciation	967,705	-	967,705
Total Operating Expenses	<u>3,821,025</u>	<u>-</u>	<u>3,821,025</u>
Operating Income	<u>131,147</u>	<u>-</u>	<u>131,147</u>
NON-OPERATING REVENUES (EXPENSES):			
Gain in Sale of Property	27,046	-	27,046
Investment Earnings	788	-	788
Interest Expense - Non-Operating	(120,353)	-	(120,353)

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

CITY OF MONAHANS, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business-Type Activities - Enterprise Funds		
		Nonmajor Enterprise Funds	Total Enterprise Funds
Total Non-operating Revenue (Expenses)	(92,519)	-	(92,519)
Income Before Transfers	38,628	-	38,628
Non-Operating Transfer In	1,877,131	-	1,877,131
Transfers Out	(164,815)	-	(164,815)
Change in Net Position	1,750,944	-	1,750,944
Total Net Position - October 1 (Beginning)	11,822,420	88	11,822,508
Total Net Position - September 30 (Ending)	<u>\$ 13,573,364</u>	<u>\$ 88</u>	<u>\$ 13,573,452</u>

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

CITY OF MONAHANS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT D-3

	Business-Type Activities		
		Nonmajor Enterprise Funds	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 3,947,064	\$ 16	\$ 3,947,080
Cash Payments to Employees for Services	(1,740,183)	-	(1,740,183)
Cash Payments for Suppliers	(1,309,826)	-	(1,309,826)
Cash Payments to Refund or Apply Utility Deposit	-	(37,007)	(37,007)
Net Cash Provided by (Used for) Operating Activities	<u>897,055</u>	<u>(36,991)</u>	<u>860,064</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(164,815)	-	(164,815)
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(4,435,292)	-	(4,435,292)
Capital Leases/Loans	1,145,044	-	1,145,044
Interest from Financing Activities	(113,843)	-	(113,843)
Capital Contributions Other Funds	1,877,130	-	1,877,130
Sale of Capital Assets	30,757	-	30,757
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,496,204)</u>	<u>-</u>	<u>(1,496,204)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	788	-	788
Net Increase(Decrease) in Cash and Cash Equivalents	(763,176)	(36,991)	(800,167)
Cash and Cash Equivalents at Beginning of the Year:	1,395,534	202,004	1,597,538
Cash and Cash Equivalents at the End of the Year:	<u>\$ 632,358</u>	<u>\$ 165,013</u>	<u>\$ 797,371</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>			
Operating Income (Loss):	\$ 131,147	\$ -	\$ 131,147
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	967,705	-	967,705
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(5,396)	16	(5,380)
Increase (decrease) in Accounts Payable	(238,419)	-	(238,419)
Increase (decrease) in Wages & Salaries	(4,096)	-	(4,096)
Increase (decrease) in Sales Tax	288	-	288
Increase (decrease) in Compensated Absences	(17,366)	-	(17,366)
Increase (decrease) in Municipal Landfill Liab	65,553	-	65,553
Increase (decrease) in Net Pension Obligation	(2,361)	-	(2,361)
Increase (decrease) in Utility Deposits	-	(37,007)	(37,007)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 897,055</u>	<u>\$ (36,991)</u>	<u>\$ 860,064</u>

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

CITY OF MONAHANS, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2016

	Fireman's Retirement & Relief Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 9,121
Total Assets	<u>\$ 9,121</u>
LIABILITIES	
Due to Others	\$ 9,121
Total Liabilities	<u>\$ 9,121</u>

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

CITY OF MONAHANS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Monahans, Texas (the "City") is a municipal corporation under the applicable laws and regulations of the State of Texas. It has a Council – Manager form of government with the Council Members and Mayor being elected by registered voters of the City. The City Manager is appointed by the City Council and serves as to the Council needs. The Mayor presides over the council meetings but holds no voting power.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB), which establishes combined statements as the required reporting level for government entities that present financial statements in accordance with generally accepted accounting principles.

A. REPORTING ENTITY

The public elects the Mayor and Council. The Council has the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." As required by generally accepted accounting principles, the City's basic financial statements also present its Component Unit. The component unit discussed below is included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Unit: The component unit's columns in the government-wide statements of net position and of activities include the financial data of the City's only component unit. It is reported in a separate column to emphasize that it is legally separate from the City. The Monahans Economic Development Corporation's five-member governing board is appointed by the City Council.

Monahans Economic Development Corporation promotes, assists, and enhances economic development by encouraging employment and enhancing the public welfare through promotion of tourism; development of commercial, industrial, and manufacturing enterprises. The Corporation's operating budget is subject to the approval of the City Council. The Council is also required to approve all contracts executed and entered into by the Corporation. The City Attorney must approve all contracts as to form before they are to be executed.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Monahans, Texas and its component unit non-fiduciary activities with most of the inter-fund activities removed. *Governmental Activities* include programs supported primarily by taxes, grants, and other inter-governmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" columns include amounts paid by organizations outside the City to help meet the operational and capital requirements of a given function. If revenue is not program revenue, it is general revenue used to support all of the City's functions. Taxes are always general revenue.

Inter-fund activities between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and the Proprietary Fund Statement of Net position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net position. All inter-fund transactions between governmental funds are eliminated on the government-wide statements. Inter-fund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - continued

government-wide Statement of Net position as internal balances and on the Statement of Activities as inter-fund transfers.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and proprietary funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials, labor, and direct overhead. Other expenses are non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing resources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes and sales taxes. Property tax, sales tax, and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If the balance has not been expended by the end of the project period, grantors sometimes require the city to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all Governmental Accounting Standards Board (GASB) pronouncements. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the fund Statement of Net position. The fund equity is segregated into (1) investments in capital assets, net of related debt and (2) unrestricted net position.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance are accounted for in a special revenue fund, and sometimes, unused balances must be returned to the grantor at the close of specified project periods.

The City reports the following major proprietary funds:

System Fund – The City's activities for which utility users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in this proprietary fund.

Water Meter Deposit Fund – The City accounts for the deposits required to open a utility account separate from the System Fund. This fund earns monthly interest income, which is periodically transferred to the System Fund, since this interest is unrestricted in use.

Additionally, the City reports the following fund type:

Fiduciary Funds:

Agency Funds – The City accounts for resources held for others in a custodial capacity in agency funds. The City's agency fund is the Fireman's Relief & Retirement Fund.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Net position on the Statement of Net Position includes the following:
 - *Net investment in capital assets* - the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt and is directly attributable to the acquisition, construction, or improvement of these capital assets.
 - *Restricted for federal and state programs* - the component of net position that reports the difference between assets and liabilities related to federal and state programs that consist of assets with constraints placed on their use by granting agencies.
 - *Restricted for debt service* - the component of net position that reports the difference between assets and liabilities adjusted on a government-wide basis that consists of assets with constraints placed on their use by the bond covenants.
 - *Unrestricted net position* - the difference between the assets and liabilities that are not reported in net position net investment in capital assets, or restricted net position.
 - *Net position flow assumptions* - Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

F. OTHER ACCOUNTING POLICIES - continued

The City reports its fund balance in compliance with GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- *Restricted fund balance* - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation;
- *Committed fund balance* - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- *Assigned fund balance* - amounts a government intends to use for a specific purpose; intent can be expressed by a governing body or by an official or body to which the governing body delegates the authority;
- *Unassigned fund balance* - amounts that are available for any purpose, positive amounts are reported only in the general fund.

The City establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is delegated by the City council to the City Manager or his designee.

When restricted and other fund balance resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned and unassigned amounts, respectively.

3. 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 financial statement of net position.
4. It is the City's policy to permit full-time employees to accumulate earned but unused vacation and sick pay benefits. These employees may accumulate up to 750 hours of unused vacation benefits depending on year of service at departure and up to 600 hours of unused sick leave benefits. Unused sick leave benefits will not be paid to the employees upon resignation or termination of employment. However, upon retirement from the City under the TMRS plan, eligible employees will be compensated for one-half the total hours of accumulated sick leave up to a maximum of 360 hours at the then current base salary rate of said employee.

An estimate is made of the amount of accumulated vacation benefits that will be paid within one year. This estimate is recorded as a current liability on the governmental fund financial statements. The remainder of the vacation benefits is reported as a long-term liability on the government-wide financial statements. The accumulated sick leave benefits are not reported on the governmental fund financial statements, but they are reported as a long-term liability on the government-wide statement of net position. In the Proprietary Fund, the accumulated vacation and sick leave benefits are reported as a liability on the proprietary fund statement of net position.

5. The City is required to report a landfill post-closure cost as a liability to the City. This liability is based on the total cost it would take to close the landfill, the percent of the landfill that is currently being used, and an inflation factor. This liability is reported on the proprietary fund statement of net position.
6. Capital assets, which include land, buildings, furniture and equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of two or more years. 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.

F. OTHER ACCOUNTING POLICIES - continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture, and equipment of the City and its component unit are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	15
Infrastructure	20 to 50
Water & Sewer System	15 to 75
Office Equipment	5 to 10
Computer Equipment	5 to 10

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

8. Deferred outflows/inflows of resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of revenues*, 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.

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

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMR'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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City Council adopts an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for this fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5. Although it does not have an appropriated budget, the System Fund Budget report appears in Exhibit L-1.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to September 20, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the Council legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year-end. The City had a couple of budget amendments during the fiscal year, which were significant.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

At September 30, 2016, the carrying amount of the City's deposits was \$2,624,017 and the bank balance was \$2,784,580. The City's cash deposits at September 30, 2016, and throughout the year, were covered by FDIC insurance or by pledged collateral held by the City's agent bank in Monahans, Texas.

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent bank. Since the City complies with this law, there is no custodial credit risk for deposits.

Foreign Currency Risk - The City has no investments or deposits of a foreign currency.

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The *Public Funds Investment Act* (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety or principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the state maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

A. DEPOSITS AND INVESTMENTS - continued

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City has no temporary or long-term investments.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service (if applicable) based on rates adopted for the year of the levy. Allowance for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Over the past several years, there has been no debt service tax rate; therefore, all taxes are maintenance and are reported in the General Fund. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTER-FUND BALANCES AND TRANSFERS

Inter-fund balances for the year ended September 30, 2016, consist of the following:

	<u>Due From</u>	<u>Due To</u>	<u>Purpose</u>
System Fund:			
Water Meter Deposit	\$ 448	\$ -	Current Operations
Water Meter Deposit:			
Enterprise Fund	..	<u>448</u>	Current Operations
TOTALS	<u>\$ 448</u>	<u>\$ 448</u>	

Inter-fund transfers for the year ended September 30, 2016, consist of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfer</u>	<u>Purpose</u>
Transfers Governmental funds:				
General Fund:				
System Fund	\$ 197,668	\$ -		Current Operations
MEDC (Hotel/Motel)	-	127,455		Current Operations
System Fund (Hotel/Motel)	-	<u>184,584</u>		Current Operations
Total General Fund	<u>\$ 197,668</u>	<u>\$ 312,039</u>		
Special Revenue Funds:				
MEDC	\$ -	\$ 127,722		Infrastructure
System Fund	<u>63,861</u>	<u>-</u>		Infrastructure
	<u>\$ 63,861</u>	<u>\$ 127,722</u>		
Total Transfers General Fund - Governmental Funds	<u>\$ 261,529</u>	<u>\$ 439,761</u>	<u>\$ (178,232)</u>	
Government-wide Transfers to System Fund	<u>\$ -</u>	<u>\$ 32,853</u>		Equipment Transfer
Total Transfers Statement of Activities	<u>\$ 261,529</u>	<u>\$ 472,614</u>	<u>\$ (211,085)</u>	
System Fund:				
MEDC	\$ 1,564,825	\$ -		Infrastructure
Special Revenue Fund	127,722	-		Infrastructure
Government-wide Statement of Activities	32,853	-		Equipment Transfer
General Fund	-	197,668		Current Operations
General Fund (Hotel/Motel)	<u>184,584</u>	<u>-</u>		Share of Costs for Infrastructure to Event Center
Total Transfers System Fund	<u>\$ 1,909,984</u>	<u>\$ 197,668</u>	<u>\$ 1,712,316</u>	
MEDC:				
Special Revenue Fund	\$ -	\$ 63,861		Infrastructure
General Fund	127,455	-		Current Operations
Special Revenue Fund	<u>-</u>	<u>1,564,825</u>		Infrastructure
Total MEDC	<u>\$ 127,455</u>	<u>\$ 1,628,686</u>	<u>\$ (1,501,231)</u>	

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2016 were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Other Funds</u>	<u>Municipal Court Fines</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:						
General Fund	\$ 76,810	\$ 567	\$ 80,314	\$ 25,399	\$ 2,914	\$ 186,004
Total - Governmental Activities	<u>\$ 76,810</u>	<u>\$ 567</u>	<u>\$ 80,314</u>	<u>\$ 25,399</u>	<u>\$ 2,914</u>	<u>\$ 186,004</u>
Business-type Activities:						
Proprietary Fund	\$ -	\$ -	\$ -	\$ -	\$ 121,621	\$ 121,621
Total - Business-type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,621</u>	<u>\$ 121,621</u>

Payables at September 30, 2016, were as follows:

	<u>Accounts Payable</u>	<u>Wages & Salaries</u>	<u>Compensated Abscenses</u>	<u>Due to Others</u>	<u>Total</u>
Governmental Activities:					
General Fund	\$ 241,482	\$ 44,690	\$ -	\$ 35	\$ 286,207
Business-type Activities:					
Proprietary Funds	\$ 47,240	\$ 23,524	\$ 116,231	\$ -	\$ 186,995

F. CAPITAL ASSET ACTIVITY

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

Governmental Activities:

	Beginning Balance	Prior Period Adjustment	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	208,702	-	4,020	-	212,722
Buildings & Improvements	2,637,627	-	446,181	-	3,083,808
Vehicles	1,951,733	-	213,475	173,493	1,991,715
Machinery & Equipment	2,865,522	9,744	337,296	282,252	2,930,310
Infrastructure	1,482,325	-	-	-	1,482,325
Construction in Progress	42,190	-	-	42,190	-
Total General Fixed Assets	9,188,099	9,744	1,000,972	497,935	9,700,880
Less: Accumulated Depreciation					
	Beginning Balance	Prior Period Adjustment	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings & Improvements	(740,246)	-	(134,679)	-	(874,925)
Vehicles	(1,447,521)	-	(183,405)	(173,492)	(1,457,434)
Machinery & Equipment	(1,330,973)	-	(249,965)	(208,718)	(1,372,220)
Infrastructure	(279,588)	-	(62,354)	-	(341,942)
Total Accumulated Depreciation	(3,798,328)	-	(630,403)	(382,210)	(4,046,521)
Governmental Activities					
Capital Assets - Net	5,389,771	9,744	370,569	115,725	5,654,359

F. CAPITAL ASSET ACTIVITY - continued

Business-type Activities:

	Beginning Balance	Prior Period Adjustment	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	170,460	-	-	-	170,460
Buildings & Improvements	311,055	-	-	7,516	303,539
Water & Sewer System	18,608,817	-	3,721,665	-	22,330,482
Vehicles	727,939	-	120,062	190,849	657,152
Other Equipment	3,449,185	-	603,584	21,406	4,031,363
Construction in Progress	11,270	-	2,057,403	2,068,673	-
Total Fixed Assets	<u>23,278,726</u>	<u>-</u>	<u>6,502,714</u>	<u>2,288,444</u>	<u>27,492,996</u>

Less Accumulated Depreciation:

	Beginning Balance	Prior Period Adjustment	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Buildings & Improvements	(148,726)	-	(17,105)	(3,805)	(162,026)
Water & Sewer System	(6,655,106)	-	(490,774)	-	(7,145,880)
Motor Vehicles	(417,055)	-	(83,121)	(190,849)	(309,327)
Other Equipment	(868,188)	-	(376,706)	(21,406)	(1,223,488)
Total Accumulated Depr.	<u>(8,089,075)</u>	<u>-</u>	<u>(967,706)</u>	<u>(216,060)</u>	<u>(8,840,721)</u>
Business-type Activities					
Capital Assets, Net	<u>15,189,651</u>	<u>-</u>	<u>5,535,008</u>	<u>2,072,384</u>	<u>18,652,275</u>

Depreciation Expense was charged to functions as follows:

Function	Governmental Activities	Business-type Activities
Judicial	\$ 32,959	\$ -
Administration	71,979	-
General Services	42,639	-
Police	284,761	-
Fire Protection	1,677	-
Highways & Streets	75,088	-
Cemetery	45,827	-
Parks	44,606	-
Economic Development	30,867	-
Sewerage	-	46,537
Accounting & Collecting	-	158,116
Production/Distribution	-	436,243
Landfill	-	326,809
Total Depreciation	<u>\$ 630,403</u>	<u>\$ 967,705</u>

G. CAPITAL LEASES/LOANS

The City leases/purchases various pieces of equipment for both governmental and business-type activities. The lease/loan periods were for two to five years with effective rates that range from 2.70% to 3.10%. A summary of changes in commitments under lease for the year ended September 30, 2016 for governmental and business-type activities is as follows:

Governmental Type Activities:

<u>Asset Leased/ Purchased</u>	<u>Payable Amount Outstanding October 1, 2015</u>	<u>Additions</u>	<u>Accrued Interest</u>	<u>Payments</u>	<u>Payable Amount Outstanding September 30, 2016</u>	
Equipment	\$ 82,586	\$ -	\$ -	\$ 23,006	\$ 59,580	Lease
Equipment	87,800	-	396	23,787	64,409	Lease
Equipment	46,608	-	315	17,300	29,623	Lease
Equipment	244,038	-	-	52,736	191,302	Lease
Equipment	196,488	-	-	56,698	139,790	Loan
Equipment	17,705	291,776	-	111,789	197,692	Loan
Totals	\$ 675,225	\$ 291,776	\$ 711	\$ 285,316	\$ 682,396	

Principal and interest requirements for future periods are as follows:

Loans:

<u>Fiscal Year-End</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 143,344	\$ 8,436	\$ 151,780
2018	141,391	3,924	145,315
2019	45,584	991	46,575
2020	7,163	19	7,182
Totals	\$ 337,482	\$ 13,370	\$ 350,852

Leases:

<u>Year-End</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	128,897	7,723	136,620
2018	114,161	4,363	118,524
2019	77,572	1,667	79,239
2020	24,284	164	24,448
Totals	\$ 344,914	\$ 13,917	\$ 358,831
Totals	\$ 682,396	\$ 27,287	\$ 709,683

G. CAPITAL LEASES/LOANS - continued

Business Type Activites:

Asset Leased/ Purchased	Payable Amount Outstanding October 1, 2015	Additions	Accrued Interest	Payments	Payable Amount Outstanding September 30, 2016	
Equipment	\$ 40,559	\$ -	\$ -	\$ 9,129	\$ 31,430	Lease
Equipment	142,872	-	-	35,616	107,256	Lease
Equipment	91,726	-	621	13,071	79,276	Lease
Equipment	134,000	-	907	19,094	115,813	Lease
Equipment	348,173	-	2,355	49,614	300,914	Lease
Equipment	388,222	-	2,626	55,321	335,527	Lease
Equipment	177,617	-	-	53,002	124,615	Lease
Equipment		118,384	-	9,267	109,117	Lease
Various	1,749,452	1,867,898	-	814,523	2,802,827	Loan
Equipment	50,497	340,021	-	122,622	267,896	Loan
Equipment	\$ 3,123,118	\$ 2,326,303	\$ 6,509	\$ 1,181,259	\$ 4,274,671	

Principal and interest requirements for future periods are as follows:

Lease:

Fiscal Year-End	Principal	Interest	Total
2017	\$ 307,480	\$ 28,715	\$ 336,195
2018	315,886	20,312	336,198
2019	281,277	12,067	293,344
2020	233,059	5,148	238,207
2021	66,246	363	66,609
Subtotals	\$ 1,203,948	\$ 66,605	\$ 1,270,553

Loans:

Fiscal Year-End	Principal	Interest	Total
2017	\$ 942,519	\$ 81,876	\$ 1,024,395
2018	969,806	52,215	1,022,021
2019	861,196	23,743	884,939
2020	297,202	1,938	299,140
Subtotals	\$ 3,070,723	\$ 159,772	\$ 3,230,495
Totals	\$ 4,274,671	\$ 226,377	\$ 4,501,048

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon termination of employment, the City pays employees for any unused vacation leave that has been earned through the last day of work. Each regular full-time employee may accumulate up to a maximum of 750 hours of unused vacation leave. The amount of accumulated unused vacation leave at September 30, 2016, is \$160,776 in the government-wide financial statements, and \$83,834 in the System Fund.

Upon retirement from the City under the TMRS plan, eligible employees will be compensated for one-half of the total hours of accumulated sick leave up to a maximum of 360 hours at the then current base salary rate of said employee. Each regular full-time employee may accumulate up to a maximum of 600 hours of unused sick leave. The amount of accumulated unused sick leave at September 30, 2016, is \$68,823 in the government-wide financial statements and \$32,397 in the System Fund. The amount in General Fund is considered long-term and is reported in the government-wide financial statements and not the fund financial statements. The reason all of the sick leave is considered long-term is because the City only accrues the amount that would be paid upon the employee's retirement. Sick leave that would be used for funerals, medical appointments, etc. is not accrued.

I. DEFINED BENEFIT PENSION PLAN

Plan Description: The City of Monahans participates as one of 866 plans in the non-traditional, joint contributory, hybrid defined benefit 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 Governmental Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com

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

Benefits Provided: TMRS provides retirement, disability, and death benefits. Benefits provisions are adopted by the governing body of the city, with the options available in the state statutes governing TMRS.

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

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant, as of often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee's salary had always been the average of his or her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

DEFINED BENEFIT PENSION PLAN - continued

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

	Plan Year 2015	Plan Year 2016
Employee Deposit Rate	5.00%	5.00%
Matching Ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10,0/25 100% Repeating	60/10,0/25 100% Repeating
Updated Service Credits Transfers	100% Repeating Transfers	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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

Inactive employees beneficiaries currently receiving benefits	26
Inactive employees entitled to but not yet receiving benefits	36
Active employees	60
Total	122

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 Monahans were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Monahans were 9.42% and 8.93% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended were \$336,032, and were equal to the required contributions.

Net Pension Liability: The City's net pension liability (NPL) was measured as of December 31, 2014, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

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

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

I. DEFINED BENEFIT PENSION PLAN - continued

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 Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS (the actuary) 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 arithmetic 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 flow used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on 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.

A. DEFINED BENEFIT PENSION PLAN - continued

Changes in the Net Pension Liability

	Increase/(Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 11,970,794	\$ 10,660,440	\$ 1,310,354
Changes for the year:			
Service Cost	343,698	-	343,698
Interest	832,641	-	832,641
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(465,623)	-	(465,623)
Changes in Assumptions	83,279	-	83,279
Contributions - Employer	-	315,524	(315,524)
Contributions - Employee	-	167,494	(167,494)
Net Investment Income	-	15,730	(15,730)
Benefit Payments, Including Refunds of Employee Contributions	(495,530)	(495,530)	-
Administrative Expense	-	(9,581)	9,581
Other Changes	-	(473)	473
Net Changes	\$ 298,465	\$ (6,836)	\$ 305,301
Balance at 12/31/2015	\$ 12,269,259	\$ 10,653,604	\$ 1,615,655

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	\$ 3,328,245	\$ 1,615,655	\$ 211,235

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

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

For the year ended September 30, 2016 the City recognized pension expense of \$342,904.

A. DEFINED BENEFIT PENSION PLAN - continued

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
Difference in expected and actual experience	\$ -	\$ 356,146
Difference in assumption changes	62,034	-
Difference between projected and actual investment earnings	661,632	-
Contributions subsequent to the measurement date	237,033	-
Total	\$ 960,699	\$ 356,146

\$237,033 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 as of 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 Dec 31:	
2016	\$ 70,236
2017	70,236
2018	80,947
2019	146,101
2020	-
Thereafter	-
Total	\$ 367,520

J. RETIREE SUPPLEMENTAL DEATH BENEFITS

Description: 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 employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Your city offers supplemental death to:	Plan Year 2015	Plan Year 2016
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

J. RETIREE SUPPLEMENTAL DEATH BENEFITS - continued

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 \$235, \$227 and \$233, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.07%	0.07%	100.00%
2015	0.07%	0.07%	100.00%
2016	0.07%	0.07%	100.00%

K. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources at September 30, 2016 consisted of the following:

	<u>General Fund</u>
Net Tax Revenue	\$ 76,810
Net Municipal Court Fines	<u>25,398</u>
Total Deferred Inflows of Resources	<u>\$ 102,208</u>

L. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Total</u>
Property Taxes	\$ 792,008	\$ -	\$ 792,008
General Sales & Use Tax	1,803,963	-	1,803,963
Gross Receipts Business Tax	523,167	-	523,167
Franchise Tax	523,560	-	523,560
Penalties & Interest	15,212	-	15,212
Tax-related Income	<u>3,657,910</u>	<u>-</u>	<u>3,657,910</u>
Licenses and Permits	<u>44,022</u>	<u>-</u>	<u>44,022</u>
Sanitation & Fire Protection	139,711	1,332,053	1,471,764
Water	-	1,865,367	1,865,367
Sewer	-	645,659	645,659
Other Services	-	79,707	79,707
Utility-related Income	<u>139,711</u>	<u>3,922,786</u>	<u>4,062,497</u>
Fines	69,708	-	69,708
Investment Earnings	3,093	-	3,093
Rents and Royalties	11,435	-	11,435
Contributions from Private Sources	4,020	-	4,020
Other Revenue	<u>416,090</u>	<u>29,386</u>	<u>445,476</u>
Totals	<u>\$ 4,345,989</u>	<u>\$ 3,952,172</u>	<u>\$ 8,298,161</u>

M. LITIGATION

The City had no pending litigation at September 30, 2016.

N. OTHER COMMITMENTS AND CONTINGENCIES

Management of the City was not aware of any significant contingencies and commitments at September 30, 2016.

O. MUNICIPAL SOLID WASTE LANDFILL

State and federal laws and regulations require the City to place a final cover on its landfill upon closure and perform certain maintenance and monitoring functions at the site for 30 years after final closure. Although closure and post-closure care costs will be paid only as required, the City will report a portion of these costs as a long-term debt on the government-wide financial statements in each period based on the percent of the landfill capacity being used at the end of the fiscal year. Total current costs will be adjusted for the effects of inflation each year. The amount of the increase in long-term debt for the year ended September 30, 2016, is \$65,553. The \$956,279 reported as landfill closure and post-closure care liability at September 30, 2016 represents the cumulative amount reported to date based on the use of 82.37% of the estimated capacity of the landfill. The City will recognize the remaining estimated costs of closure and post-closure care of \$204,730 as the remaining estimated capacity is filled.

These amounts are based on what it is estimated would be the cost to perform all closure and post-closure care in the fiscal year ending September 30, 2016. The City expects to close the landfill in the year 2067. Actual costs may be more due to inflation, changes in technology, or changes in regulations.

On April 9, 1997, the Financial Responsibility Requirements found in Environmental Protection Agency Subtitle D regulations as they relate to publicly owned or operated municipal solid waste landfill facilities became effective. The regulations require that financial assurance to perform closure, post-closure, and corrective activities for landfill operations be provided.

The City has chosen to provide this assurance through use of the Local Government Financial Test and Government Guarantee. This guarantee consists of three basic components, which are a financial component, public notice component, and a record keeping and reporting component.

The public notice component of the Local Government Financial Test and Government Guarantee demonstrating financial assurance for closure, post-closure, or corrective action require by Environmental Protection Agency Subtitle D regulations for landfills operated by local government requires the following disclosures to be made.

1. The specific facility covered is the City of Monahans Municipal Solid Waste Facility Texas Natural Resource Conservation Commission permit #772.
2. Financial assurance costs are anticipated in the following categories of expenditures and in the amount of the corresponding cost estimates. The original estimates have been adjusted for inflation.

Closure Costs	\$ 418,211
Post-Closure Costs	742,798
Corrective Action	-
Total	\$ 1,161,009

3. The anticipated year of closure is 2067 with closure costs having been fully incurred within that time. It is anticipated that post-closure costs will be incurred evenly across the 30-year post-closure monitoring period at \$24,760 per year.

P. PRIOR PERIOD ADJUSTMENTS

The government-wide, fund financial, proprietary and component unit statements experienced the following prior period entries:

Description	Exhibit	
	B-1	C-3
Adjustment for prior year compensated absences	\$ -	\$ 90,823
Adjustment for prior year accrual Hotel/Motel Tax Receivable	(8,769)	(8,769)
Adjustment to capitalize playground equipment	9,744	
Adjustment for prior year municipal fines	25,398	-
Total Prior Period Entries	\$ 26,373	\$ 82,054

Q. CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 223,957 *	\$ 5,642	\$ -	\$ 229,599	\$ -
Net OPEB Obligation	266,308	-	69,044	197,264	-
Capital Leases	<u>675,225</u>	<u>292,487</u>	<u>285,317</u>	<u>682,395</u>	<u>272,239</u>
Total Governmental Activities					
Long-term Liabilities	<u>\$ 1,074,667</u>	<u>\$ 298,129</u>	<u>\$ 354,361</u>	<u>\$ 1,109,258</u>	<u>\$ 272,239</u>
Business-type Activities:					
Net OPEB Obligation	\$ 122,911	\$ -	\$ 2,361	\$ 120,550	\$ -
Landfill Closure & Post-closure costs	890,726	65,553	-	956,279	-
Capital Lease	<u>3,123,117</u>	<u>-</u>	<u>-</u>	<u>3,123,117</u>	<u>1,249,999</u>
Total Business-type Activities					
Long-term Liabilities	<u>\$ 4,136,754</u>	<u>\$ 65,553</u>	<u>\$ 2,361</u>	<u>\$ 4,199,946</u>	<u>\$ 1,249,999</u>

*Prior year balance includes prior period adjustment of \$90,823. Compensated absences are recognized in the government-wide statements.

Q. CHANGES IN LONG-TERM LIABILITIES - continued

Liabilities under the governmental activities are paid from the City's General Fund. Liabilities under the Business-type activities are paid by the System Fund.

R. SUBSEQUENT EVENT

Management of the City was not aware of any subsequent events that require note disclosure.

S. INVENTORIES

Inventories consist of lots/properties developed for resale by the Monahans Economic Development Council to attract businesses to locate to Monahans, Texas. The lots/properties are carried at cost. Total cost of inventory at September 30, 2016 is \$1,041,600.

U. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB)

Description: The City offers postemployment health, dental and vision benefits to all employees who retire from the City who have 25 years of service. The City directly provides these benefits to qualified participants for the lesser of five years from retirement date or until participants reach age 65. The Plan is considered a single-employer plan and consists of medical benefits, dental benefits, and vision benefits. The healthcare benefits cover medical and hospitalization costs for retirees and their dependents. Coverage ceases at the lesser of five years or until participants reach age 65. The authority under which the Plan's benefit provisions are established or amended is the City Council.

Eligible retired employees participating in the Plan pay their premiums directly to the City.

The plan does not issue a stand-alone report. For inquiries relating to the Plan, please contact David Mills, City of Monahans, 112 W. Second Street, Monahans, Texas, 79756.

Funding Policy: Participants included in the valuation include retirees and active employees who may be eligible to participate in the Plan upon retirement. Expenditures for postretirement health care and other benefits are recognized monthly and financed on a pay-as-you-go basis. The City funds approximately 75% of the postretirement health care and other benefit costs. The retirees are responsible for funding approximately 25% of the healthcare and other benefit costs attributable to themselves and 100% for their spouses and/or dependents.

U. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB) - continued

Annual OPEB Cost and Net OPEB Obligation: The employer has elected to calculate the annual required contribution of the employer (ARC) and related information using the Alternative Measurement Method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The Employer's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

<u>Development of the Annual OPEB Cost and Net OPEB Obligation</u>	
<i>Employee FYE September 30</i>	<i>2016</i>
Annual Required Contribution (ARC)	\$400,248
Net OPEB Obligation (NOO) at beginning of year	389,219
Interest on Net OPEB Obligation (NOO)	17,515
Adjustment to Annual Required Contribution (ARC)	(15,875)
Annual OPEB Cost (Expense)	401,888
Employer Contributions Made	84,074
Increase (decrease) in Net OPEB Obligation (NOO)	317,814
Net OPEB Obligation (NOO) at end of year	\$707,033

The employer's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Schedule of Employer Contributions</u>				
Fiscal Year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2014	\$ 218,668	\$ 94,225	43%	\$ 270,317
9/30/2015	\$ 224,890	\$ 102,271	45%	\$ 389,219
9/30/2016	\$ 401,888	\$ 84,074	21%	\$ 317,814

Funded Status and Funding Progress: As of September 30, 2016, the plan assets were \$0, the actuarial accrued liability for benefits was \$2,399,968, the total unfunded actuarial liability is \$2,399,968, and the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) is 0%. The covered payroll (annual payroll of active employees covered by the plan was \$5,063,402, and the ratio of unfunded actuarial accrued liability to the covered payroll was 47%.

U. OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB) - continued

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the table below, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (2)	Unfunded AAL (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll (3)	UUAL as a Percentage Covered Payroll ((2-1)/3)
9/30/2016	\$ 0	\$ 2,399,968	\$2,399,968	0%	\$5,063,402	47%

Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

A discount rate of 4.50% was used. A general price inflation of 3.00% was assumed. In addition, the Projected Unit Credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at September 30, 2016 was 30 years. As authorized by GASB Statement No. 45, the Alternative Measurement Method with its simplifications of certain assumptions was employed in measuring actuarial accrued liabilities and the ARC.

COMBINING STATEMENTS

CITY OF MONAHANS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016

Data Control Codes	207 Municipal Court Security	208 Municipal Court Tech Fund	209 Event Center Special Revenue Fund	Total Nonmajor Governmental Funds	
ASSETS					
1010	Cash and Cash Equivalents	\$ 11,360	\$ 1,700	\$ -	\$ 13,060
1000	Total Assets	<u>\$ 11,360</u>	<u>\$ 1,700</u>	<u>\$ -</u>	<u>\$ 13,060</u>
FUND BALANCES					
3450	Federal or State Funds Grant Restriction	11,360	1,700	-	13,060
3000	Total Fund Balances	<u>11,360</u>	<u>1,700</u>	<u>-</u>	<u>13,060</u>
4000	Total Liabilities and Fund Balances	<u>\$ 11,360</u>	<u>\$ 1,700</u>	<u>\$ -</u>	<u>\$ 13,060</u>

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

CITY OF MONAHANS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Data Control Codes	207 Municipal Court Security	208 Municipal Court Tech Fund	209 Event Center Special Revenue Fund	Total Nonmajor Governmental Funds
REVENUES:				
5300 Intergovernmental Revenue and Grants	\$ -	\$ -	\$ 61,530	\$ 61,530
5700 Other Revenue	1,482	1,976	-	3,458
5020 Total Revenues	<u>1,482</u>	<u>1,976</u>	<u>61,530</u>	<u>64,988</u>
EXPENDITURES:				
Current:				
General Government:				
0012 Judicial	500	1,635	-	2,135
6030 Total Expenditures	<u>500</u>	<u>1,635</u>	<u>-</u>	<u>2,135</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>982</u>	<u>341</u>	<u>61,530</u>	<u>62,853</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	63,861	63,861
8911 Transfers Out (Use)	-	-	(127,722)	(127,722)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(63,861)</u>	<u>(63,861)</u>
1200 Net Change in Fund Balance	982	341	(2,331)	(1,008)
0100 Fund Balance - October 1 (Beginning)	<u>10,378</u>	<u>1,359</u>	<u>2,331</u>	<u>14,068</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 11,360</u>	<u>\$ 1,700</u>	<u>\$ -</u>	<u>\$ 13,060</u>

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

CITY OF MONAHANS, TEXAS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	BALANCE OCTOBER 1 2015	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30 2016
FIREMAN RELIEF & RETIREMENT FUND				
Assets:				
Cash and Cash Equivalents	\$ 9,307	\$ 1,238	\$ 1,425	\$ 9,120
TOTAL AGENCY FUNDS				
Assets:				
Cash and Cash Equivalents	\$ 9,307	\$ 1,238	\$ 1,425	\$ 9,120

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONAHANS, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2016

EXHIBIT G-1

	<u>2016</u>	<u>2015</u>
A. Total Pension Liability		
Service Cost	\$ 343,698	\$ 284,177
Interest (on the Total Pension Liability)	832,641	789,754
Changes of Benefit Terms	-0-	-0-
Difference between Expected and Actual Experience	(465,623)	(17,446)
Changes of Assumptions	83,279	-0-
Benefit Payments, including refunds of employee contributions	(495,530)	(451,594)
Net change in Total Pension Liability	<u>\$ 298,465</u>	<u>\$ 604,891</u>
Total Pension Liability - Beginning	11,970,794	11,365,903
Total Pension Liability - Ending	<u><u>\$ 12,269,259</u></u>	<u><u>\$ 11,970,794</u></u>
B. Total Fiduciary Net Position		
Contributions - Employer	\$ 315,524	\$ 322,941
Contributions - Employee	167,494	158,927
Net Investment Income	15,730	575,561
Benefit Payments, including refunds of employee contributions	(495,530)	(451,594)
Administrative Expense	(9,581)	(6,009)
Other	(473)	(494)
Net Change in Plan Fiduciary Net Position	<u>\$ (6,836)</u>	<u>\$ 599,332</u>
Plan Fiduciary Net Position - Beginning	10,660,440	10,061,108
Plan Fiduciary Net Position - Ending	<u><u>\$ 10,653,604</u></u>	<u><u>\$ 10,660,440</u></u>
C. Net Pension Liability	<u><u>\$ 1,615,655</u></u>	<u><u>\$ 1,310,354</u></u>
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.83%	89.05%
E. Covered Employee Payroll	\$ 3,349,882	\$ 3,163,232
F. Net Pension Liability as a Percentage of Covered Employee Payroll	48.23%	41.42%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only two years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF MONAHANS, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 335,026	\$ 324,174
Contributions in Relation to the Actuarially Determined Contributions	335,026	324,174
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered Employee Payroll	\$ 3,600,068	\$ 3,290,320
Contributions as a Percentage of Covered Employee Payroll	9.22%	9.85%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31, 2014 for Fiscal Year 2015 and December 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

City of Monahans, Texas
Notes to the Schedule of Contributions
Year Ended September 30, 2016

Valuation Date:

Actuarially determined contribution rates are calculated December 31 and become effective in January 13 months later.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	30 Years
Asset Valuation Method:	10 Year smoothed market; 15% soft corridor
Inflation:	2.5%
Salary Increases:	3.50% to 10.5% including inflation
Investment Rate of Return:	6.75%
Retirement Age:	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes: There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MONAHANS, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - SYSTEM FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT L-1

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
OPERATING REVENUES:				
Charges for Water Services	\$ 2,000,000	\$ 1,900,000	\$ 1,865,367	\$ (34,633)
Charges for Sewerage Service	700,000	650,000	645,659	(4,341)
Prop.Fund Charges for Services - Other	35,000	65,300	79,707	14,407
Sanitation Charges for Services	1,325,000	1,291,500	1,332,053	40,553
Other Revenue	20,000	24,500	29,386	4,886
Total Operating Revenues	4,080,000	3,931,300	3,952,172	20,872
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	1,396,928	1,283,266	1,281,145	2,121
Personnel Services - Employee Benefits	360,700	458,537	435,215	23,322
Purchased Professional & Technical Services	21,500	21,500	21,500	-
Purchased Property Services	96,213	112,953	100,975	11,978
Other Operating Expenses	595,000	635,489	407,051	228,438
Supplies	591,500	591,792	607,434	(15,642)
Depreciation	-	-	967,705	(967,705)
Interest Expense	1,218,136	1,140,733	-	1,140,733
Total Operating Expenses	4,279,977	4,244,270	3,821,025	423,245
Operating Income (Loss)	(199,977)	(312,970)	131,147	444,117
NON-OPERATING REVENUES (EXPENSES):				
Gain in Sale of Property	-	-	27,046	27,046
Investment Earnings	1,200	736	788	52
Interest Expense - Non-Operating	-	-	(120,353)	(120,353)
Total Non-operating Revenue (Expenses)	1,200	736	(92,519)	(93,255)
Income (Loss) Before Transfers	(198,777)	(312,234)	38,628	350,862
Non-Operating Transfer In	-	-	1,877,131	1,877,131
Transfers Out	(300,000)	(300,000)	(164,815)	135,185
Change in Net Position	(498,777)	(612,234)	1,750,944	2,363,178
Net Position - October 1 (Beginning)	11,822,420	11,822,420	11,822,420	-
Net Position - September 30 (Ending)	\$ 11,323,643	\$ 11,210,186	\$ 13,573,364	\$ 2,363,178

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

City of Monahans, Texas
Statement of Net Position
Discretely Presented Component Unit
September 30, 2016

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,281,671
Inventory (See Note S)	1,041,600
Notes Receivable	48,116
Prepaid Advertising	<u>10,000</u>
Total Current Assets	<u>\$ 2,381,387</u>

Fixed Assets:

Equipment, Net of Depreciation	-
Buildings & Improvements, Net of Depreciation	-
Construction-in-Progress	<u>-</u>
Total Fixed Assets	<u>\$ -</u>

Total Assets	<u><u>\$ 2,381,387</u></u>
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LIABILITIES

Current Liabilities

Accounts Payable	<u>\$ 56,349</u>
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Total Liabilities	<u><u>\$ 56,349</u></u>
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NET POSITION

Restricted Net Position	<u>\$ 2,325,038</u>
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Total Net Position	<u><u>\$ 2,325,038</u></u>
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City of Monahans, Texas
Statement of Revenues, Expenses, and Changes in Net Position
Discretely Presented Component Unit
For the Year Ended September 30, 2016

REVENUES

Sales Tax	\$ 595,044
Investment Earnings	3,786
Gain/(Loss) on Sale of Property	8,215
Other Revenue	596,452
Rental Income	<u>0</u>
 Total Revenues	 <u>\$ 1,203,497</u>

EXPENSES

Administrative	\$
Advertising	5,700
Consulting	239,476
Depreciation	1,667
Insurance	300
Miscellaneous Operating	1,000
Office Supplies	563
Travel, Fees, & Dues	<u>1,996</u>
 Total Expenses	 <u>\$ 250,702</u>

Income (Loss) Before Transfers	\$ 952,795
Transfers In	127,455
Transfers Out	<u>(1,628,686)</u>
 Change in Net Position	 (548,436)
Net Position - October 1	2,873,474
Prior Period Adjustment	<u>-</u>
 Net Position - September 30	 <u><u>\$ 2,325,038</u></u>

FEDERAL AWARDS SECTION

**INDEPENDENT AUDITOR'S 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 Auditor's Report

City Council
City of Monahans, Texas
112 W. 2nd
Monahans, Texas 79756

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Monahans, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report on them dated March 22, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiency as item **2016-001**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 test disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item **2016-001**.

Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith & Rives, PC
Monahans, Texas
March 22, 2017

City of Monahans, Texas
Schedule of Findings and Responses
For the Year Ended September 30, 2016

I. Summary of the Auditor's Results

- a. The type of report issued on the financial statements of the City of Monahans, Texas was an unqualified opinion.
- b. There was one reportable significant deficiency in internal control were disclosed by the audit of the financial statements.
- c. The audit disclosed one instance of non-compliance that could be material to the financial statements of the City of Monahans, Texas.
- d. The audit disclosed no:
 - 1. Known questioned costs greater than \$10,000 for a Federal program, which is not audited as a major program.
 - 2. Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.
 - 3. Instances where audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the City of Monahans, Texas materially misrepresents the status of any prior audit finding.
- e. The City had no major programs.
- f. The City was not subject to the Single Audit Act.
- g. The City did not qualify as a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance with *Generally Accepted Auditing Standards*.

Reference No. 2016-001

Condition: Per calculation of annual debt service to total expenditures (excluding capital items and debt service payments) for financial assurance for the municipal solid waste landfill, the ratio failed to be equal to or less than .20.

Criteria: According to Sec. 258.74(f)(1)(B)(2), Subpart G - Financial Assurance Criteria, Part 258 - Criteria for Municipal Solid Waste Landfills in the Code of Federal Regulations, a ratio of annual debt service to total expenditures less than or equal to 0.20. Total expenditures in this section are defined as all expenditures excluding capital outlays and debt repayment.

Context: Municipalities are required by the federal and state governments to maintain this and other financial ratios regarding their municipal solid waste landfills.

Effect: The City has incurred significant debt to obtain needed equipment and expansion of its infrastructure. As a result, this caused a failure in compliance for this particular ratio.

Recommendation: The City may purchase a surety bond, letter of credit, or insurance to overcome this failure.

Response: The City plans on implementing one of the above to be back in compliance with federal and state regulations.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.d Above

No Findings

**City of Monahans, Texas
Summary Schedule of Prior Findings
For the Year Ended September 30, 2016**

(Prepared by the City's Administration)

Reference No. 2015-001: In the prior year, the City had exceeded its budget for expenditures for the General Fund. The General Fund is required to have a legally adopted budget and the City is to amend the budget as necessary to comply to state law.

**City of Monahans, Texas
Corrective Action Plan
For the Year Ended September 30, 2016**

(Prepared by the City's Management)

For the following corrective action plan, the contact person is David Mills, City Manager.

Reference No. 2016-001

The City will purchase either a surety bond, a letter of credit or insurance to be in compliance with the federal and state financial assurance provisions regarding its municipal solid waste landfill .