

City of Burnet, Texas
Financial Statements and
Supplementary Information
September 30, 2016
(With Independent Auditor's Report Thereon)

City of Burnet, Texas

September 30, 2016

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Burnet, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of City of Burnet, 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's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City of Burnet, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12, and the schedules of changes in the City's net pension liability and related ratios, and schedule of pension contributions on pages 54 and 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor governmental funds financial statements on pages 56 and 57 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor governmental funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

February 24, 2017

Management's Discussion and Analysis

As management of the City of Burnet, Texas (the “City of Burnet” or the “City”), we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City of Burnet for the fiscal year ended September 30, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$50,599,848 (*net position*). Of this amount, \$2,467,289 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City’s total net position increased \$6,771,140 primarily due to airport capital improvements contributed to the City by the Texas Department of Transportation (TxDOT) of \$5,842,452 and continued profitability of utility services provided by the City.
- At the close of the current fiscal year, the City’s governmental funds reported combined fund balances of \$5,708,372, a decrease of \$140,629 in comparison with the prior year. This decrease was mainly due to (1) capital outlay of \$1.1 million for a new fire engine, offset by contributions from outside parties of \$0.3 million; and (2) a contribution to the Burnet Economic Development Corporation (BEDC) of \$0.3 million. Approximately \$3,900,868 of this amount is available for spending at the government’s discretion (*unassigned fund balances*).
- At the end of the current fiscal year, unrestricted fund balance (the total of *committed*, *assigned* and *unassigned* components of fund balance) for the general fund was \$3,900,868, or approximately 48% of total general fund expenditures.
- The City’s general fund total fund balance decreased \$155,699 mainly due to transfers in from the electric and water and sewer funds and transfers out to the general capital project funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The *statement of net position* presents financial information on all of the City’s assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is either improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and other governmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, highways and streets, aviation services, culture and recreation, sanitation, and economic development. The business-type activities of the City include electricity, water and sewer services, and the Delaware Springs Golf Course.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, the airport fund, the debt service fund, and the general capital projects fund, which are considered to be major funds. Data from the other five governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining fund statements section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Proprietary Funds. The City maintains one type of proprietary fund – enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electricity, water and sewer services, and the Delaware Springs Golf Course.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for its electricity, water and sewer services, and the Delaware Springs Golf Course operations, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19 through 22 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 53 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City’s pension benefits to its employees. Required supplementary information can be found on pages 54 and 55. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. The combining fund statements can be found on pages 56 through 57 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$50,599,848 at the close of the most recent fiscal year.

City of Burnet’s Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,304,957	6,459,827	5,123,683	6,947,461	11,428,640	13,407,288
Capital assets, net	31,697,929	24,464,232	38,635,429	38,352,760	70,333,358	62,816,992
Total assets	38,002,886	30,924,059	43,759,112	45,300,221	81,761,998	76,224,280
Total deferred outflows of resources	1,135,683	455,752	563,050	300,940	1,698,733	756,692

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current liabilities	490,937	512,515	954,514	1,780,108	1,445,451	2,292,623
Noncurrent liabilities	8,748,148	7,505,143	22,667,284	23,306,011	31,415,432	30,811,154
Total liabilities	<u>9,239,085</u>	<u>8,017,658</u>	<u>23,621,798</u>	<u>25,086,119</u>	<u>32,860,883</u>	<u>33,103,777</u>
Total deferred inflows of resources	<u>-</u>	<u>33,026</u>	<u>-</u>	<u>15,461</u>	<u>-</u>	<u>48,487</u>
Net position:						
Net investment in capital assets	28,741,370	21,214,029	18,152,400	17,511,195	46,893,770	38,725,224
Restricted	1,238,789	1,340,997	-	-	1,238,789	1,340,997
Unrestricted	<u>(80,675)</u>	<u>774,101</u>	<u>2,547,964</u>	<u>2,988,386</u>	<u>2,467,289</u>	<u>3,762,487</u>
Total net position	<u>\$ 29,899,484</u>	<u>23,329,127</u>	<u>20,700,364</u>	<u>20,499,581</u>	<u>50,599,848</u>	<u>43,828,708</u>

By far, the largest portion of the City's net position (92.7%) reflects its investment in capital assets, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (2.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position of \$2,467,289 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

The City's overall net position increased \$6,771,140. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

City of Burnet's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 3,548,555	3,853,657	13,913,050	15,242,128	17,461,605	19,095,785
Operating grants and contributions	565,044	532,971	-	-	565,044	532,971
Capital grants and contributions	6,200,801	767,048	26,649	161,496	6,227,450	928,544
General revenues:						
Property taxes	2,245,634	2,139,732	-	-	2,245,634	2,139,732
Sales taxes	1,578,655	1,475,565	-	-	1,578,655	1,475,565
Franchise taxes	125,361	139,780	-	-	125,361	139,780
Hotel/motel taxes	151,168	136,372	-	-	151,168	136,372
Unrestricted interest	9,266	60,127	5,326	59,421	14,592	119,548
Gain on disposition of capital assets	<u>73,141</u>	<u>3,028</u>	<u>-</u>	<u>-</u>	<u>73,141</u>	<u>3,028</u>
Total revenues	<u>14,497,625</u>	<u>9,108,280</u>	<u>13,945,025</u>	<u>15,463,045</u>	<u>28,442,650</u>	<u>24,571,325</u>

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Expenses:						
General government	\$ 2,128,923	1,935,695	-	-	2,128,923	1,935,695
Public safety	5,468,034	5,115,418	-	-	5,468,034	5,115,418
Highways and streets	764,824	735,677	-	-	764,824	735,677
Aviation services	430,876	585,925	-	-	430,876	585,925
Culture and recreation	1,001,469	980,761	-	-	1,001,469	980,761
Sanitation	775,516	785,024	-	-	775,516	785,024
Economic development	498,496	236,673	-	-	498,496	236,673
Interest on long-term debt	87,978	99,480	-	-	87,978	99,480
Electric	-	-	6,035,719	7,287,947	6,035,719	7,287,947
Water and sewer	-	-	2,942,937	2,679,434	2,942,937	2,679,434
Delaware Springs Golf Course	-	-	1,536,738	1,615,377	1,536,738	1,615,377
Total expenses	11,156,116	10,474,653	10,515,394	11,582,758	21,671,510	22,057,411
Increase (decrease) in net position before transfers	3,341,509	(1,366,373)	3,429,631	3,880,287	6,771,140	2,513,914
Transfers	3,228,848	3,792,711	(3,228,848)	(3,792,711)	-	-
Increase in net position	6,570,357	2,426,338	200,783	87,576	6,771,140	2,513,914
Net position, beginning of year	23,329,127	20,902,789	20,499,581	20,412,005	43,828,708	41,314,794
Net position, end of year	\$ 29,899,484	23,329,127	20,700,364	20,499,581	50,599,848	43,828,708

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$6,570,357 from the prior fiscal year for an ending balance of \$29,899,484. Key elements of the variance from the prior year are as follows:

- Charges for services decreased \$305,102. This was mainly attributable to decreases of \$204,905 in public safety revenues for EMS transport services, and \$62,588 in aviation services revenue due to ongoing construction at the airport.
- Capital contributions increased \$5,433,753. During the year, the City received \$5,842,452 contributed capital assets for the airport expansion project compared to \$767,048 in the prior year. Additionally, the City received contributions of \$351,000 from outside parties designated for the purchase of the new fire engine.
- Sales tax revenues increased by \$103,090 or 7%.
- Interest income decreased by \$50,861 due to a decrease in the interest rate with the renewal of the City's depository contract. The previous bank depository agreement guaranteeing the City 2.0% interest expired in June 2015. The current agreement has a minimum guaranteed interest rate of only 0.1%.
- Overall, expenses for governmental activities increased \$681,463 mainly due to an \$188,179 or 5% increase in personnel costs; an increase in expense for other post-employment benefits of \$543,636; and a \$340,000 increase in economic development expenses for a contribution to the BEDC. These increases were offset by decreases in aviation services expenses of \$160,626 due to a decrease in fuel purchases consistent with the decrease in fuel sales resulting from ongoing construction at the airport, a \$70,783 decrease in economic development expenses for the one-time project to relocate the historic Craddock House during the prior year, and a \$70,189 decrease in public safety expenses for the conversion of department records from paper to digital imaged files in the prior year.

- Transfers from business-type activities decreased by \$563,863 due to decreases in the discretionary transfers from the electric and water and sewer funds resulting from declines in electric revenues due to decreases in consumption and the cost of power as more fully discussed below.

Business-Type Activities. For the City’s business-type activities, the results for the current fiscal year were positive in that overall net position increased to an ending balance of \$20,700,364. The total increase in net position for business-type activities was \$200,783 from the prior fiscal year. Key elements of the variances from the prior year are as follows:

- Charges for business-type activities totaled \$13,913,050, a decrease of \$1,329,078 or 8.7% from the prior year. This decrease is mainly due to the decrease in electric revenue. Electric consumption was down slightly, 4.7%, due to temperatures in the current year that were milder than the extreme drought conditions in the prior year. Additionally, charges for services are impacted by the cost of power, which was less than the prior year as discussed below.
- Electric expenses decreased \$1,252,228 mainly because of the decrease in the cost of power of \$1,283,344 from the Lower Colorado River Authority. Kilowatts purchased were down 4.7% and the average cost per kilowatt hour decreased from \$0.069. to \$0.057
- Water and sewer expenses increased \$263,503. With the completion of the new sewer plant in May 2015, depreciation expense increased by \$313,360 due to a full year of deprecation in the current year, offset by a decrease in personnel costs of \$65,539 or 3.6%.
- Transfers to governmental activities decreased by \$563,863 due to declines in payments in lieu of taxes from the electric and water and sewer funds resulting from declines in revenues due to milder temperatures in the summer months as opposed to extreme drought conditions in the prior year.

Financial Analysis of the City’s Funds

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

Governmental funds. The focus of the City’s *government funds* is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City’s financing requirements. In particular, *unassigned fund balance* may be a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party or the City itself.

At September 30, 2016, the City’s governmental funds reported combined fund balances of \$5,708,372, a decrease of \$140,629 in comparison with the prior year. Of this amount, \$3,900,868 is available for spending at the government’s discretion (*unassigned fund balances*). The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is (a) not in spendable form (\$85,686), (2) legally required to be maintained intact (\$-0-), (3) restricted for particular purposes (\$1,183,475), (4) committed for a particular purpose (\$-0-), or (5) assigned for particular purposes (\$538,343).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,900,868. As a measure of the general fund’s liquidity, it may be useful to compare unassigned fund balance to total general fund

expenditures. Unassigned fund balance represents approximately 50 percent of total general fund expenditures.

The fund balance of the City's general fund decreased by \$155,699 during the current fiscal year. Key factors in this decrease are as follows:

- Revenues increased \$166,741 as a result of (1) an increase in sales tax revenues of \$103,090 due to an improved economy; (2) an increase in property tax revenues of \$98,810 due to increases in assessed values; (3) an increase in contributions of \$200,000 received from the BEDC designated for the purchase of the new fire engine; offset by (4) a decrease in charges for EMS services of \$204,905 mainly resulting from the City's inability to collect for transports as a result of increasing deductibles for health insurance due to the Affordable Care Act.
- Expenses increased \$167,098, approximately 2% over the prior year, and expenses exceeded revenues by \$875,057, which is comparable to the prior year result. The City transfers payments (1) for return on investment from the electric fund and (2) in lieu of taxes from the water and sewer fund to the general fund and makes other transfers in and transfers out at the discretion of management. Net transfers in for the current year amounted to \$709,030, resulting in the net decrease in fund balance of \$155,699.

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

Unrestricted net position of the electric, water and sewer, and Delaware Springs Golf Course funds at the end of the year were \$1,031,453, \$1,718,912 and (\$202,401), respectively. Net position for the water and sewer and Delaware Springs Golf Course funds increased by \$396,290 and \$96,278, respectively. The net position for the electric fund decreased by \$291,785. Key factors affecting the changes have been addressed under the government-wide financial analysis above.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, the only significant amendment to the budget was to increase transfers in from enterprise funds by \$1,200,000.

Final budget compared to actual results. During the year, actual revenues and transfers in were over budget by \$402,941. This was mostly attributable to the increase in sales tax revenues and the contribution of \$200,000 from BEDC designated for the purchase of the new fire engine. Actual expenditures were 98.2% of appropriations, and transfers out were \$1,252,661 under appropriations primarily due to reduced amount of actual transfers out.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$70,333,358 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure and construction in progress. The total net increase in the City's investment in capital assets for the current fiscal year was \$7,516,366 or 12.0%.

**City of Burnet's Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,488,682	1,321,369	577,543	577,543	2,066,225	1,898,912
Buildings	6,162,488	6,368,331	112,092	115,253	6,274,580	6,483,584
Machinery and equipment	2,207,888	1,088,649	1,047,668	1,246,667	3,255,556	2,335,316
Infrastructure	12,250,208	11,939,672	36,103,866	36,221,025	48,354,074	48,160,697
Construction in progress	9,588,663	3,746,211	794,260	192,272	10,382,923	3,938,483
	<u>\$ 31,697,929</u>	<u>24,464,232</u>	<u>38,635,429</u>	<u>38,352,760</u>	<u>70,333,358</u>	<u>62,816,992</u>

Major capital asset activity during the current fiscal year included:

Work was completed on:

Wastewater improvements including interceptor lines and SSES line improvements	\$ 669,978
Acquisition of new fire engine, ambulance, and transport van	1,441,164
Street improvements	625,138

Work continued on:

Airport master plan improvements/expansion	5,842,452
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Additional information on the City's capital assets can be found in Note III.C. on pages 35 to 37 of this report.

Long-Term Debt. At the end of the current fiscal year, the City had total long-term debt outstanding of \$31,415,432.

City of Burnet's Outstanding Long-Term Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Certificates of obligation	\$ 1,096,559	1,255,203	20,832,000	21,630,000	21,928,559	22,885,203
Refunding bonds	1,860,000	1,995,000	344,916	376,272	2,204,916	2,371,272
Tax notes	-	-	130,000	265,000	130,000	265,000
Compensated absences	448,162	410,162	163,402	171,873	611,564	582,035
Net OPEB obligation	2,545,112	2,001,587	-	-	2,545,112	2,001,587
Net pension liability	2,798,315	1,843,191	1,196,966	862,866	3,995,281	2,706,057
	<u>\$ 8,748,148</u>	<u>7,505,143</u>	<u>22,667,284</u>	<u>23,306,011</u>	<u>31,415,432</u>	<u>30,811,154</u>

The City's total outstanding debt increased by \$604,278 during the current fiscal year. The reasons for the increase were (1) an increase in the net pension liability due to market performance during the current year; (2) an increase in the net OPEB obligation due to rising health insurance costs; and (3) offset by the regularly scheduled principal payments due on existing bonded debt and tax notes. No new bonded debt was issued during the year.

The City maintains an "A" rating from Standard & Poor's for general obligation debt.

There is no specific maximum debt limit established by law for the City; therefore, the limit is governed by the City's ability to levy and collect taxes to service the debt for its outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.D. on pages 37 to 40 of this report.

Economic Factors and Next Year's Budget and Rates

The following economic factors currently affect the City and were considered in developing the 2017 fiscal year budget:

- Projected moderate increases in sales tax;
- Increasing personnel costs (including how to manage rising health care costs while keeping the highest level of service for employees);
- Appropriately managing equipment replacements at the optimal time;
- Review of current debt service requirements and consideration of benefits of early defeasance; and
- Preparing to build new police department and city hall with minimal effect on property tax rate and debt ratio.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Manager, City of Burnet, Texas, P. O. Box 1369, Burnet, Texas 78611.

City of Burnet, Texas

Statement of Net Position

September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Burnet Economic Development Corporation, Inc.
Assets				
Cash and cash equivalents	\$ 5,686,356	1,703,923	7,390,279	690,128
Receivables (net of allowance for uncollectibles)	873,725	1,289,719	2,163,444	89,097
Intergovernmental receivable	7,349	-	7,349	-
Due from component unit	200,000	-	200,000	-
Inventories	72,310	711,966	784,276	-
Internal balances	(548,159)	548,159	-	-
Prepaid and other items	13,376	5,993	19,369	4,118
Restricted cash and cash equivalents	-	863,923	863,923	-
Properties held for resale	-	-	-	1,118,466
Capital assets not being depreciated:				
Land	1,488,682	577,543	2,066,225	-
Construction in progress	9,588,663	794,260	10,382,923	-
Capital assets, net of accumulated depreciation:				
Buildings	6,162,488	112,092	6,274,580	-
Machinery and equipment	2,207,888	1,047,668	3,255,556	13,780
Infrastructure	12,250,208	36,103,866	48,354,074	-
Total assets	38,002,886	43,759,112	81,761,998	1,915,589
Deferred Outflows of Resources				
Deferred outflows of resources	1,135,683	563,050	1,698,733	-
Liabilities				
Accounts and retainages payable	256,490	188,818	445,308	15,821
Accrued interest payable	13,143	11,708	24,851	-
Accrued liabilities	188,433	234,965	423,398	4,703
Deposits payable	27,600	424,990	452,590	-
Unearned revenue	5,271	94,033	99,304	-
Due to primary government	-	-	-	200,000
Noncurrent liabilities:				
Due within one year	743,670	1,126,894	1,870,564	-
Due in more than one year	8,004,478	21,540,390	29,544,868	-
Total liabilities	9,239,085	23,621,798	32,860,883	220,524
Net Position				
Net investment in capital assets	28,741,370	18,152,400	46,893,770	1,132,246
Restricted for:				
Debt service	214,492	-	214,492	-
Economic development	342,499	-	342,499	-
Aviation services	618,440	-	618,440	-
Public safety	63,358	-	63,358	-
Unrestricted	(80,675)	2,547,964	2,467,289	562,819
Total net position	\$ 29,899,484	20,700,364	50,599,848	1,695,065

See accompanying notes to financial statements.

City of Burnet, Texas

Statement of Activities

Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,128,923	186,002	-	-
Public safety	5,468,034	1,884,904	558,309	351,000
Highways and streets	764,824	-	-	-
Aviation services	430,876	590,356	6,735	5,849,801
Culture and recreation	1,001,469	24,058	-	-
Sanitation	775,516	863,235	-	-
Economic development	498,496	-	-	-
Interest	87,978	-	-	-
Total governmental activities	11,156,116	3,548,555	565,044	6,200,801
Business-type activities:				
Electric	6,035,719	8,529,957	-	13,299
Water and sewer	2,942,937	4,069,235	-	-
Delaware Springs Golf Course	1,536,738	1,313,858	-	13,350
Total business-type activities	10,515,394	13,913,050	-	26,649
Total primary government	\$ 21,671,510	17,461,605	565,044	6,227,450
Component unit:				
Burnet Economic				
Development Corporation	\$ 439,191	44,274	340,000	-
General revenues:				
Property taxes				
Sales taxes				
Franchise taxes				
Hotel/motel taxes				
Unrestricted interest				
Gain (loss) on disposition of capital assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position, end of year				

See accompanying notes to financial statements.

Net Revenues (Expenses) and
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Burnet Economic Development Corporation, Inc.
(1,942,921)	-	(1,942,921)	
(2,673,821)	-	(2,673,821)	
(764,824)	-	(764,824)	
6,016,016	-	6,016,016	
(977,411)	-	(977,411)	
87,719	-	87,719	
(498,496)	-	(498,496)	
(87,978)	-	(87,978)	
(841,716)	-	(841,716)	
-	2,507,537	2,507,537	
-	1,126,298	1,126,298	
-	(209,530)	(209,530)	
-	3,424,305	3,424,305	
(841,716)	3,424,305	2,582,589	
			(54,917)
2,245,634	-	2,245,634	-
1,578,655	-	1,578,655	526,218
125,361	-	125,361	-
151,168	-	151,168	-
9,266	5,326	14,592	807
73,141	-	73,141	(258,969)
3,228,848	(3,228,848)	-	-
7,412,073	(3,223,522)	4,188,551	268,056
6,570,357	200,783	6,771,140	213,139
23,329,127	20,499,581	43,828,708	1,481,926
29,899,484	20,700,364	50,599,848	1,695,065

City of Burnet, Texas

Balance Sheet Governmental Funds

September 30, 2016

		General	Airport	Debt Service	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$	3,447,067	580,829	524,753	241,133	892,574	5,686,356
Receivables (net of allowance for uncollectibles)		785,926	32,251	20,452	9,394	25,702	873,725
Intergovernmental receivable		-	7,349	-	-	-	7,349
Due from component unit		200,000	-	-	-	-	200,000
Due from other funds		-	-	255	-	48,830	49,085
Inventories		37,190	35,120	-	-	-	72,310
Prepaid and other items		13,376	-	-	-	-	13,376
Total assets	\$	<u>4,483,559</u>	<u>655,549</u>	<u>545,460</u>	<u>250,527</u>	<u>967,106</u>	<u>6,902,201</u>
Liabilities							
Liabilities:							
Accounts and retainages payable	\$	219,280	22,667	-	5,456	9,087	256,490
Accrued liabilities		186,452	1,981	-	-	-	188,433
Deposits payable		19,465	8,135	-	-	-	27,600
Unearned revenue		1,200	4,071	-	-	-	5,271
Due to other funds		7,131	255	330,968	-	258,890	597,244
Total liabilities		<u>433,528</u>	<u>37,109</u>	<u>330,968</u>	<u>5,456</u>	<u>267,977</u>	<u>1,075,038</u>
Deferred Inflows of Resources							
Unavailable revenue - property taxes		98,597	-	20,194	-	-	118,791
Fund Balances							
Nonspendable		50,566	35,120	-	-	-	85,686
Restricted		-	583,320	194,298	-	405,857	1,183,475
Assigned		-	-	-	245,071	293,272	538,343
Unassigned		3,900,868	-	-	-	-	3,900,868
Total fund balances		<u>3,951,434</u>	<u>618,440</u>	<u>194,298</u>	<u>245,071</u>	<u>699,129</u>	<u>5,708,372</u>
Total liabilities, deferred inflows of resources and fund balances	\$	<u>4,483,559</u>	<u>655,549</u>	<u>545,460</u>	<u>250,527</u>	<u>967,106</u>	
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.							31,697,929
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.							118,791
Long-term liabilities, including general obligation debt payable and the net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.							<u>(7,625,608)</u>
Net position of governmental activities							\$ <u>29,899,484</u>

See accompanying notes to financial statements.

City of Burnet, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended September 30, 2016

	General	Airport	Debt Service	General Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 1,860,949	-	378,736	-	-	2,239,685
Sales taxes	1,578,655	-	-	-	-	1,578,655
Franchise taxes	125,361	-	-	-	-	125,361
Hotel/motel taxes	-	-	-	-	151,168	151,168
Licenses and permits	43,302	-	-	-	-	43,302
Intergovernmental	458,959	7,349	-	-	-	466,308
Charges for services - sanitation	863,235	-	-	-	-	863,235
Charges for services - EMS	1,741,445	-	-	-	-	1,741,445
Charges for services - other	24,058	-	-	-	-	24,058
Fines	126,503	-	-	-	12,150	138,653
Interest	5,098	567	1,070	-	2,531	9,266
Contributions and donations	206,735	-	-	151,000	-	357,735
Fuel sales	-	387,664	-	-	-	387,664
Miscellaneous	246,856	202,692	-	-	-	449,548
Total revenues	<u>7,281,156</u>	<u>598,272</u>	<u>379,806</u>	<u>151,000</u>	<u>165,849</u>	<u>8,576,083</u>
Expenditures:						
Current:						
General government	1,734,087	-	-	-	-	1,734,087
Public safety	4,432,456	-	-	-	-	4,432,456
Highways and streets	404,575	-	-	-	-	404,575
Aviation services	-	400,793	-	-	-	400,793
Culture and recreation	728,381	-	-	-	-	728,381
Sanitation	775,516	-	-	-	-	775,516
Economic development	81,198	340,000	-	-	74,200	495,398
Debt service:						
Principal	-	-	293,644	-	-	293,644
Interest and fiscal charges	-	-	89,366	-	-	89,366
Capital outlay	-	-	-	2,067,521	686,714	2,754,235
Total expenditures	<u>8,156,213</u>	<u>740,793</u>	<u>383,010</u>	<u>2,067,521</u>	<u>760,914</u>	<u>12,108,451</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(875,057)</u>	<u>(142,521)</u>	<u>(3,204)</u>	<u>(1,916,521)</u>	<u>(595,065)</u>	<u>(3,532,368)</u>
Other financing sources (uses):						
Insurance recoveries	10,328	-	-	-	62,813	73,141
Transfers in	3,751,400	-	23,315	2,401,400	620,708	6,796,823
Transfers out	<u>(3,042,370)</u>	<u>(50,030)</u>	<u>-</u>	<u>(65,986)</u>	<u>(319,839)</u>	<u>(3,478,225)</u>
Total other financing sources (uses)	<u>719,358</u>	<u>(50,030)</u>	<u>23,315</u>	<u>2,335,414</u>	<u>363,682</u>	<u>3,391,739</u>
Net change in fund balances	(155,699)	(192,551)	20,111	418,893	(231,383)	(140,629)
Fund balances, beginning of year	<u>4,107,133</u>	<u>810,991</u>	<u>174,187</u>	<u>(173,822)</u>	<u>930,512</u>	<u>5,849,001</u>
Fund balances, end of year	<u>\$ 3,951,434</u>	<u>618,440</u>	<u>194,298</u>	<u>245,071</u>	<u>699,129</u>	<u>5,708,372</u>

See accompanying notes to financial statements.

City of Burnet, Texas

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities**

Year Ended September 30, 2016

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

Net change in fund balances - total governmental funds \$ (140,629)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$2,639,272) and contributed capital assets (\$5,842,452) exceeded depreciation expense (\$1,248,027) in the current period.

7,233,697

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

5,949

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds. This amount is the net effect of the change in net OPEB obligation (\$543,525) plus the change in compensated absences (\$38,000) plus the change in net pension liability and the related deferred outflows and inflows of resources (\$242,167) less the change in accrued interest payable (\$1,388).

(822,304)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount of principal repayments in the current year.

293,644

Change in net position of governmental activities

\$ 6,570,357

See accompanying notes to financial statements.

City of Burnet, Texas

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budgetary Basis

Year Ended September 30, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,810,000	1,810,000	1,860,949	50,949
Sales taxes	1,475,000	1,475,000	1,578,655	103,655
Franchise taxes	125,000	125,000	125,361	361
Licenses and permits	19,350	19,350	43,302	23,952
Intergovernmental	455,871	455,871	458,959	3,088
Charges for services - sanitation	903,399	903,399	863,235	(40,164)
Charges for services - EMS	1,773,000	1,773,000	1,741,445	(31,555)
Charges for services - other	13,000	13,000	24,058	11,058
Fines	84,000	84,000	126,503	42,503
Interest	9,600	9,600	5,098	(4,502)
Contributions and donations	6,000	6,000	206,735	200,735
Miscellaneous	225,419	261,419	286,424	25,005
Total revenues	<u>6,899,639</u>	<u>6,935,639</u>	<u>7,320,724</u>	<u>385,085</u>
Expenditures:				
General government:				
Mayor and Council	25,580	25,580	14,994	10,586
Administrative	1,347,356	1,365,356	1,319,339	46,017
Planning and zoning	377,980	377,980	363,803	14,177
City shop	85,297	85,297	84,453	844
Public safety:				
Police	1,725,622	1,742,122	1,713,366	28,756
Municipal court	101,016	101,016	98,500	2,516
Fire	3,026,370	3,035,370	3,014,945	20,425
Highways and streets	425,932	425,932	425,363	569
Culture and recreation:				
Parks	657,533	657,533	654,603	2,930
Recreation center	145,000	145,000	127,600	17,400
Sanitation	783,640	783,640	775,516	8,124
Economic development	89,823	89,823	81,198	8,625
Total expenditures	<u>8,791,149</u>	<u>8,834,649</u>	<u>8,673,680</u>	<u>160,969</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,891,510)</u>	<u>(1,899,010)</u>	<u>(1,352,956)</u>	<u>546,054</u>
Other financing sources (uses):				
Insurance recoveries	-	9,500	10,328	828
Transfers in	2,533,544	3,733,544	3,751,400	17,856
Transfers out	(3,082,645)	(3,341,645)	(2,564,471)	777,174
Total other financing sources (uses)	<u>(549,101)</u>	<u>401,399</u>	<u>1,197,257</u>	<u>795,858</u>
Net change in fund balances	(2,440,611)	(1,497,611)	(155,699)	1,341,912
Fund balances, beginning of year	4,851,710	4,851,710	4,851,710	-
Fund balances, end of year	<u>\$ 2,411,099</u>	<u>3,354,099</u>	<u>4,696,011</u>	<u>1,341,912</u>

See accompanying notes to financial statements.

City of Burnet, Texas
Statement of Net Position –
Proprietary Funds
September 30, 2016

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewer	Delaware Springs Golf Course	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 540,832	1,150,607	12,484	1,703,923
Receivables (net of allowance for uncollectibles)	895,464	393,948	307	1,289,719
Inventories	344,920	252,316	114,730	711,966
Prepaid and other items	5,993	-	-	5,993
Due from other funds	99,206	479,600	-	578,806
Total current assets	<u>1,886,415</u>	<u>2,276,471</u>	<u>127,521</u>	<u>4,290,407</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	863,923	-	863,923
Capital assets:				
Land	11,171	357,759	208,613	577,543
Buildings	126,438	-	-	126,438
Infrastructure	5,950,803	41,826,836	2,996,485	50,774,124
Machinery and equipment	2,115,467	1,234,388	1,174,392	4,524,247
Construction in progress	-	794,260	-	794,260
Less accumulated depreciation	<u>(3,786,274)</u>	<u>(12,047,169)</u>	<u>(2,327,740)</u>	<u>(18,161,183)</u>
Total capital assets, net	<u>4,417,605</u>	<u>32,166,074</u>	<u>2,051,750</u>	<u>38,635,429</u>
Total noncurrent assets	<u>4,417,605</u>	<u>33,029,997</u>	<u>2,051,750</u>	<u>39,499,352</u>
Total assets	<u>6,304,020</u>	<u>35,306,468</u>	<u>2,179,271</u>	<u>43,789,759</u>
Deferred Outflows of Resources				
Deferred outflows of resources	<u>231,131</u>	<u>199,040</u>	<u>132,879</u>	<u>563,050</u>
Liabilities				
Current liabilities:				
Accounts and retainages payable	20,829	153,646	14,343	188,818
Accrued interest payable	2,135	9,573	-	11,708
Accrued liabilities	48,885	147,781	38,299	234,965
Deposits payable	424,990	-	-	424,990
Due to other funds	-	5,249	25,398	30,647
Unearned revenue	94,033	-	-	94,033
Compensated absences - current	38,835	67,219	57,348	163,402
General obligation debt payable - current	<u>54,492</u>	<u>909,000</u>	<u>-</u>	<u>963,492</u>
Total current liabilities	<u>684,199</u>	<u>1,292,468</u>	<u>135,388</u>	<u>2,112,055</u>
Noncurrent liabilities:				
General obligation debt payable	310,424	20,033,000	-	20,343,424
Net pension liability	<u>379,119</u>	<u>490,434</u>	<u>327,413</u>	<u>1,196,966</u>
Total noncurrent liabilities	<u>689,543</u>	<u>20,523,434</u>	<u>327,413</u>	<u>21,540,390</u>
Total liabilities	<u>1,373,742</u>	<u>21,815,902</u>	<u>462,801</u>	<u>23,652,445</u>
Net Position				
Net investment in capital assets	4,129,956	11,970,694	2,051,750	18,152,400
Unrestricted	<u>1,031,453</u>	<u>1,718,912</u>	<u>(202,401)</u>	<u>2,547,964</u>
Total net position	<u>\$ 5,161,409</u>	<u>13,689,606</u>	<u>1,849,349</u>	<u>20,700,364</u>

See accompanying notes to financial statements.

City of Burnet, Texas

**Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds**

Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewer	Delaware Springs Golf Course	Total
Operating revenues:				
Charges for sales and services:				
Electric service	\$ 8,463,572	-	-	8,463,572
Water and sewer services	-	4,027,437	-	4,027,437
Golf services	-	-	896,014	896,014
Sales of merchandise	-	-	401,960	401,960
Other operating revenue	66,385	41,798	15,884	124,067
Total operating revenues	<u>8,529,957</u>	<u>4,069,235</u>	<u>1,313,858</u>	<u>13,913,050</u>
Operating expenses:				
Personnel	750,041	978,993	711,111	2,440,145
Materials and supplies	89,694	187,660	72,868	350,222
Repairs and maintenance	40,911	118,578	136,520	296,009
Purchased services	50,627	366,722	83,125	500,474
Purchases for resale	4,729,301	59,572	286,495	5,075,368
Depreciation	257,265	1,072,976	246,619	1,576,860
Other operating expenses	93,339	44,297	-	137,636
Total operating expenses	<u>6,011,178</u>	<u>2,828,798</u>	<u>1,536,738</u>	<u>10,376,714</u>
Operating income (loss)	<u>2,518,779</u>	<u>1,240,437</u>	<u>(222,880)</u>	<u>3,536,336</u>
Nonoperating revenues (expenses):				
Interest earnings	1,451	3,875	-	5,326
Interest expense	(24,541)	(114,139)	-	(138,680)
Total nonoperating revenues (expenses)	<u>(23,090)</u>	<u>(110,264)</u>	<u>-</u>	<u>(133,354)</u>
Income (loss) before contributions and transfers	2,495,689	1,130,173	(222,880)	3,402,982
Capital contributions	87,194	15,855	13,350	116,399
Transfers in	-	-	351,853	351,853
Transfers out	<u>(2,874,668)</u>	<u>(749,738)</u>	<u>(46,045)</u>	<u>(3,670,451)</u>
Change in net position	(291,785)	396,290	96,278	200,783
Net position, beginning of year	<u>5,453,194</u>	<u>13,293,316</u>	<u>1,753,071</u>	<u>20,499,581</u>
Net position, end of year	<u>\$ 5,161,409</u>	<u>13,689,606</u>	<u>1,849,349</u>	<u>20,700,364</u>

City of Burnet, Texas

**Statement of Cash Flows –
Proprietary Funds**

Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewer	Delaware Springs Golf Course	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 8,713,652	4,098,354	1,315,163	14,127,169
Payments to employees for salaries and wages	(521,731)	(674,654)	(498,002)	(1,694,387)
Payments to suppliers and others	<u>(5,201,277)</u>	<u>(1,942,345)</u>	<u>(855,969)</u>	<u>(7,999,591)</u>
Net cash provided by (used in) operating activities	<u>2,990,644</u>	<u>1,481,355</u>	<u>(38,808)</u>	<u>4,433,191</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	-	-	351,853	351,853
Transfers to other funds	<u>(2,874,668)</u>	<u>(749,738)</u>	<u>(46,045)</u>	<u>(3,670,451)</u>
Net cash provided by (used in) noncapital financing activities	<u>(2,874,668)</u>	<u>(749,738)</u>	<u>305,808</u>	<u>(3,318,598)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(238,949)	(1,212,864)	(317,966)	(1,769,779)
Capital contributions	13,299	-	13,350	26,649
Principal paid on capital debt	(51,356)	(913,000)	-	(964,356)
Interest paid on capital debt	<u>(14,505)</u>	<u>(116,622)</u>	<u>-</u>	<u>(131,127)</u>
Net cash provided by (used in) capital and related financing activities	<u>(291,511)</u>	<u>(2,242,486)</u>	<u>(304,616)</u>	<u>(2,838,613)</u>
Cash flows from investing activities:				
Interest on investments	<u>1,451</u>	<u>3,875</u>	<u>-</u>	<u>5,326</u>
Net cash provided by investing activities	<u>1,451</u>	<u>3,875</u>	<u>-</u>	<u>5,326</u>
Net increase (decrease) in cash and cash equivalents	(174,084)	(1,506,994)	(37,616)	(1,718,694)
Cash and cash equivalents, beginning of year	<u>714,916</u>	<u>3,521,524</u>	<u>50,100</u>	<u>4,286,540</u>
Cash and cash equivalents, end of year	<u>\$ 540,832</u>	<u>2,014,530</u>	<u>12,484</u>	<u>2,567,846</u>

(continued)

City of Burnet, Texas

**Statement of Cash Flows –
Proprietary Funds**

(Continued)

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewer	Delaware Springs Golf Course	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 2,518,779	1,240,437	(222,880)	3,536,336
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	257,265	1,072,976	246,619	1,576,860
Decrease (increase) in assets and liabilities:				
Accounts receivables	81,732	29,119	1,305	112,156
Due from / due to other funds	(7)	(435)	-	(442)
Inventories	13,007	(15,820)	2,176	(637)
Prepaid and other items	(5,993)	-	-	(5,993)
Accounts payable and accrued liabilities	(11,776)	(874,183)	(38,831)	(924,790)
Deposits payable	7,930	-	-	7,930
Unearned revenues	94,033	-	-	94,033
Net pension liability and pension-related deferred outflows and inflows of resources	24,413	24,370	(51,820)	(3,037)
Compensated absences	11,261	4,891	24,623	40,775
Total adjustments	471,865	240,918	184,072	896,855
Net cash provided by (used in) operating activities	\$ 2,990,644	1,481,355	(38,808)	4,433,191
Non-cash capital and related financing activities:				
Contributions of capital assets	\$ 73,895	15,855	-	89,750

See accompanying notes to financial statements.

City of Burnet, Texas

Notes to Financial Statements

September 30, 2016

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Burnet, Texas, the county seat for Burnet County, is situated in the midwestern part of Burnet County in Central Texas and encompasses approximately six square miles. The City of Burnet, Texas (the “City”) is a “Home Rule Charter” city. The City operates under a Council / Manager form of government meaning that the City Council makes and adopts regulations, laws and policy and the City Manager is responsible for the day to day operations of the City. The City provides basic services to its citizens, such as police, fire, electricity, water and sewer, and sanitation, as well as health and welfare, economic development, aviation services, and parks and recreation services.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City did not have any blended component units. A discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Discretely presented component unit - The Burnet Economic Development Corporation, Inc. (the “Development Corporation”) is a governmental nonprofit corporation organized for the purpose of promoting, assisting, and enhancing economic development activities of the City of Burnet, Texas. The City Council appoints a governing body that is not substantively the same as the governing body of the primary government. Budgets of the Corporation and debt to be incurred must be approved by the Council. The Development Corporation does not issue separate financial statements.

B. Basis of Presentation - Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - Government-Wide Financial Statements (continued)

funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's electric, water and sewer functions, and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

C. Program Revenues

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

The airport fund, a special revenue fund, accounts for the operations of Burnet Municipal Airport.

The debt service fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation - Fund Financial Statements (continued)

The general capital projects fund is used to account for the acquisition / renovation of buildings, equipment, and other capital items for City purposes.

The City reports the following major enterprise funds:

The electric fund accounts for the City's electric services to its residents. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, and financing and related debt service.

The water and sewer fund accounts for the City's water and sewer services to its residents. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, and financing and related debt service.

The Delaware Springs Golf Course fund accounts for the operation of the Delaware Springs Municipal Golf Course. All activities necessary for the operation of the golf course are accounted for in this fund including, but not limited to, administration, operations, maintenance, and financing and related debt service.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

F. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric fund, water and sewer fund, and Delaware Springs Golf Course fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

G. Budgetary Information

Annual budgets are legally adopted for the following funds (under the City's budgetary fund structure): the general fund, the hotel/motel tax fund, the airport fund, and the debt service fund. Capital projects funds are generally planned on both a project-length basis and an annual basis. Also, operating plans are developed for the electric fund, water and sewer fund and the Delaware Springs Golf Course fund.

The appropriated budget is prepared by fund, department and object. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders and contracts). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

The City prepares its appropriated budgets on a budgetary basis structure which differs from that used for financial reporting in accordance with generally accepted accounting principles ("GAAP"). The budget and all transactions of the general fund are presented in accordance with the City's budgetary basis structure in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgetary Basis to provide a meaningful comparison of actual results with the budget. The major difference between the budgetary basis and the GAAP basis is that the budgetary basis uses a fund

City of Burnet, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

G. Budgetary Information (continued)

structure which is used in the City’s legally adopted budget (rather than the fund structure used in their financial statements) which results in certain activities reported on a GAAP basis which are not included on a budgetary basis. Adjustments necessary for the general fund to convert the net change in fund balance on the budgetary basis to a GAAP basis are provided below:

Net change in fund balance - budgetary basis	\$ (155,699)
Activites not included in general fund budget	<u>-</u>
Net change in fund balance - GAAP basis	<u>\$ (155,699)</u>

H. Investments, and Cash and Cash Equivalents

State statutes and the City’s investment policy authorize the City to invest in obligations of the United States and its agencies, certificates of deposit, and public funds investment pools.

Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in the State Treasurer’s Texas Local Government Investment Pool (“TexPool”). In accordance with state law, the Comptroller of Public Accounts (the Comptroller) is the sole officer, director and shareholder of TexPool. Additionally, the Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. There are no maximum transaction amounts and withdrawals from TexPool may be made daily. TexPool uses amortized cost rather than fair value to report net assets share price.

The City's cash and cash equivalents for purposes of reporting cash flows of the enterprise funds are considered to be cash on hand, demand deposits, external investment pools and deposits in the City’s internal cash pool.

I. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out method and consist of expendable material and supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

City of Burnet, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

I. Inventories and Prepaid Items (continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

J. Capital Assets

Capital assets, which include land, buildings, machinery and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 – 40
Machinery and equipment	5 – 10
Infrastructure	10 – 50

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

K. Long-Term Liabilities

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

L. Pensions

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

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheet 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.

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

N. Net Position Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or 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.

O. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental 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 fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

P. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. City management is authorized to assign fund balance. Unlike commitments, assignments

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

P. Fund Balance Policies (continued)

generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The components and specific purpose details of nonspendable, restricted, and assigned fund balances of governmental funds at September 30, 2016 are as follows:

	General	Airport	Debt Service	General Capital Projects	Nonmajor Governmental Funds	Total
Nonspendable:						
Inventories	\$ 37,190	35,120	-	-	-	72,310
Prepaid items	13,376	-	-	-	-	13,376
Restricted:						
Aviation services	-	583,320	-	-	-	583,320
General obligation debt service	-	-	194,298	-	-	194,298
Economic development	-	-	-	-	342,499	342,499
Public safety	-	-	-	-	63,358	63,358
Assigned:						
Capital projects	-	-	-	245,071	293,272	538,343
Unassigned	3,900,868	-	-	-	-	3,900,868
	<u>\$ 3,951,434</u>	<u>618,440</u>	<u>194,298</u>	<u>245,071</u>	<u>699,129</u>	<u>5,708,372</u>

Q. Property Taxes

Property taxes attach as an enforceable lien on real property and are levied as of October 1 on the assessed value as of the previous January 1 for all real and personal property in the City.

R. Compensated Absences

The City's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from government service subject to certain limitations. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

City of Burnet, Texas

Notes to Financial Statements (Continued)

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including general obligation debt payable and the net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$7,625,608 are as follows.

General obligation debt payable	\$ 2,956,559
Compensated absences	448,162
Accrued interest payable	13,143
Net OPEB obligation	2,545,112
Net pension liability	2,798,315
Pension-related deferred outflows of resources	<u>(1,135,683)</u>
	<u>\$ 7,625,608</u>

III. Detailed Notes On All Activities and Funds

A. Cash Deposits and Investments

Investments of the City at September 30, 2016, consist of investments in Texas Local Government Investment Pool (“TexPool”) of \$276,558. See Note I.H. for a discussion of how the shares in TexPool are valued.

Credit Risk: For an investment, credit risk is the risk that an investment issuer or other counterparty to an investment will not fulfill obligations. The Public Funds Investment Act (Government Code Chapter 2256) restricts the types of investments in which the City may invest. The City’s investment policy addresses credit quality by further restricting authorized investments to obligations of the United States and its agencies, and public funds investment pools rated AAA or AA from a nationally recognized rating service. The City’s investment in TexPool is rated AAAM by Standard & Poors.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City will only invest on a basis which allows liquidity to meet cash flow needs as necessary – the weighted average maturity should be 180 days or less for the general fund and 365 days or less for the debt service fund. The weighted average maturity of TexPool is 44 days as of September 30, 2016.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

A. Cash Deposits and Investments (continued)

Custodial Credit Risk: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City policy requires all deposits to be federally insured or collateralized by eligible securities held by an independent third-party custodian.

For an investment, custodial credit risk is the risk that in the event of the failure of the counter-party, the City will not be able to recover the value of its investment or collateralized securities that are in the possession of an outside third party. The City has no specific policies that limit the custodial credit risk for its investments.

A reconciliation of deposits and investments as shown on the statement of net position:

Cash on hand	\$ 2,018
Carrying amount of deposits	8,665,754
Carrying amount of investments	<u>276,558</u>
	<u>\$ 8,944,330</u>
Per the statement of net position for the City:	
Cash and cash equivalents	\$ 7,390,279
Restricted cash and cash equivalents	<u>863,923</u>
	8,254,202
Per the statement of net position for the Burnet Economic Development Corporation, Inc.:	
Cash and cash equivalents	<u>690,128</u>
	<u>\$ 8,944,330</u>

B. Receivables

Amounts are aggregated into a single account receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general, airport, and debt service funds, and for the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts:

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

B. Receivables (continued)

	General	Airport	Debt Service	General Capital Projects	Nonmajor Governmental Funds	Total
Receivables:						
Property taxes	\$ 98,597	-	20,194	-	-	118,791
Sales taxes	267,246	-	-	-	-	267,246
Franchise taxes	14,573	-	-	-	-	14,573
Hotel/motel taxes	-	-	-	-	25,702	25,702
EMS	2,998,550	-	-	-	-	2,998,550
Other	111,304	32,251	258	9,394	-	153,207
	3,490,270	32,251	20,452	9,394	25,702	3,578,069
Less: allowance for uncollectibles	(2,704,344)	-	-	-	-	(2,704,344)
	<u>\$ 785,926</u>	<u>32,251</u>	<u>20,452</u>	<u>9,394</u>	<u>25,702</u>	<u>873,725</u>

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 1,321,369	167,313	-	1,488,682
Construction in progress	3,746,211	5,842,452	-	9,588,663
Total capital assets not being depreciated	5,067,580	6,009,765	-	11,077,345
Capital assets, being depreciated:				
Buildings	9,461,240	104,576	-	9,565,816
Machinery and equipment	7,789,439	1,565,973	-	9,355,412
Infrastructure	18,384,229	801,410	-	19,185,639
Total capital assets, being depreciated	35,634,908	2,471,959	-	38,106,867
Less accumulated depreciation for:				
Buildings	(3,092,909)	(310,419)	-	(3,403,328)
Machinery and equipment	(6,700,790)	(446,734)	-	(7,147,524)
Infrastructure	(6,444,557)	(490,874)	-	(6,935,431)
Total accumulated depreciation	(16,238,256)	(1,248,027)	-	(17,486,283)
Total capital assets, being depreciated, net	19,396,652	1,223,932	-	20,620,584
	<u>\$ 24,464,232</u>	<u>7,233,697</u>	<u>-</u>	<u>31,697,929</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

C. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 577,543	-	-	577,543
Construction in progress	<u>192,272</u>	<u>867,899</u>	<u>(265,911)</u>	<u>794,260</u>
Total capital assets not being depreciated	<u>769,815</u>	<u>867,899</u>	<u>(265,911)</u>	<u>1,371,803</u>
Capital assets, being depreciated:				
Buildings	126,438	-	-	126,438
Machinery and equipment	4,406,137	118,110	-	4,524,247
Infrastructure	<u>49,634,693</u>	<u>1,139,431</u>	<u>-</u>	<u>50,774,124</u>
Total capital assets being depreciated	<u>54,167,268</u>	<u>1,257,541</u>	<u>-</u>	<u>55,424,809</u>
Less accumulated depreciation for:				
Buildings	(11,185)	(3,161)	-	(14,346)
Machinery and equipment	(3,159,470)	(317,109)	-	(3,476,579)
Infrastructure	<u>(13,413,668)</u>	<u>(1,256,590)</u>	<u>-</u>	<u>(14,670,258)</u>
Total accumulated depreciation	<u>(16,584,323)</u>	<u>(1,576,860)</u>	<u>-</u>	<u>(18,161,183)</u>
Total capital assets, being depreciated, net	<u>37,582,945</u>	<u>(319,319)</u>	<u>-</u>	<u>37,263,626</u>
	<u>\$ 38,352,760</u>	<u>548,580</u>	<u>(265,911)</u>	<u>38,635,429</u>

Depreciation expense was charged to functions/programs of the governmental activities of the City as follows:

General government	\$ 221,053
Public safety	466,656
Highways and streets	309,265
Aviation services	33,376
Culture and recreation	<u>217,677</u>
Total depreciation expense	<u>\$ 1,248,027</u>

The City has active construction projects as of September 30, 2016. At year-end, the City's construction contract commitments with contractors for governmental activities are as follows:

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

C. Capital Assets (continued)

Project Title	Spent to Date	Remaining Commitment
Airport improvements	\$ 9,588,663	412,167

For the airport improvements project, the City has secured a governmental grant to fund 90% of the construction costs, with the City funding the remaining 10%. The City has funded their entire obligation under the grant agreement; therefore, the remaining construction commitments under the project will be financed by the grantor.

At September 30, 2016, the City's construction contract commitments with contractors for business-type activities are as follows:

Project Title	Spent to Date	Remaining Commitment
Airy Mount water line	\$ 39,691	5,000
Steve Cox water line	84,455	27,000
Sewer plant construction	670,114	66,433
	\$ 794,260	98,433

The construction contract commitments will be financed with available resources.

D. Long-Term Liabilities

The City issues general obligation bonds, tax notes and combination tax and revenue certificates of obligation (collectively, "general obligation debt") to provide funds for the acquisition and construction of major capital facilities for both governmental and business-type activities. These general obligation debts are direct obligations and pledge the full faith and credit of the City. The general obligation bonds, tax notes and certificates of obligation generally are issued with equal amounts of principal maturing each year with maturities that range from 6 to 40 years. General obligation debt outstanding at September 30, 2016 is as follows.

	Date	Original Amount	Interest Rates	Final Maturity	Amount Outstanding
<i>Governmental Activities</i>					
Combination tax and revenue certificates of obligation	1998	\$ 175,000	4.15-5.10%	2018	\$ 45,000
General obligation refunding bonds	2008	3,325,561	3.52%	2024	1,860,000
Combination tax and revenue certificates of obligation	2013	2,240,000	2.19%	2028	1,051,559
					\$ 2,956,559

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

D. Long-Term Liabilities (continued)

	<u>Date</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>
<i>Business-Type Activities</i>					
Combination tax and revenue certificates of obligation	2003	\$ 1,289,000	4.50%	2042	\$ 1,081,000
Combination tax and revenue certificates of obligation	2004	527,000	4.50%	2043	453,000
Combination tax and revenue certificates of obligation	2006	1,050,000	4.12%	2045	913,000
Combination tax and revenue certificates of obligation	2010	11,425,000	0.00%	2040	9,450,000
Combination tax and revenue certificates of obligation	2012	9,900,000	0.00%	2042	8,865,000
Combination tax and revenue certificates of obligation	2012A	110,000	0.00-1.26%	2022	70,000
Tax note	2010	1,145,000	1.75-3.35%	2017	130,000
General obligation refunding bonds	2008	909,439	3.52%	2024	<u>344,916</u>
					<u>\$ 21,306,916</u>

Changes in the government's long-term liabilities for the year ended September 30, 2016 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation debt	\$ 3,250,203	-	(293,644)	2,956,559	295,508
Compensated absences	410,162	448,162	(410,162)	448,162	448,162
Net OPEB obligation	2,001,587	543,525	-	2,545,112	-
Net pension liability	<u>1,843,191</u>	<u>955,124</u>	<u>-</u>	<u>2,798,315</u>	<u>-</u>
	<u>\$ 7,505,143</u>	<u>1,946,811</u>	<u>(703,806)</u>	<u>8,748,148</u>	<u>743,670</u>
Business-type activities:					
General obligation debt	\$ 22,271,272	-	(964,356)	21,306,916	963,492
Compensated absences	171,873	163,402	(171,873)	163,402	163,402
Net pension liability	<u>862,866</u>	<u>334,100</u>	<u>-</u>	<u>1,196,966</u>	<u>-</u>
	<u>\$ 23,306,011</u>	<u>497,502</u>	<u>(1,136,229)</u>	<u>22,667,284</u>	<u>1,126,894</u>

For governmental activities, the liability for compensated absences, the net OPEB obligation, and the net pension liability are substantially liquidated by the General Fund.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

D. Long-Term Liabilities (continued)

The debt service requirements for the City's bonds and certificates of obligation follow:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<i>Governmental Activities</i>			
2017	\$ 295,508	78,566	374,074
2018	302,373	69,589	371,962
2019	282,373	60,357	342,730
2020	284,237	52,346	336,583
2021	286,102	44,214	330,316
2022 - 2026	1,160,966	105,190	1,266,156
2027 - 2028	<u>345,000</u>	<u>7,610</u>	<u>352,610</u>
	<u>\$ 2,956,559</u>	<u>417,872</u>	<u>3,374,431</u>
<i>Business-Type Activities</i>			
2017	\$ 963,492	123,732	1,087,224
2018	839,627	115,986	955,613
2019	841,627	112,329	953,956
2020	846,763	108,556	955,319
2021	857,898	104,510	962,408
2022 - 2026	4,172,509	457,898	4,630,407
2027 - 2031	4,073,000	368,655	4,441,655
2032 - 2036	4,159,000	273,611	4,432,611
2037 - 2041	3,884,000	155,036	4,039,036
2042 - 2045	<u>669,000</u>	<u>28,451</u>	<u>697,451</u>
	<u>\$ 21,306,916</u>	<u>1,848,764</u>	<u>23,155,680</u>

The City's bond indentures contain restrictions concerning the maintenance of accounting records as well as reporting the results of the City's operations to specified major bond holders. The City is in compliance with all significant requirements and restrictions.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

D. Long-Term Liabilities (continued)

There is no specific maximum debt limit established by law for the City; therefore, the limit is governed by the City's ability to levy and collect taxes to service the debt.

The City has pledged net revenues of the water and sewer system to repay \$20,832,000 in combination tax and revenue certificates of obligation issued from 2003 to 2012. Annual principal and interest payments on the debt is expected to require approximately 50% of the pledged net revenues. The total principal and interest remaining to be paid on the debt is \$22,617,800. Principal and interest paid for the current year and total pledged net revenues for the current year were \$907,489 and \$1,563,675, respectively.

E. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
Debt service	Airport	\$ 255
Nonmajor governmental	Delaware Springs Golf Course	25,398
Nonmajor governmental	Water and sewer	5,249
Nonmajor governmental	Nonmajor governmental	18,183
Electric	Debt service	23,793
Electric	Nonmajor governmental	75,413
Water and sewer	General	7,131
Water and sewer	Debt service	307,175
Water and sewer	General capital projects	53,150
Water and sewer	Nonmajor governmental	32,412
		\$ 548,159

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

City of Burnet, Texas

Notes to Financial Statements
(Continued)

III. Detailed Notes On All Activities and Funds (continued)

F. Interfund Transfers

The composition of interfund transfers for the year ended September 30, 2016 is as follows:

	Transfer out:							Total
	General	Airport	General Capital Projects	Nonmajor Governmental	Electric	Water and Sewer	Delaware Springs Golf Course	
Transfer in:								
General	\$ -	25,576	65,986	66,839	2,811,904	735,050	46,045	3,751,400
Debt service	-	23,315	-	-	-	-	-	23,315
General capital projects	2,401,400	-	-	-	-	-	-	2,401,400
Nonmajor governmental	289,117	1,139	-	253,000	62,764	14,688	-	620,708
Delaware Springs Golf Course	351,853	-	-	-	-	-	-	351,853
	<u>\$ 3,042,370</u>	<u>50,030</u>	<u>65,986</u>	<u>319,839</u>	<u>2,874,668</u>	<u>749,738</u>	<u>46,045</u>	<u>7,148,676</u>

During the year, transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, and (2) move proprietary fund resources to the general fund for payments in lieu of taxes, administrative allocations, and a return on the general fund's investment in the electric fund.

G. Employee Benefits

Pension Plan

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

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

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

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their 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.

Employees Covered by Benefit Terms – At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	52
Inactive employees entitled to but not yet receiving benefits	59
Active employees	110

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 actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City was 7% in calendar years 2016 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$663,154 and were equal to the required contributions.

Net Pension Liability – The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

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

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 Tables 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 Combined Healthy 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 the future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 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.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.6%
International Equity	17.5%	6.1%
Core Fixed Income	10.0%	1.0%
Non-Core Fixed Income	20.0%	3.7%
Real Return	10.0%	4.0%
Real Estate	10.0%	5.0%
Absolute Return	10.0%	4.0%
Private Equity	<u>5.0%</u>	8.0%
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Burnet, Texas

Notes to Financial Statements
(Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2014	\$ 19,898,719	17,192,662	2,706,057
Changes for the year:			
Service cost	848,679	-	848,679
Interest	1,395,492	-	1,395,492
Difference between expected and actual experience	50,376	-	50,376
Change in assumptions	35,371	-	35,371
Contributions - employer	-	652,621	(652,621)
Contributions - employee	-	379,117	(379,117)
Net investment income	-	25,372	(25,372)
Benefit payments, including refunds of employee contributions	(774,915)	(774,915)	-
Administrative expense	-	(15,452)	15,452
Other changes	-	(764)	764
Net changes	1,555,003	265,979	1,289,024
Balance at December 31, 2015	\$ 21,453,722	17,458,641	3,995,081

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 one percentage point lower (5.75%) or one percentage point (7.75%) higher than the current rate.

	1% Decrease (5.75%)	Current Rate Assumption (6.75%)	1% Increase (7.75%)
City's net pension liability	\$ 7,359,377	3,995,281	1,282,850

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

City of Burnet, Texas

Notes to Financial Statements
(Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

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

For the year ended September 30, 2016, the City recognized pension expense of \$960,756.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,096	-
Change in assumptions	27,921	-
Difference between projected and actual investment earnings	1,068,213	-
Contributions subsequent to the measurement date	<u>521,236</u>	<u>-</u>
	<u>\$ 1,621,466</u>	<u>-</u>

The \$521,236 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	
2016	\$ 282,973
2017	282,973
2018	286,650
2019	<u>247,634</u>
Total	<u>\$ 1,100,230</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Supplemental Death Benefits Plan

Plan Description – The City also participates in the cost-sharing multiple-employer defined benefit group-term life insurance plan operated by 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.

Benefits – 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 for retired employees is considered an “other postemployment benefit”, or OPEB.

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

The City’s contributions to the TMRS SDBF for the years ended September 30, 2016, 2015 and 2014, were \$8,942, \$8,619, and \$8,979, respectively, which equaled the required annual contributions each year.

Other Post-Employment Benefit Plan

Plan Description and Benefits – The City provides medical (including dental) benefits to eligible retirees through a single-employer defined benefit plan. Retirees who have retired with 20 years of service without regard to age, and were hired prior to January 1, 2010 are eligible for benefits.

Contributions – The City provides on a pay-as-you-go basis. The City’s annual funding for these benefits is equal to the monthly contribution rate for the qualified retired employees – the retiree is responsible for the contribution for any family coverage elected. For 2016, the City paid contributions of \$116,937.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Other Post-Employment Benefit Plan (continued)

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other post-employment benefit (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of Government Accounting Standards Board (“GASB”) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. For 2016, the ARC of \$693,903 is comprised of employer normal service costs of \$290,006 and amortization of unfunded actuarial liabilities of \$403,897. The following table shows the components of the City’s annual net OPEB cost, the amount actually contributed to the plan, and the City’s net OPEB obligation:

Annual required contribution (ARC)	\$ 693,903
Interest on prior year net OPEB obligation	80,063
Amortization of prior year net OPEB obligation	<u>(113,504)</u>
Annual OPEB cost	660,462
Contributions made	<u>(116,937)</u>
Increase in net OPEB obligation	543,525
Net OPEB obligation, beginning of year	<u>2,001,587</u>
Net OPEB obligation, end of year	<u>\$ 2,545,112</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, and 2014 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net OPEB Obligation
2016	\$ 660,462	116,937	17.71%	\$ 2,545,112
2015	476,778	97,661	20.48%	2,001,587
2014	426,523	62,798	14.72%	1,622,470

Funded Status and Funding Progress – As of October 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded (i.e., the ratio of plan assets to actuarial accrued liabilities.) The actuarial accrued liability for benefits was \$7,021,232 with no assets, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$7,021,232. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,423,175 and the ratio of the UAAL to the covered payroll was 289.8%.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Other Post-Employment Benefit Plan (continued)

The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/01/2015	\$ -	7,021,232	0.0%	7,021,232	2,423,175	289.8%
10/01/2014	-	5,079,983	0.0%	5,079,983	4,961,201	102.4%
10/01/2013	-	4,456,823	0.0%	4,456,823	5,400,000	82.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about 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.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the plan provisions 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 actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The Projected Unit Cost actuarial cost method is used to calculate the annual required contribution for the plan. Using the plan benefits, the present monthly contribution rates and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. The significant actuarial assumptions included a (a) 4.0% discount rate (1% real rate of return plus 3% inflation), (b) 5.0% annual healthcare cost trend rate, and (c) mortality rates (probabilities of dying) based on the RP-2000 combined mortality table for males and females. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over thirty years.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

H. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property and workmen's compensation coverage. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754.

I. Deferred Outflows and Inflows of Resources

The statements of financial position, and the balance sheet includes the following deferred outflows/inflows of resources at September 30, 2016:

	Statements of Net Position		Balance Sheet	
	Governmental Activities	Business-Type Activities - Water and Sewer	General Fund	Debt Service Fund
Deferred outflows of resources:				
Deferred charge on refunding	\$ -	77,267	-	-
Pension - post measurement date contributions	365,077	156,159	-	-
Pension - net differences between projected and actual earnings	748,181	320,032	-	-
Pension - change in assumptions	19,557	8,364	-	-
Pension - differences between expected and actual experience	2,868	1,228	-	-
	\$ 1,135,683	563,050	-	-
Deferred inflows of resources:				
Unavailable property tax revenue	\$ -	-	98,597	20,194

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

J. Deferred Outflows and Inflows of Resources (continued)

Deferred Outflows of Resources. The deferred charge on refunding, resulting from the difference in the carrying value of refunded debt and its reacquisition price, is amortized over the shorter of the life of the refunded or refunding debt. Post-measurement date contributions will be recognized as a reduction of the net pension liability in the following fiscal year. The pension-related net differences between projected and actual earnings, change in assumptions, and difference between projected and actual investment earnings will be amortized into pension expense.

Deferred Inflows of Resources. The governmental funds, under the modified accrual basis of accounting, report unavailable revenues from property taxes, which is deferred and recognized as an inflow of resources in the period that the amounts become available.

K. Operating Lease

The City leases a building for all City administrative services. Total cost for the lease was \$40,125 for the year ended September 30, 2016. The future minimum lease payments for the lease are as follows: 2017, \$46,404; 2018, \$47,333; and 2019, \$36,029.

L. Commitments and Contingencies

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City has contracted with a private company for the collection and disposal of solid waste. The contract's initial five-year term expired October 2009. Thereafter, the contract is renewed for additional terms of five years if mutually agreed by the parties. The fees charged under the contract are adjusted annually to reflect changes in the cost of operations. The City's cost under the agreement for the year ended September 30, 2016, was \$762,548.

The City has entered into a long-term agreement to purchase wholesale electric power from the Lower Colorado River Authority effective June 2011. The cost of electric power is based on the reasonable and necessary cost of providing power generation in accordance with Article 8503.011 of the Texas Special District Local Laws Code. The City's cost under the agreement for the year ended September 30, 2016, was \$4,729,301.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

L. Commitments and Contingencies (continued)

Also, the City has entered into a long-term agreement to purchase water from the Lower Colorado River Authority (the “Authority”) effective January 1985. The agreement allows the City the right to withdraw up to 4100 acre-feet of raw water from the Colorado River. The cost of the water is adjusted each year as determined by the Board of Directors of the Authority. The City's cost under the agreement for the year ended September 30, 2016, was \$59,572.

The City is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate outcome of these claims will not have a material adverse effect on the City's financial position.

M. Authoritative Pronouncement Not Yet Effective

A summary of pronouncements issued by the Governmental Accounting Standards Board, which may impact the City but are not yet effective follows. The City has not yet determined the effects of the adoption of these pronouncements on the financial statements.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (issued June 2015) – The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or “OPEB”). This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all OPEB with regard to providing decision-useful information, supporting assessments or accountability and interperiod equity, and creating additional transparency. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 77, Tax Abatement Disclosures (issued August 2015) – The objective of this statement is to improve disclosures on the nature and magnitude of tax abatements, specifically how tax abatements affect a government's future ability to raise resources and meet its financial obligations and the impact those abatements have on a government's financial position and economic condition. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2015.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants (issued December 2015) – The objective of this statement is to permit qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes and allow many pools to continue to qualify for amortized cost accounting. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2015.

City of Burnet, Texas

Notes to Financial Statements (Continued)

M. Authoritative Pronouncement Not Yet Effective (continued)

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73* (issued March 2016) – The objective of this statement is to address practice issues raised by stakeholders during implementation of the GASB standards for accounting and financial reporting of defined benefit pension plans by state and local governments. The statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2016.

GASB Statement No. 83, *Certain Asset Retirement Obligations* (issued November 2016) – The objective of this statement is to establish criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow or resources for asset retirement obligations. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2018.

Required Supplementary Information

City of Burnet, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

Last Two Fiscal Years

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 848,679	753,691
Interest (on the Total Pension Liability)	1,395,492	1,317,058
Difference between expected and actual experience	50,376	(61,528)
Change in assumptions	35,371	-
Benefit payments, including refunds of employee contributions	<u>(774,915)</u>	<u>(1,097,550)</u>
Net change in Total Pension Liability	1,555,003	911,671
Total Pension Liability - beginning	<u>19,898,719</u>	<u>18,987,048</u>
Total Pension Liability - ending (a)	<u>\$ 21,453,722</u>	<u>19,898,719</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 652,621	602,184
Contributions - employee	379,117	377,039
Net investment income	25,372	937,360
Benefit payments, including refunds of employee contributions	(774,915)	(1,097,550)
Administrative expense	(15,452)	(9,786)
Other	<u>(764)</u>	<u>(805)</u>
Net change in Plan Fiduciary Net Position	265,979	808,442
Plan Fiduciary Net Position - beginning	<u>17,192,662</u>	<u>16,384,220</u>
Plan Fiduciary Net Position - ending (b)	<u>\$ 17,458,641</u>	<u>17,192,662</u>
Net Pension Liability - ending (a) - (b)	\$ 3,995,081	2,706,057
Plan Fiduciary Net Position as a percentage of Total Pension Liability	81.4%	86.4%
Covered employee payroll	\$ 5,415,950	5,386,274
Net Pension Liability as a percentage of covered employee payroll	73.8%	50.2%

Note: The City of Burnet adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective September 1, 2014. Information for years prior to 2015 is not available.

See accompanying independent auditor's report.

City of Burnet, Texas
Schedule of Contributions
Last Two Fiscal Years

	2016	2015
Actuarially Determined Contributions	\$ 663,154	648,053
Contributions in relation to the actuarially determined contributions	663,154	648,053
Contribution deficiency (excess)	\$ -	-
Covered employee payroll	\$ 5,415,950	5,386,274
Contributions as a percentage of covered employee payroll	12.2%	12.0%

Notes to Schedule of Contributions

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 year smoothed market, 15% soft corridor
Inflation	3%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information	There were no benefit changes during the year.

Note: The City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective September 1, 2014. Information for years prior to 2015 is not available.

See accompanying independent auditor's report.

Supplementary Information

City of Burnet, Texas
Combining Balance Sheet
Nonmajor Governmental Funds

September 30, 2016

	Special Revenue				Capital Projects			Total Nonmajor Governmental Funds
	Hotel/ Motel Tax	Police Seizure	Court Security and Technology	Total	General Capital Equipment	Airport Capital Project	Total	
Assets								
Cash and cash equivalents	\$ 317,228	2,274	58,394	377,896	514,678	-	514,678	892,574
Receivables	25,702	-	-	25,702	-	-	-	25,702
Due from other funds	-	-	2,690	2,690	46,140	-	46,140	48,830
Total assets	<u>\$ 342,930</u>	<u>2,274</u>	<u>61,084</u>	<u>406,288</u>	<u>560,818</u>	<u>-</u>	<u>560,818</u>	<u>967,106</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts and retainages payable	\$ 431	-	-	431	8,656	-	8,656	9,087
Due to other funds	-	-	-	-	258,890	-	258,890	258,890
Total liabilities	<u>431</u>	<u>-</u>	<u>-</u>	<u>431</u>	<u>267,546</u>	<u>-</u>	<u>267,546</u>	<u>267,977</u>
Fund balances:								
Restricted	342,499	2,274	61,084	405,857	-	-	-	405,857
Assigned	-	-	-	-	293,272	-	293,272	293,272
Total fund balances	<u>342,499</u>	<u>2,274</u>	<u>61,084</u>	<u>405,857</u>	<u>293,272</u>	<u>-</u>	<u>293,272</u>	<u>699,129</u>
Total liabilities and fund balances	<u>\$ 342,930</u>	<u>2,274</u>	<u>61,084</u>	<u>406,288</u>	<u>560,818</u>	<u>-</u>	<u>560,818</u>	<u>967,106</u>

See accompanying independent auditor's report.

City of Burnet, Texas

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
Nonmajor Governmental Funds**

Year Ended September 30, 2016

	Special Revenue				Capital Projects			Total Nonmajor Governmental Funds
	Hotel/ Motel Tax	Police Seizure	Court Security and Technology	Total	General Capital Equipment	Airport Capital Project	Total	
Revenues:								
Hotel/motel taxes	\$ 151,168	-	-	151,168	-	-	-	151,168
Fines	-	-	12,150	12,150	-	-	-	12,150
Interest	649	4	99	752	1,779	-	1,779	2,531
Total revenues	<u>151,817</u>	<u>4</u>	<u>12,249</u>	<u>164,070</u>	<u>1,779</u>	<u>-</u>	<u>1,779</u>	<u>165,849</u>
Expenditures:								
Current -								
Economic development	74,200	-	-	74,200	-	-	-	74,200
Capital outlay	-	-	-	-	683,379	3,335	686,714	686,714
Total expenditures	<u>74,200</u>	<u>-</u>	<u>-</u>	<u>74,200</u>	<u>683,379</u>	<u>3,335</u>	<u>686,714</u>	<u>760,914</u>
Excess (deficiency) of revenues over (under) expenditures	<u>77,617</u>	<u>4</u>	<u>12,249</u>	<u>89,870</u>	<u>(681,600)</u>	<u>(3,335)</u>	<u>(684,935)</u>	<u>(595,065)</u>
Other financing sources (uses):								
Insurance recoveries	-	-	-	-	62,813	-	62,813	62,813
Transfers in	-	-	-	-	616,234	4,474	620,708	620,708
Transfers out	(19,839)	-	-	(19,839)	(300,000)	-	(300,000)	(319,839)
Total other financing sources (uses)	<u>(19,839)</u>	<u>-</u>	<u>-</u>	<u>(19,839)</u>	<u>379,047</u>	<u>4,474</u>	<u>383,521</u>	<u>363,682</u>
Net change in fund balances	57,778	4	12,249	70,031	(302,553)	1,139	(301,414)	(231,383)
Fund balances, beginning of year	<u>284,721</u>	<u>2,270</u>	<u>48,835</u>	<u>335,826</u>	<u>595,825</u>	<u>(1,139)</u>	<u>594,686</u>	<u>930,512</u>
Fund balances, end of year	\$ <u>342,499</u>	<u>2,274</u>	<u>61,084</u>	<u>405,857</u>	<u>293,272</u>	<u>-</u>	<u>293,272</u>	<u>699,129</u>

See accompanying independent auditor's report.