

**CITY OF CLUTE**  
CLUTE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2015

**KENNEMER, MASTERS & LUNSFORD, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**8 WEST WAY COURT**  
**LAKE JACKSON, TEXAS 77566**

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**CITY OF CLUTE**

Clute, Texas

*Annual Financial Report  
For the Year Ended September 30, 2015*

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## **FINANCIAL SECTION**

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# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of City Council  
City of Clute  
Clute, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute (the "City") as of and for the year ended September 30, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute, as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 2 to the financial statements, in 2015, the City adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the pension schedules on pages 10 through 19 and pages 86 through 94, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

*Other Information – (Continued)*

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Kennemer, Masters & Rungford, LLC*

Lake Jackson, Texas  
March 15, 2016

## CITY OF CLUTE, TEXAS

### *Management's Discussion and Analysis For the Year Ended September 30, 2015*

As management of the City of Clute (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

#### **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 \$ 46,538,472 (net position). Of this amount, \$ 13,278,775 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net position increased in the amount of \$ 3,295,796.
- As of the close of the current fiscal year, the City of Clute's governmental funds reported combined ending fund balances of \$ 17,913,051. 12.79% of this total amount, \$ 2,290,823 (unassigned fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 2,290,823 or 26.93% of the total general fund expenditures.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Clute's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

## CITY OF CLUTE, TEXAS

*Management's Discussion and Analysis  
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Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from 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 and administration, public safety, public sanitation, streets and drainage, and cultural and recreation. The *business-type activities* of the City include water and sewer operations.

The government-wide financial statements can be found on pages 23 through 25 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 same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses 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 funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Streets, Drainage and Sidewalks special revenue fund, Emergency Medical Service special revenue fund, Economic Development Corporation special revenue fund, and Hotel-Motel special revenue fund; all of which are considered to be major funds. Data from the other two funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found on pages 26 through 32 of this report. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 96 through 97 of this report.

## CITY OF CLUTE, TEXAS

### *Management's Discussion and Analysis For the Year Ended September 30, 2015*

- **Proprietary Funds.** The City maintains one category of *proprietary funds-Enterprise Funds*. The *enterprise fund* is to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 34 through 39 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 41 through 83 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 86 through 94 of this report.

The statement referred to earlier in connection with the non-major governmental funds is immediately following the required supplementary information. The nonmajor governmental fund statements and schedules can be found on pages 96 through 97 of this report.

### **Government-wide Financial Analysis**

With the implementation of GASB Statements, Nos. 68 and 71, comparable information for the year ended September 30, 2014 is not available, therefore, only one year is presented. Beginning with September 30, 2016 financial statements, comparative information will resume.

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City of Clute, assets and deferred outflows of resources exceeded liabilities by \$ 46,538,472 as of September 30, 2015.

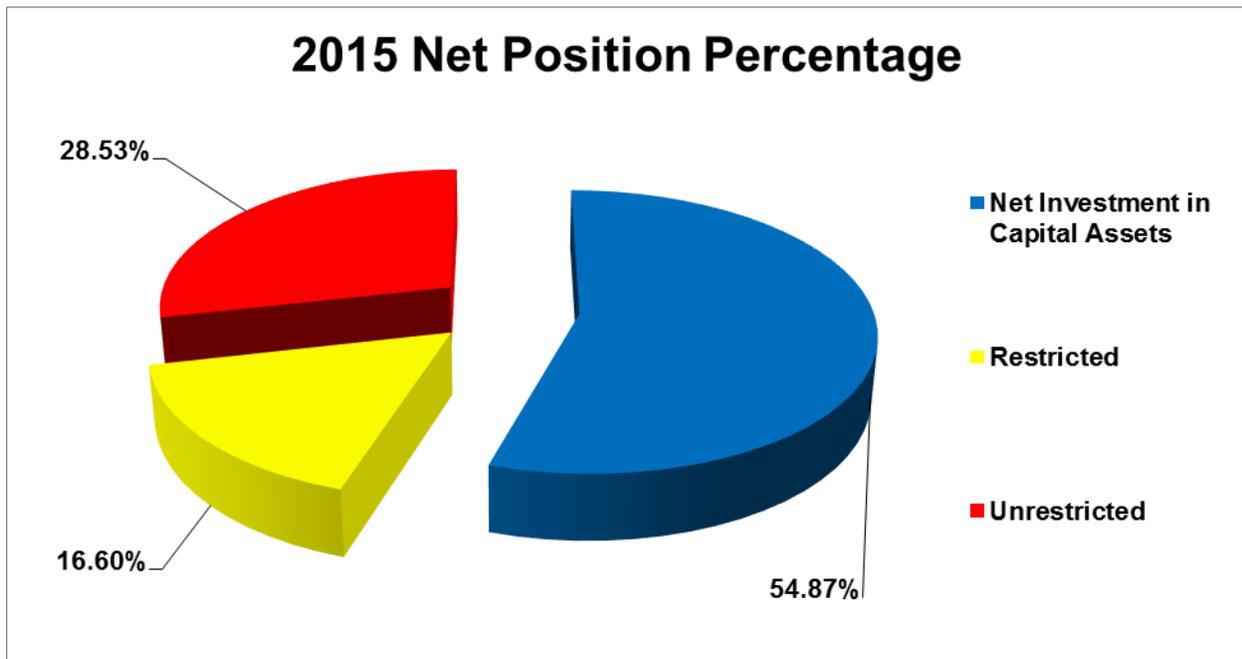
A large portion of the City's net position of \$ 25,535,171 (54.87%) reflects its investments in capital assets (e.g., land, buildings, improvements, infrastructure, equipment, machinery, construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$ 7,724,526 (16.60%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$ 13,278,775 (28.53%) may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF CLUTE, TEXAS**  
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**CITY OF CLUTE'S NET POSITION**

	September 30, 2015		
	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Current and other assets	\$ 19,324,202	\$ 3,200,888	\$ 22,525,090
Capital assets	<u>20,334,456</u>	<u>18,823,540</u>	<u>39,157,996</u>
Total assets	<u>39,658,658</u>	<u>22,024,428</u>	<u>61,683,086</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources	<u>432,698</u>	<u>32,951</u>	<u>465,649</u>
Total deferred outflows of resources	<u>432,698</u>	<u>32,951</u>	<u>465,649</u>
<b>LIABILITIES</b>			
Current and other liabilities	662,778	773,254	1,436,032
Long-term liabilities	<u>6,844,763</u>	<u>7,114,600</u>	<u>13,959,363</u>
Total liabilities	<u>7,507,541</u>	<u>7,887,854</u>	<u>15,395,395</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources	<u>201,365</u>	<u>13,503</u>	<u>214,868</u>
Total deferred inflows of resources	<u>201,365</u>	<u>13,503</u>	<u>214,868</u>
<b>NET POSITION</b>			
Net Investment in capital assets	13,782,637	11,752,534	25,535,171
Restricted	7,724,526		7,724,526
Unrestricted	<u>10,875,287</u>	<u>2,403,488</u>	<u>13,278,775</u>
Total net position	<u>\$ 32,382,450</u>	<u>\$ 14,156,022</u>	<u>\$ 46,538,472</u>



## CITY OF CLUTE, TEXAS

### Management's Discussion and Analysis For the Year Ended September 30, 2015

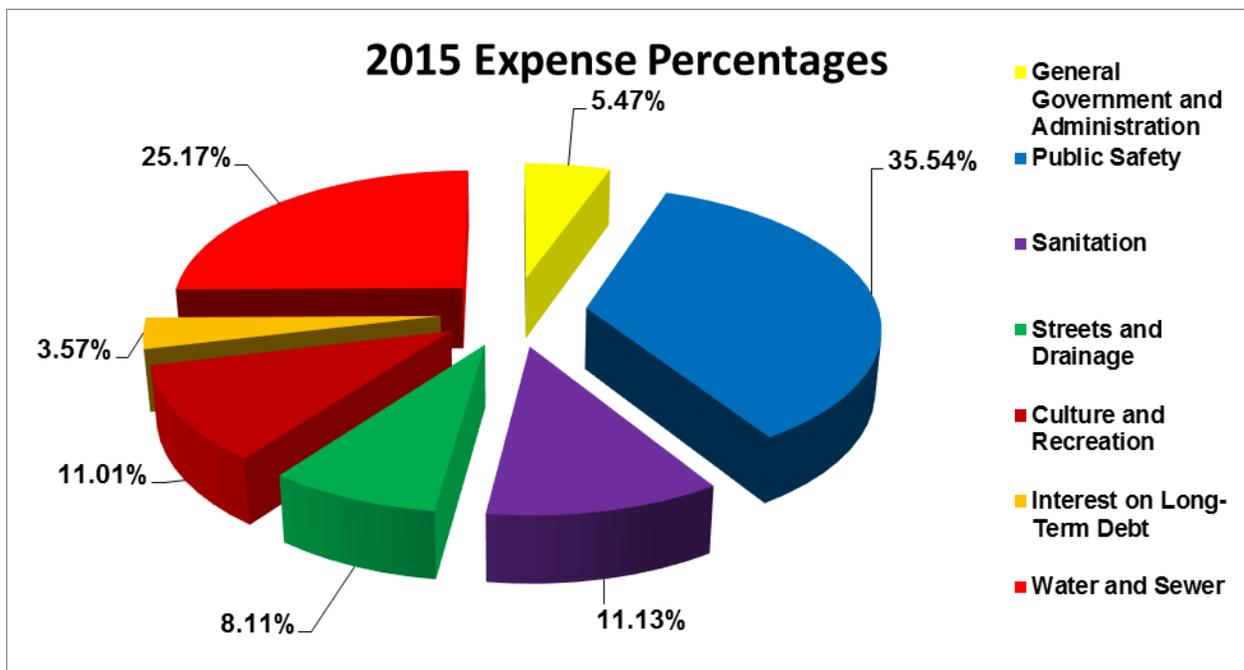
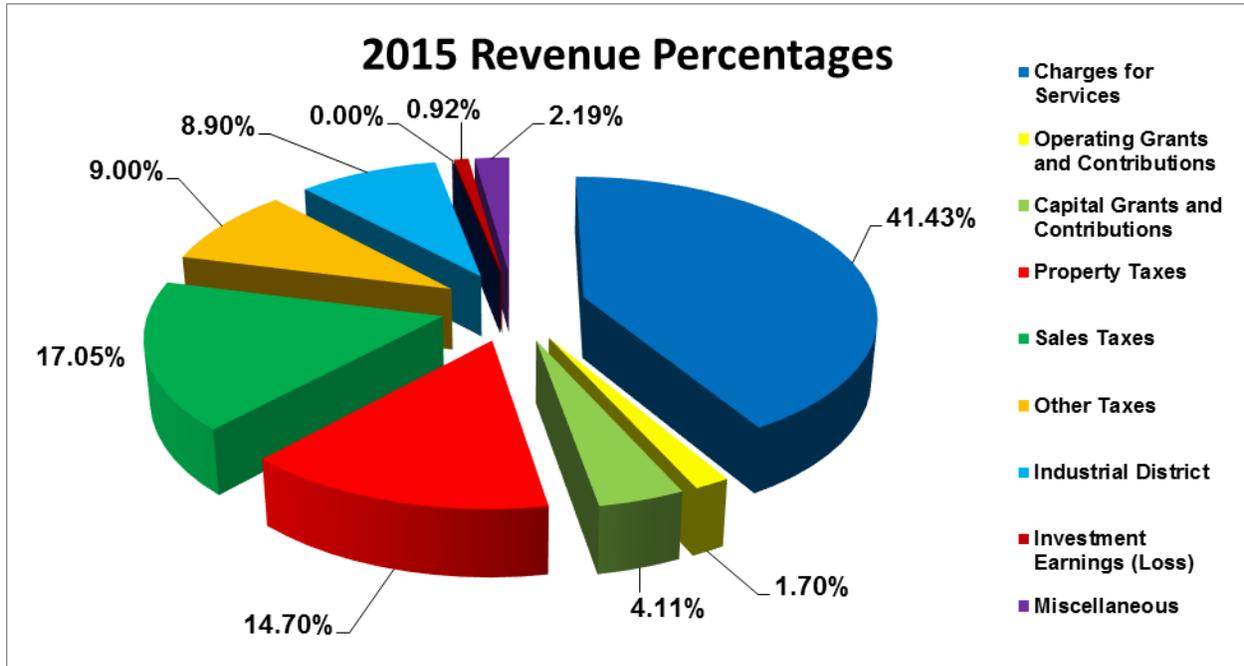
As of September 30, 2015, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2015. Governmental activities increased the City of Clute's net position by \$ 2,615,118 and business-type activities increased the City's net position by \$ 680,678.

#### CITY OF CLUTE'S CHANGES IN NET POSITION

	Year Ended September 30, 2015		
	Governmental Activities	Business-type Activities	Totals
Revenues:			
Program Revenues:			
Charges for services	\$ 3,114,476	\$ 3,636,554	\$ 6,751,030
Operating grants and contributions	277,434		277,434
Capital grants and contributions		669,737	669,737
General Revenues:			
Property taxes	2,395,943		2,395,943
Sales tax	2,779,452		2,779,452
Other taxes	1,466,939		1,466,939
Industrial district	1,450,322		1,450,322
Investment earnings (loss)	149,114	790	149,904
Miscellaneous	357,518		357,518
Total revenues	<u>11,991,198</u>	<u>4,307,081</u>	<u>16,298,279</u>
Expenses:			
General government and administration	711,123		711,123
Public safety	4,621,514		4,621,514
Sanitation	1,447,199		1,447,199
Streets and drainage	1,053,989		1,053,989
Culture and recreation	1,431,509		1,431,509
Interest on long-term debt	221,223	243,418	464,641
Water and sewer		3,272,508	3,272,508
Total expenses	<u>9,486,557</u>	<u>3,515,926</u>	<u>13,002,483</u>
Increase in net position before transfers	2,504,641	791,155	3,295,796
Transfers	<u>110,477</u>	<u>( 110,477 )</u>	<u>-0-</u>
Increase in net position	2,615,118	680,678	3,295,796
Net position – beginning (restated)	<u>29,767,332</u>	<u>13,475,344</u>	<u>43,242,676</u>
Net position – ending	<u>\$ 32,382,450</u>	<u>\$ 14,156,022</u>	<u>\$ 46,538,472</u>

**CITY OF CLUTE, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2015*



## **CITY OF CLUTE, TEXAS**

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### **Financial Analysis of the City's Funds**

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 17,913,051. The unassigned fund balance of \$ 2,290,823 constitutes 12.79% of ending fund balance. The remainder of the fund balance is categorized as 1) non-spendable (\$ 1,357,823), 2) restricted (\$ 6,366,703), and 3) assigned (\$ 7,897,702).

The General Fund balance increased by \$ 363,440; the Streets, Drainage and Sidewalks special revenue fund balance increased by \$ 463,584, Emergency Medical Service special revenue fund balance increased by \$ 21,819, Economic Development Corporation special revenue fund balance increased by \$ 321,935, Hotel-Motel special revenue fund balance increased by \$ 447,846 and the non-major governmental funds decreased by \$ 34,136.

**Proprietary funds.** As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The enterprise fund is used to account for its water and sewer operations. Net position at September 30, 2015 amounted to \$ 14,156,022. Total net position increased by \$ 680,678 (approximately 5.05%), and was due to reduced expenses and budgeted profit within the Water and Sewer Fund.

**General Fund Budgetary Highlights.** Revenues were increased by \$ 158,944 from the original budget to the final amended budget. Expenditures were increased by \$ 951,934 from the original budget to the final amended budget. The City's revenues exceeded budgeted revenues by \$ 350,376 and the budgeted expenditures exceeded the expenditure amounts by \$ 3,744,084.

### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$ 39,157,996 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress.

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Management's Discussion and Analysis  
For the Year Ended September 30, 2015

Major capital asset events during the current fiscal year included the following:

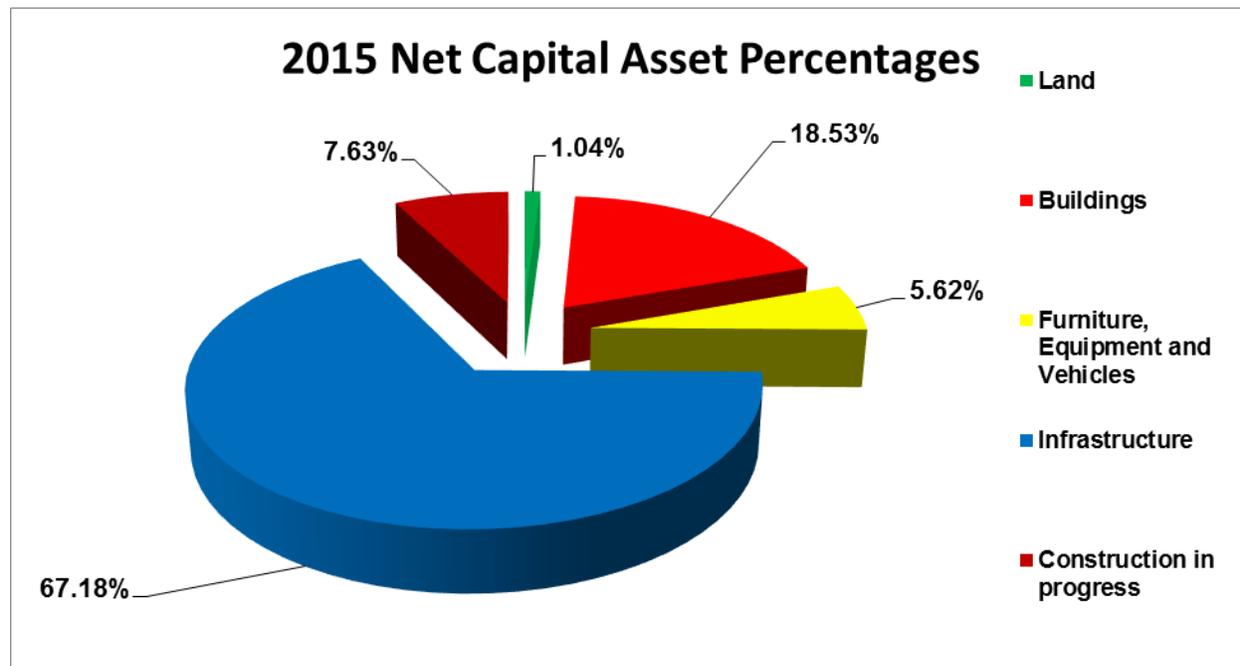
- New fire station \$ 4,650,000
- Woodshore Development - Section #2 \$ 2,000,000
- BASF reclaimed water project \$ 1,251,213
- Plantation Drive - from Main Street to highway 288B \$ 315,000
- Sewer line replacement - Bumpy Road WWTP line \$ 200,000
- Miscellaneous drainage projects \$ 169,179
- Ambulance remount \$ 107,000
- Playgrounds \$ 100,000
- Multi-City drainage study \$ 100,000
- Cemetery - Temple Ditch \$ 95,000
- WWTP - Upgrade lift station pump \$ 53,000
- WWTP - install blower package for digester/contact basins \$ 50,000
- Clute/Richwood lift station - add 3<sup>rd</sup> pump \$ 42,000
- Well building - Lake Barbara well \$ 40,000
- Water system improvements \$ 40,000
- New lift arm side loader - unit 1318 \$ 35,000
- 1 ton Ford diesel with pump bed \$ 33,870
- WWTP - install PLC for communications and level control \$ 30,000
- 2016 ½ ton pickup to replace seized car \$ 29,000
- MXU transmitters for meters \$ 28,400
- 2015 F-250 extended cab truck \$ 28,310
- F250 extended cab with service body \$ 28,310
- WWTP - upgrade lift station for VFD's \$ 25,000
- Iperl meters - 150-5/8" and 1" \$ 20,400
- CAFS skid unit replacement \$ 22,000
- Toro mowers \$ 20,000
- Well building - City park well \$ 20,000

### CITY OF CLUTE'S CAPITAL ASSETS Net of Accumulated Depreciation

	September 30, 2015		
	Governmental Activities	Business-type Activities	Totals
Land	\$ 398,660	\$ 7,562	\$ 406,222
Buildings	7,054,438	203,002	7,257,440
Furniture, equipment and vehicles	2,042,636	158,185	2,200,821
Infrastructure	8,542,519	17,764,043	26,306,562
Construction in progress	<u>2,296,203</u>	<u>690,748</u>	<u>2,986,951</u>
Total	<u>\$ 20,334,456</u>	<u>\$ 18,823,540</u>	<u>\$ 39,157,996</u>

**CITY OF CLUTE, TEXAS**

Management's Discussion and Analysis  
For the Year Ended September 30, 2015



Additional information on the City of Clute's capital assets can be found in Note 6 on pages 61 through 63 of this report.

**Debt Administration**

**CITY OF CLUTE'S LONG-TERM DEBT**

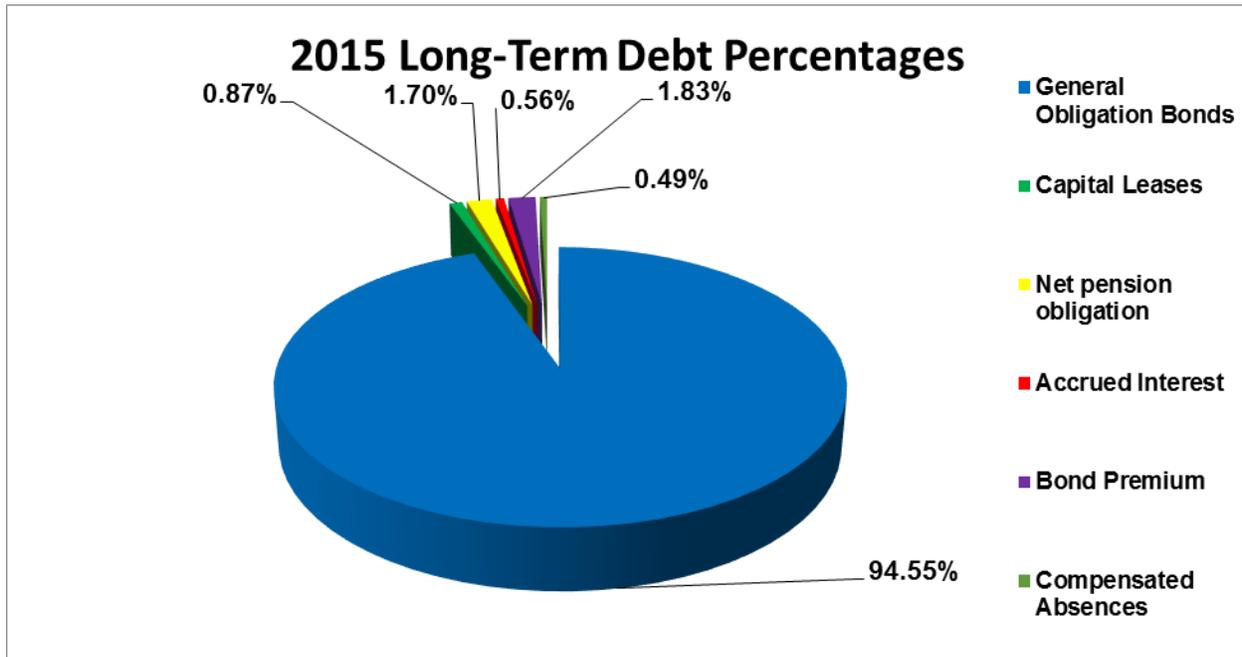
	September 30, 2015		
	Governmental Activities	Business-type Activities	Totals
General obligation bonds	\$ 6,310,000	\$ 6,890,000	\$ 13,200,000
Capital leases	120,948		120,948
Net pension obligation	226,678	10,414	237,092
Components of Long-Term Debt:			
Accrued interest	36,052	42,074	78,126
Premium on bonds	84,819	170,592	255,411
Compensated absences	66,266	1,520	67,786
 Total	 \$ <u>6,844,763</u>	 \$ <u>7,114,600</u>	 \$ <u>13,959,363</u>

At the end of the current fiscal year, the City of Clute had a total bonded debt payable of \$ 13,200,000. This amount is comprised of bonded debt backed by the full faith and credit of the City. \$ 2,190,000 of these bonds are intended to be retired with transfers from the water and sewer and economic development corporation funds, as well as payments from the water and sewer fund.

Additional information on the City of Clute's long-term debt can be found in Note 16 on pages 76 through 80 of this report.

## CITY OF CLUTE, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2015



### Economic Factors and Next Year's Budgets and Rates

In the fiscal year 2015-2016, property tax valuations are \$ 396,333,929 with a tax rate of \$ 0.659 per \$ 100 in valuation. The City is participating in three Chapter 380 Agreements to help spur economic development.

Projected total revenues for fiscal year 2015-2016 are budgeted to be \$ 18,436,998, and budgeted expenditures/expenses for the fiscal year 2015-2016 are \$ 24,275,371, which includes \$ 4,650,000 and \$ 1,500,000 to be used to construct a new fire station and new infrastructure through a Chapter 380 Agreement, respectively. The City continued salary rate increases, conducted through market analysis of salary rates for employees in 2014-2015, and increased the overall budgeted average by 6.2% for the 95 full-time employees to remain competitive with area rates.

### Request for Information

This financial report is designed to provide a general overview of the City'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, 108 E. Main Street, P.O. Box 997, Clute, Texas, 77531, or call (979) 265-2541.

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF CLUTE**

Clute, Texas

**STATEMENT OF NET POSITION**

September 30, 2015

	Governmental Activities	Business- Type Activities	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 10,627,946	\$ 1,205,416	\$ 11,833,362
Investments	6,104,360	4,420	6,108,780
Taxes receivable (net)	848,511		848,511
Accounts receivables (net)	870,753	157,756	1,028,509
Due from other governments	58,404	205,215	263,619
Other receivables		103,901	103,901
Interfund balances	( 543,595)	543,595	-0-
Long-term notes receivable	1,357,823		1,357,823
Prepaid items		161,556	161,556
<b>Restricted Assets:</b>			
Temporarily Restricted:			
Cash and cash equivalents		817,998	817,998
Investments		1,031	1,031
<b>Capital Assets (Net of Accumulated Depreciation):</b>			
Land	398,660	7,562	406,222
Buildings and improvements	7,054,438	203,002	7,257,440
Furniture, equipment and vehicles	2,042,636	158,185	2,200,821
Infrastructure	8,542,519	17,764,043	26,306,562
Construction in progress	<u>2,296,203</u>	<u>690,748</u>	<u>2,986,951</u>
<b>Total assets</b>	<u>39,658,658</u>	<u>22,024,428</u>	<u>61,683,086</u>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows of resources	<u>432,698</u>	<u>32,951</u>	<u>465,649</u>
<b>Total deferred outflows of resources</b>	<u>432,698</u>	<u>32,951</u>	<u>465,649</u>
<b>Liabilities:</b>			
Accounts payable	451,855	378,089	829,944
Accrued wages	208,469	9,722	218,191
Unearned revenue	2,454	9,051	11,505
Liabilities payable from restricted assets		376,392	376,392
<b>Noncurrent Liabilities:</b>			
Due within one year	516,589	385,270	901,859
Due in more than one year	<u>6,328,174</u>	<u>6,729,330</u>	<u>13,057,504</u>
<b>Total liabilities</b>	<u>7,507,541</u>	<u>7,887,854</u>	<u>15,395,395</u>
<b>Deferred Inflows of Resources:</b>			
Deferred inflows of resources	<u>201,365</u>	<u>13,503</u>	<u>214,868</u>
<b>Total deferred inflows of resources</b>	<u>201,365</u>	<u>13,503</u>	<u>214,868</u>
<b>Net Position:</b>			
Net investment in capital assets	13,782,637	11,752,534	25,535,171
Restricted	7,724,526		7,724,526
Unrestricted	<u>10,875,287</u>	<u>2,403,488</u>	<u>13,278,775</u>
<b>Total net position</b>	<u>\$ 32,382,450</u>	<u>\$ 14,156,022</u>	<u>\$ 46,538,472</u>

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

**CITY OF CLUTE**

Clute, Texas

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 711,123	\$	\$	\$
Public safety	4,621,514	1,430,850	277,434	
Sanitation	1,447,199	1,364,564		
Streets and drainage	1,053,989			
Culture and recreation	1,431,509	319,062		
Interest on long-term debt	221,223			
Total governmental activities	<u>9,486,557</u>	<u>3,114,476</u>	<u>277,434</u>	<u>-0-</u>
Business-type Activities:				
Water and sewer	<u>3,515,926</u>	<u>3,636,554</u>		<u>669,737</u>
Total business-type activities	<u>3,515,926</u>	<u>3,636,554</u>	<u>-0-</u>	<u>669,737</u>
Total	<u>\$ 13,002,483</u>	<u>\$ 6,751,030</u>	<u>\$ 277,434</u>	<u>\$ 669,737</u>
General Revenue:				
Taxes:				
Property taxes				
Sales taxes				
Other taxes				
Industrial district				
Investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning (restated)				
Net position - ending				

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

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business- Type Activities	Total
\$( 711,123)	\$	\$( 711,123)
( 2,913,230)		( 2,913,230)
( 82,635)		( 82,635)
( 1,053,989)		( 1,053,989)
( 1,112,447)		( 1,112,447)
<u>( 221,223)</u>		<u>( 221,223)</u>
<u>( 6,094,647)</u>	<u>-0-</u>	<u>( 6,094,647)</u>
	<u>790,365</u>	<u>790,365</u>
<u>-0-</u>	<u>790,365</u>	<u>790,365</u>
<u>( 6,094,647)</u>	<u>790,365</u>	<u>( 5,304,282)</u>
2,395,943		2,395,943
2,779,452		2,779,452
1,466,939		1,466,939
1,450,322		1,450,322
149,114	790	149,904
357,518		357,518
<u>110,477</u>	<u>( 110,477)</u>	<u>-0-</u>
<u>8,709,765</u>	<u>( 109,687)</u>	<u>8,600,078</u>
2,615,118	680,678	3,295,796
<u>29,767,332</u>	<u>13,475,344</u>	<u>43,242,676</u>
<u>\$ 32,382,450</u>	<u>\$ 14,156,022</u>	<u>\$ 46,538,472</u>

**CITY OF CLUTE**

Clute, Texas

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2015**

	<u>General</u>	<u>Streets, Drainage and Sidewalks</u>	<u>Emergency Medical Service</u>
<u>Assets and Deferred Outflows of Resources</u>			
Assets:			
Cash and temporary investments	\$ 6,763,175	\$ 2,020,898	\$ 246,061
Investments	3,697,609	549,107	
Receivables (net of allowance for uncollectibles)			
Taxes	651,025		
Accounts	11,685		168,267
Due from other governments	47,154	11,250	
Due from other funds	221,446		
Long-term notes receivable	<u>1,357,823</u>		
Total assets	<u>12,749,917</u>	<u>2,581,255</u>	<u>414,328</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total assets and deferred outflows of resources	<u>\$ 12,749,917</u>	<u>\$ 2,581,255</u>	<u>\$ 414,328</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 430,315	\$ 612	\$ 14,281
Accrued wages	167,902		38,283
Due to other funds	547,375		217,666
Unearned revenue	<u>2,454</u>		
Total liabilities	<u>1,148,046</u>	<u>612</u>	<u>270,230</u>
Deferred Inflows of Resources:			
Deferred inflows of resources - property taxes	<u>57,572</u>		
Total deferred inflows of resources	<u>57,572</u>	<u>-0-</u>	<u>-0-</u>
Fund Balance:			
Non-spendable	1,357,823		
Restricted	142,049	2,580,643	
Assigned	7,753,604		144,098
Unassigned	<u>2,290,823</u>		
Total fund balances	<u>11,544,299</u>	<u>2,580,643</u>	<u>144,098</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 12,749,917</u>	<u>\$ 2,581,255</u>	<u>\$ 414,328</u>

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

<u>Economic Development Corporation</u>	<u>Hotel Motel</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 835,610 1,857,644	\$ 575,300	\$ 186,902	\$ 10,627,946 6,104,360
	197,486		848,511 179,952 58,404 221,446 <u>1,357,823</u>
<u>2,693,254</u>	<u>772,786</u>	<u>186,902</u>	<u>19,398,442</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 2,693,254</u>	<u>\$ 772,786</u>	<u>\$ 186,902</u>	<u>\$ 19,398,442</u>
\$	\$ 5,407 2,284	\$ 1,240	\$ 451,855 208,469 765,041 2,454
<u>-0-</u>	<u>7,691</u>	<u>1,240</u>	<u>1,427,819</u>
			<u>57,572</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>57,572</u>
2,693,254	765,095	185,662	1,357,823 6,366,703 7,897,702 <u>2,290,823</u>
<u>2,693,254</u>	<u>765,095</u>	<u>185,662</u>	<u>17,913,051</u>
<u>\$ 2,693,254</u>	<u>\$ 772,786</u>	<u>\$ 186,902</u>	<u>\$ 19,398,442</u>

# CITY OF CLUTE

Clute, Texas

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION

September 30, 2015

Total fund balances – governmental funds balance sheet	\$ 17,913,051
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 32,923,898 in assets less \$ 12,589,442 in accumulated depreciation.	20,334,456
Municipal court accounts receivable net of related allowance for uncollectibles are unavailable to pay for current period expenditures and availability of funds are uncertain as to availability are not recorded in the funds. Municipal court receivables (\$ 1,824,805 net of allowance for uncollectible accounts of \$ 1,134,004) of the general fund amounted to \$ 690,801.	690,801
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund amounted to \$ 57,572.	57,572
Pension deferred outflows of resources of \$ 473,386 less amortization of \$ 40,688 and pension deferred inflows of resources of \$ 333,945 less amortization of \$ 132,580.	231,333
Payables for net pension liability are not reported in the funds.	( 226,678 )
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the statement of net assets. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 84,819 (premium on sale of bonds of \$ 95,078 less amortization costs of \$ 10,259).	( 84,819 )
Payables for bond principal are not reported in the funds.	( 6,310,000 )
Payables for capital lease principal are not reported in the funds.	( 120,948 )
Payables for long-term compensated absences are not reported in the funds.	( 66,266 )
Payables for bond interest are not reported in the funds.	( 36,044 )
Payables for capital lease interest are not reported in the funds.	( 8 )
Net position of governmental activities - statement of net position.	<u>\$ 32,382,450</u>

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

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# CITY OF CLUTE

Clute, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	General	Streets, Drainage and Sidewalks	Emergency Medical Service
Revenues:			
Ad valorem taxes	\$ 2,396,090	\$	\$
Sales tax	1,111,781	741,187	
Other taxes	602,165		
Industrial district	1,450,322		
Intergovernmental revenues	11,173		2,064
Revenue producing facilities	1,502,688		
EMS revenues			743,510
Fines and fees	563,850		
Licenses and fees	241,558		
Investment income	91,854	13,363	26
Miscellaneous	357,518		264,197
Total revenues	8,328,999	754,550	1,009,797
Expenditures:			
Current:			
Administration	623,196		
Public safety	3,414,719		1,135,576
Sanitation	1,328,605		
Streets and drainage	595,273	641	
Culture and recreation	715,902		
Capital outlay	1,449,373	240,325	17,054
Debt Service:			
Principal retirement	283,892		6,567
Interest and fiscal charges	94,045		
Total expenditures	8,505,005	240,966	1,159,197
Excess (deficiency) of revenues over (under) expenditures	( 176,006 )	513,584	( 149,400 )
Other Financing Sources (Uses):			
Issuance of capital leases	175,426		17,054
Transfers in	569,392		205,372
Transfers out	( 205,372 )	( 50,000 )	( 51,207 )
Total other financing sources (uses)	539,446	( 50,000 )	171,219
Change in fund balances	363,440	463,584	21,819
Fund balance, beginning	11,180,859	2,117,059	122,279
Fund balance, ending	\$ 11,544,299	\$ 2,580,643	\$ 144,098

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

<u>Economic Development Corporation</u>	<u>Hotel Motel</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 926,484	\$	\$	\$ 2,396,090
	864,774		2,779,452
			1,466,939
			1,450,322
			13,237
	4,900	176,038	1,683,626
			743,510
			563,850
			241,558
43,682	189		149,114
			621,715
<u>970,166</u>	<u>869,863</u>	<u>176,038</u>	<u>12,109,413</u>
18,900			642,096
			4,550,295
			1,328,605
			595,914
	379,570	210,174	1,305,646
			1,706,752
		180,000	470,459
	2,447	131,623	228,115
<u>18,900</u>	<u>382,017</u>	<u>521,797</u>	<u>10,827,882</u>
<u>951,266</u>	<u>487,846</u>	<u>( 345,759)</u>	<u>1,281,531</u>
			192,480
( 629,331)	( 40,000)	311,623	1,086,387
( 629,331)	( 40,000)	311,623	( 975,910)
			302,957
321,935	447,846	( 34,136)	1,584,488
<u>2,371,319</u>	<u>317,249</u>	<u>219,798</u>	<u>16,328,563</u>
<u>\$ 2,693,254</u>	<u>\$ 765,095</u>	<u>\$ 185,662</u>	<u>\$ 17,913,051</u>

# CITY OF CLUTE

Clute, Texas

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Net change in fund balances – total governmental funds	\$ 1,584,488
<b>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</b>	
Governmental funds report capital outlays as expenditures. However, in the governmental activities 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 \$ 1,706,752 exceeded depreciation \$ 1,083,693 in the current period.	623,059
Governmental funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by an actuary and involves multiple factors. The amount of pension expense reported was \$ 324,789 less than the amount reported in the funds.	324,789
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. The change in municipal court receivables, net of allowance, amounted to \$ 118,068.	( 118,068 )
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund increased by \$ 147.	( 147 )
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. These amounts were for general obligation bonded debt of \$ 355,000 and capital leases of \$ 115,459.	470,459
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. The amortization of bond premiums were \$ 5,357.	5,357
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term proceeds from capital leases in the governmental funds were \$ 192,480.	( 192,480 )
Pension deferred outflows of resources of \$ 190,469, less amortization of \$ 40,688, and pension deferred inflows of resources of \$ 333,945, less amortization of \$ 126,283.	( 57,881 )
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt of \$ 1,535, accrued compensated absences of \$ 6,785, and the basis in assets retired in the amount of \$ 32,778 (original cost of assets of \$ 418,033 less accumulated depreciation of \$ 385,255).	( 24,458 )
Change in net position of governmental activities	\$ <u>2,615,118</u>

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

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**CITY OF CLUTE**

Clute, Texas

## STATEMENT OF NET POSITION - PROPRIETARY FUND

September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets:	
Current Assets:	
Cash and temporary investments	\$ 1,205,416
Investments	4,420
Receivables (Net of Allowance for Uncollectibles):	
Utility accounts	157,756
Other	103,901
Due from other funds	547,375
Due from other governments	205,215
Prepaid items	<u>161,556</u>
 Total unrestricted current assets	 <u>2,385,639</u>
Restricted Assets:	
Cash and temporary investments	817,998
Investments	<u>1,031</u>
 Total restricted current assets	 <u>819,029</u>
 Total current assets	 <u>3,204,668</u>
Noncurrent Assets:	
Capital Assets:	
Property, plant and equipment	29,128,264
Less accumulated depreciation	<u>( 10,304,724 )</u>
 Total capital assets (net of accumulated depreciation)	 <u>18,823,540</u>
 Total assets	 <u>22,028,208</u>
Deferred Outflows of Resources:	
Deferred outflows of resources	<u>32,951</u>
 Total deferred outflows of resources	 <u>32,951</u>
 Total assets and deferred outflows of resources	 <u>\$ 22,061,159</u>

(Continued)

**CITY OF CLUTE**

Clute, Texas

## STATEMENT OF NET POSITION - PROPRIETARY FUND - Continued

September 30, 2015

	Business-Type Activities - Enterprise Fund
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
Liabilities:	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 378,089
Accrued wages	9,722
Accrued compensated absences	1,520
Accrued interest payable	42,074
Bonds payable – current	341,676
Due to other funds	3,780
Unearned revenue	<u>9,051</u>
Total current unrestricted liabilities	<u>785,912</u>
Current Liabilities Payable from Restricted Assets:	
Customer deposits payable	<u>376,392</u>
Total current restricted liabilities	<u>376,392</u>
Total current liabilities	<u>1,162,304</u>
Non-current Liabilities:	
Bonds payable - net	6,718,916
Pension liability - net	<u>10,414</u>
Total noncurrent liabilities	<u>6,729,330</u>
Total liabilities	<u>7,891,634</u>
Deferred Inflows of Resources:	
Deferred inflows of resources	<u>13,503</u>
Total deferred inflows of resources	<u>13,503</u>
Net Position:	
Net investment in capital assets	11,752,534
Unrestricted	<u>2,403,488</u>
Total net position	<u>14,156,022</u>
Total liabilities, deferred outflows of resources, and net position	<u>\$ 22,061,159</u>

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

**CITY OF CLUTE**

Clute, Texas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION - PROPRIETARY FUND**

For the Year Ended September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>
Operating Revenues:	
Water service	\$ 1,635,220
Sewer service	1,568,242
Tapping and reconnection fees	44,555
Penalties	44,723
Other governments	205,902
Operating lease income	133,299
Miscellaneous	<u>4,613</u>
Total operating revenues	<u>3,636,554</u>
Operating Expenses:	
Sewage treatment	2,143,471
Administrative	<u>370,654</u>
Operating expenses before depreciation	2,514,125
Depreciation	<u>755,333</u>
Total operating expenses	<u>3,269,458</u>
Net operating income	<u>367,096</u>
Non-Operating Revenues (Expenses):	
Interest revenue	663
Unrealized loss on investments	127
Bond interest and fees	<u>( 246,468 )</u>
Total non-operating revenues (expenses)	<u>( 245,678 )</u>
Net income before contributions and transfers	121,418
Contributions	669,737
Transfers out	<u>( 110,477 )</u>
Change in net position	680,678
Net position, beginning (restated)	<u>13,475,344</u>
Net position, ending	<u>\$ 14,156,022</u>

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

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**CITY OF CLUTE**

Clute, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND**

For the Year Ended September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 3,371,942
Payments to other funds	674,280
Payments to suppliers	( 2,472,103)
Payments to employees	<u>( 340,506)</u>
Net cash provided by operating activities	<u>1,233,613</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	<u>( 110,477)</u>
Net cash used by non-capital financing activities	<u>( 110,477)</u>
Cash Flows from Capital and Related Financing Activities:	
Premium on bonds	( 11,676)
Principal bond payments	( 320,000)
Interest and fees paid under debt obligations	( 246,468)
Purchase of capital assets	( 1,568,300)
Contributed capital	<u>669,737</u>
Net cash used by capital and related financing activities	<u>( 1,476,707)</u>
Cash Flows from Investing Activities:	
Purchase of investments	( 1,324,147)
Sale of investments	1,324,012
Investment income	<u>790</u>
Net cash provided by investing activities	<u>655</u>
Net decrease in cash and cash equivalents	( 352,916)
Cash and cash equivalents at the beginning of year	<u>2,376,330</u>
Cash and cash equivalents at the end of the year	<u>\$ 2,023,414</u>

(Continued)

**CITY OF CLUTE**

Clute, Texas

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND - Continued**

For the Year Ended September 30, 2015

	<u>Business-Type Activities - Enterprise Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Activities:	
Operating income (loss)	\$ <u>367,096</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	755,334
(Increase) Decrease in:	
Accounts receivable	7,883
Other receivable	( 53,588)
Due from other governments	( 205,215)
Due from other funds	670,500
Prepaid items	( 1,757)
Increase (Decrease) In:	
Accounts payable and expenses	( 272,627)
Accrued wages	645
Accrued interest	( 936)
Compensated absences	( 2,164)
Customer deposits	10,920
Unearned revenue	( 24,613)
Pension liability	( 21,645)
Due to other funds	<u>3,780</u>
Total adjustments	<u>866,517</u>
Net cash provided by operating activities	\$ <u><u>1,233,613</u></u>
Non-Cash Investing, Capital and Financing Activities:	
Contributions from other governments	\$ <u>669,737</u>
Net effect of non-cash transactions	\$ <u><u>669,737</u></u>

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

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**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

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# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Clute, Texas (City) related to the funds in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards. The more significant accounting policies of the City are described below.

#### Reporting Entity

The basic financial statements of the City include the primary government organizations, for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The decision to include a potential component unit in the reporting entity was made by applying the criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

Included in the reporting entity:

#### Primary Government

The City of Clute operates under a Home Rule Charter adopted in a special election on November 7, 1957. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public services, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Government-Wide and Fund Financial Statements - continued

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has only one enterprise fund.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Revenues from property and sales taxes, grants and contracts, charges for services, licenses and permits, fines and forfeitures, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

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

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

Proprietary funds distinguish operating revenues and expenses from 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 City's enterprise fund are charges to customers for sales and services and rentals.

Operating expenses for the enterprise fund includes 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. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

The City has presented the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the general fund.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

The *Streets, Drainage and Sidewalks special revenue fund* accounts for forty percent of the sales taxes collected and approved expenditures related to the construction of a new sewer, new sidewalks, new curbs and gutters, and the resurfacing of existing streets and new streets.

The *Emergency Medical Service (EMS) special revenue fund* accounts for the insurance collections for services rendered by the EMS Department and for the voluntary contributions received from the City's utility bills. The EMS Department yearly operations are self-supporting.

The *Economic Development Corporation special revenue fund* accounts for the Economic Development Sales tax (one-third of all sales tax) and approved expenditures for providing parks and recreation facilities and infrastructure projects.

The *Hotel-Motel special revenue fund* accounts for the Hotel-Motel tax collected and approved expenditures for special projects which enhance the City's economic outlook and tourism.

The City reports the following major proprietary fund:

The *Enterprise Fund* is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

#### New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The statement was implemented and did have an impact on the City's financial statements. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after December 15, 2013.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - Continued

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. The statement was implemented and did not have an impact on the City's financial statements. This statement was effective for periods beginning after June 15, 2013.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68", was issued November 2013. The statement was implemented and did have an impact on the City's financial statements. This statement was effective for periods beginning after June 15, 2014.

GASB No. 72, "Fair Value Measurement and Application" was issued February 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City, however there will be additional disclosures related to Fair Values. This statement is effective for periods beginning after June 15, 2015.

GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2015.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### New Pronouncements - Continued

GASB No. 77 “Tax Abatement Disclosures” was issued in August 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2015.

GASB No. 78, “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans” was issued in December 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2015.

GASB No. 79, “Certain External Investment Pools and Pool Participants” was issued in December 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which is effective for reporting periods beginning after December 15, 2015.

#### Budgetary Data

In late August, each department of the City submits requests for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to members of the City Council for review. The City Council holds budget workshops in September and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Council. Line item and department budgets may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all significant governmental fund types (general fund and special revenue funds) and proprietary fund type (enterprise funds). The budget and all transactions are presented in GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Streets, Drainage and Sidewalks Special Revenue, Emergency Medical Service Special Revenue, Economic Development Corporation Special Revenue, Hotel-Motel Special Revenue, Great Texas Mosquito Festival (Non-Major) Special Revenue, Debt Service, and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Encumbrances

The City does not employ a complete purchase order system for all expenditures and therefore does not utilize encumbrance accounting. Appropriations lapse at the end of the fiscal year.

#### Cash and Cash Equivalents and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements, and other such securities or obligations as allowed in the Public Funds Investment Act (PFIA) as amended and approved by the City's Council. The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

#### Property Taxes

Taxes receivable and related allowance for uncollectible are reported in the General Fund. The City levies taxes on or about October 1, of each year. These taxes are due by January 31, and are considered delinquent after that date, at which time interest is charged at a rate established by the state property tax code. Collections made on or after July 1, are subject to an additional fifteen percent collection fee.

The assessed value of the property tax roll on August 1, 2014, upon which the levy for the 2014-15 fiscal year was based, was \$ 321,724,256. The tax rates assessed for the year ended September 30, 2015, to finance general fund operations was \$ 0.672 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2015 were 98.17% of the year-end adjusted tax levy. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2015, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 64,579.

#### Interfund Receivables, Payables and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. See Note 5 for additional discussion of interfund receivables, payables and transfers.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Inventories

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of inventory items are recorded as expenditures when acquired and inventory on hand at the end of the period is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2015 was not significant and therefore, is not recorded.

#### Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS. 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.

#### Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Sewer Plant	50 Years
Sewer System:	
Sewer lines	50 Years
Lift station pumps	15 Years
Water System:	
Water lines	50 Years
Storage tanks	50 Years
Water wells	40 Years
Equipment	5-20 Years
Vehicles	5-8 Years

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

#### Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### Fund Equity

The City Council meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City's Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the City Council. Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action by the City Council. When it is appropriate for fund balance to be assigned, the City Council has delegated authority to the Mayor or City Manager. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Fund Equity - Continued

During the fiscal year 2011, the City implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

Governmental Fund Financial Statements:

The following schedule presents details of fund balance components at September 30, 2015.

	Major Funds					Non-Major Govern- mental Funds	Total Govern- mental Funds
	Special Revenue Funds						
	General Fund	Streets Drainage & Sidewalks Fund	Emergency Medical Services Fund	Economic Development Corporation Fund	Hotel- Motel Fund		
Fund Balances:							
Non-spendable:							
Long-term receivables	\$ 1,357,823	\$	\$	\$	\$	\$	\$ 1,357,823
Restricted:							
Municipal court security	44,259						44,259
Municipal court technology	94,224						94,224
Judicial efficiency	3,566						3,566
Streets, drainage and sidewalks		2,580,643					2,580,643
Economic development				2,693,254	765,095	173,052	3,631,401
Debt service						12,610	12,610
Assigned:							
Capital improvement	4,102,859						4,102,859
Equipment replacement	3,642,399						3,642,399
Police operations	8,346						8,346
Emergency services			144,098				144,098
Unassigned	<u>2,290,823</u>						<u>2,290,823</u>
 Total fund balances	<u>\$11,544,299</u>	<u>\$ 2,580,643</u>	<u>\$ 144,098</u>	<u>\$ 2,693,254</u>	<u>\$ 765,095</u>	<u>\$ 185,662</u>	<u>\$17,913,051</u>

**Net Position**

Net position represents the differences between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position - Continued

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Net Position:			
Net investment in capital assets	\$ 13,782,637	\$ 11,752,534	\$ 25,535,171
Restricted:			
Long-term note receivable	1,357,823		1,357,823
Municipal court security	44,259		44,259
Municipal court technology	94,224		94,224
Judicial efficiency	3,566		3,566
Streets, drainage and sidewalks	2,580,643		2,580,643
Economic development	2,866,306		2,866,306
Debt service	12,610		12,610
Unrestricted	<u>11,640,382</u>	<u>2,403,488</u>	<u>14,043,870</u>
Total net position	<u>\$ 32,382,450</u>	<u>\$ 14,156,022</u>	<u>\$ 46,538,472</u>

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2015, the City implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", and GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB No. 68". GASB Statement No. 68 establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB Statement 71, amendment of GASB Statement No. 68, addresses the issue regarding application of the transition provisions. It requires a government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, it requires that the government recognize its contribution as a deferred outflow of resources.

In addition to the above changes there were two other prior period adjustments that involved adding fixed assets not previously recorded and reclassifying net position from business-type activities to governmental activities as a result in the closing of an internal service fund into a sub-fund of the General Fund.

The following represents the retroactive restatement of net position as a result of implementation of GASB Statements No. 68 and 71 and prior period adjustment as noted above:

**CITY OF CLUTE**  
Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT - Continued**

	Governmental Activities	Business-type Activities	Total
Net position, September 30, previously reported	\$ 30,003,390	\$ 13,481,652	\$ 43,485,042
Addition of fixed assets	32,500		32,500
Reclassifying net position	( 6,305)	6,305	-0-
Addition of outflows of resources – subsequent pension contributions	308,778	24,578	333,356
Addition of net pension liability - TMRS	( 429,448)	( 37,191)	( 466,639)
Addition of net pension liability - TESRS	<u>( 141,583)</u>	<u>                    </u>	<u>( 141,583)</u>
Net position, September 30, restated	<u>\$ 29,767,332</u>	<u>\$ 13,475,344</u>	<u>\$ 43,242,676</u>

Information was not available to restate the September 30, 2013 net position or the changes in net position for the year ended September 30, 2014, therefore, the MD&A presentation does not report comparative statements for the year ended September 30, 2014. Further, this change in accounting principle had no effect on governmental fund balance or changes in fund balance.

**NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES**

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of more than one year. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

**NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES** - Continued

Cash and temporary investments, as reported on the statement of net position at September 30, 2015 (totals memorandum only) are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 5,974	\$	\$ 5,974
Financial Institution Deposits:			
Demand deposits	3,575,711		3,575,711
Money market	341,017		341,017
State Treasury Investment Pool:			
Texpool	<u>7,910,660</u>	<u>817,998</u>	<u>8,728,658</u>
Total cash and temporary investments	<u>\$ 11,833,362</u>	<u>\$ 817,998</u>	<u>\$ 12,651,360</u>
Investments:			
Investments Held by Broker-Dealers:			
U.S. government and agency securities	<u>\$ 6,108,780</u>	<u>\$ 1,031</u>	<u>\$ 6,109,811</u>
Total investments	<u>\$ 6,108,780</u>	<u>\$ 1,031</u>	<u>\$ 6,109,811</u>

**Deposits**

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2015, in addition to petty cash of \$ 5,974, the carrying amount of the City's cash, savings, time deposits, and money markets was \$ 3,916,728. The financial institutions balances were \$ 4,522,388 at September 30, 2015. Bank balances of \$ 500,000 were covered by federal depository insurance, \$ 341,017 covered by securities depository insurance, and \$ 3,681,371 was covered by collateral pledged in the City's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent. The City maintains copies of all safekeeping receipts.

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the City depository must have a bond or in lieu thereof, deposited or pledged securities with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it addresses the priorities of preservation of capital, liquidity, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Committee submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the investment strategy and policy approved by City Council and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificate of deposit of commercial banks;
2. U.S. Treasury Securities maturing in less than three (3) years;
3. Short-term obligations of U.S. Government Agencies which are guaranteed by the full faith and credit of the United States of America as to principle and interest;
4. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency Securities in accordance with a master repurchase agreement approved by the Investment Committee;
5. Eligible investment pools authorized by the City Council;
6. Domestic securities that are obligations of, or guaranteed by, the U.S. Government or its agencies and are registered with the Securities and Exchange Commission and traded on a recognized U.S. securities exchange or over-the-counter-market.
7. Fixed income securities including domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, securitized mortgages and collateralized mortgage obligations.
8. Other securities or obligations approved by the Investment Committee and authorized by the Local Government Code, Sections 2256.006 and 2256.016.

The City participates in one Local Government Investment Pools (LGIPs): Texpool. The State Comptroller of Public Accounts oversees Texpool. Federated Investors is the full service provider to the pools managing the assets, providing participant services, and arranging for all custody and other functions in support of the pool's operations under a contract with the Comptroller.

The City invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Investments - continued

At September 30, 2015 Texpool had a weighted average maturity of 40 days. Although Texpool portfolio had a weighted average maturity of 40 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City also invests in an asset management pool, UBS Global Asset Management (GAM), through UBS Financial Services, Inc. The pool invests conservatively in U.S. securities. The U.S. securities, which make up 100% of the City's investments with UBS, have a weighted average maturity of 3,080 days. Although the UBS portfolio had a weighted average maturity of 3,080 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the City at September 30, 2015.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ 8,728,658	40
U.S. Government Securities	<u>6,109,811</u>	3,080
	<u>\$ 14,838,469</u>	1,292

Credit Risk - As of September 30, 2015, the LGIPs (which represent approximately 59% of the City's portfolio) are rated AAAM by Standard and Poor's. Approximately 41% of the portfolio consists of direct obligations of the US government.

Interest rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy states that the City avoid over-concentration of assets in a specific maturity sector, limiting of average maturities of operating fund investments to one year, and avoiding over-concentrated assets in specific instruments other than U.S. Treasury Securities and insured or collateralized certificates of deposit.

#### Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2015, and holds no direct investments in derivatives at September 30, 2015.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 4 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2015, the various components of inflows of resources and unearned revenue reported in the governmental funds were as follows:

	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
Delinquent property taxes	\$ 57,572	\$
Court bonds	<u>                    </u>	<u>2,454</u>
Total deferred inflows of resources and unearned revenue from governmental funds	<u>\$ 57,572</u>	<u>\$ 2,454</u>

As of September 30, 2015, the various components of unearned revenue reported in the proprietary funds were as follows:

Unapplied credits	\$ <u>9,051</u>
Total unearned revenue from proprietary funds	\$ <u>9,051</u>

**Governmental and Business-Type Activities**

Governmental and business-type activities defer the recognition of pension expense for contributions made from the measurement date (December 31, 2014) to the current year-end of September 30, 2015 and report these as deferred outflows of resources. Governmental and business-type activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental and business-type activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of September 30, 2015, the various components of deferred inflows and outflows of resources reported in the governmental and business-type activities were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Governmental Activities</u>		
TMRS deferred inflows and outflows of resources less current amortization	\$ 124,181	\$ 182,474
TESRS deferred inflows and outflows of resources less current amortization		18,891
Pension contributions subsequent to the measurement date	<u>308,517</u>	<u>                    </u>
Totals	<u>\$ 432,698</u>	<u>\$ 201,365</u>

There were no unearned revenues reported in the governmental activities as of September 30, 2015.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 4 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE –**  
Continued

<u>Business-Type Activities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
TMRS deferred inflows and outflows of resources less current amortization	\$ 8,450	\$ 13,503
Pension contributions subsequent to the measurement date	<u>24,501</u>	<u>          </u>
Totals	<u>\$ 32,951</u>	<u>\$ 13,503</u>

There were no unearned revenues reported in the business-type activities as of September 30, 2015.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at September 30, 2015 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Funds:		
Emergency Medical Service	\$ 217,666	\$
Enterprise Fund	<u>3,780</u>	<u>547,375</u>
	<u>221,446</u>	<u>547,375</u>
Special Revenue Funds:		
Emergency Medical Service:		
General Fund	<u>          </u>	<u>217,666</u>
Enterprise Fund:		
General Fund	<u>547,375</u>	<u>3,780</u>
Total	<u>\$ 768,821</u>	<u>\$ 768,821</u>

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers for the year ended September 30, 2015 consisted of the following individual fund transfers in and transfers out:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Special Revenue Funds:		
Streets, Drainage and Sidewalks	\$ 50,000	\$
Emergency Medical Service	51,207	205,372
Economic Development Corporation	317,708	
Hotel-Motel	40,000	
Enterprise Fund	<u>110,477</u>	
	<u>569,392</u>	<u>205,372</u>
Special Revenue Funds:		
Streets, Drainage and Sidewalks:		
General Fund		50,000
Emergency Medical Service:		
General Fund	205,372	51,207
Economic Development Corporation:		
General Fund		317,708
Debt Service Fund		311,623
Hotel-Motel:		
General Fund		<u>40,000</u>
Total Special Revenue Funds	<u>205,372</u>	<u>770,538</u>
Debt Service Fund:		
Special Revenue Fund:		
Economic Development Corporation	<u>311,623</u>	
Enterprise Fund:		
General Fund		<u>110,477</u>
Total	<u>\$ 1,086,387</u>	<u>\$ 1,086,387</u>

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2015 was as follows:

	Restated Balance <u>10/01/14</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>09/30/15</u>
Governmental Activities:					
Non-Depreciated Capital Assets:					
Land	\$ 467,805	\$	\$( 69,145)	\$	\$ 398,660
Construction in progress	<u>2,242,701</u>	<u>183,325</u>	<u>( 129,823)</u>	<u>                    </u>	<u>2,296,203</u>
Total non-depreciated	<u>2,710,506</u>	<u>183,325</u>	<u>( 198,968)</u>	<u>-0-</u>	<u>2,694,863</u>
Depreciated Capital Assets:					
Buildings	9,885,482	31,753	69,144	25,000	9,961,379
Furniture, equipment and vehicles	6,361,863	900,439	110,124	393,033	6,979,393
Infrastructure	<u>12,677,328</u>	<u>591,235</u>	<u>19,700</u>	<u>                    </u>	<u>13,288,263</u>
Total depreciated	<u>28,924,673</u>	<u>1,523,427</u>	<u>198,968</u>	<u>418,033</u>	<u>30,229,035</u>
Total additions/retirements		\$ <u>1,706,752</u>	\$ <u>-0-</u>	\$ <u>418,033</u>	
Accumulated Depreciation:					
Buildings	2,731,141	\$ 196,424	\$	\$ 20,624	2,906,941
Furniture, equipment and vehicles	4,765,202	536,186		364,631	4,936,757
Infrastructure	<u>4,394,661</u>	<u>351,083</u>	<u>                    </u>	<u>                    </u>	<u>4,745,744</u>
Total accumulated depreciation	<u>11,891,004</u>	\$ <u>1,083,693</u>	\$ <u>-0-</u>	\$ <u>385,255</u>	<u>12,589,442</u>
Net depreciated capital assets	<u>17,033,669</u>				<u>17,639,593</u>
Net capital assets	\$ <u>19,744,175</u>				\$ <u>20,334,456</u>

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 6 - CAPITAL ASSETS - Continued

	Balance 10/01/14	Additions	Transfers	Retirements	Balance 09/30/15
Business-type Activities:					
Non-Depreciated Capital Assets:					
Land	\$ 7,562	\$	\$	\$	\$ 7,562
Construction in progress	<u>3,100,881</u>	<u>669,122</u>	<u>( 3,079,255)</u>	<u>          </u>	<u>690,748</u>
Total non-depreciated	<u>3,108,443</u>	<u>669,122</u>	<u>( 3,079,255)</u>	<u>-0-</u>	<u>698,310</u>
Depreciated Capital Assets:					
Buildings	500,000				500,000
Improvements other than buildings	23,256,933	813,921	3,222,741		27,293,595
Furniture, equipment and vehicles	<u>756,989</u>	<u>85,259</u>	<u>( 143,486)</u>	<u>52,403</u>	<u>636,359</u>
Total depreciated	<u>24,503,922</u>	<u>899,180</u>	<u>3,079,255</u>	<u>52,403</u>	<u>28,429,954</u>
Total additions/retirements		\$ <u>1,568,302</u>	\$ <u>-0-</u>	\$ <u>52,403</u>	
Accumulated Depreciation:					
Buildings	286,998	\$ 10,000	\$	\$	296,998
Improvements other than buildings	8,788,813	721,608	19,131		9,529,552
Furniture, equipment and vehicles	<u>525,982</u>	<u>23,726</u>	<u>( 19,131)</u>	<u>52,403</u>	<u>478,174</u>
Total accumulated depreciation	<u>9,601,793</u>	\$ <u>755,334</u>	\$ <u>-0-</u>	\$ <u>52,403</u>	<u>10,304,724</u>
Net depreciated capital assets	<u>14,902,129</u>				<u>18,125,230</u>
Net capital assets	\$ <u>18,010,572</u>				\$ <u>18,823,540</u>

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

Governmental Activities:

Administration	\$ 83,001
Public safety	246,767
Sanitation	141,464
Streets and drainage	473,244
Culture and recreation	<u>139,217</u>
 Total depreciation expense-governmental activities	 \$ <u>1,083,693</u>

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

NOTE 6 - CAPITAL ASSETS - Continued

Business-type Activities:

Water and sewer \$ 755,334

Total depreciation expense-business-type activities \$ 755,334

NOTE 7 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes

Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The allowance for uncollectible taxes for the year ended September 30, 2015 was \$ 49,263.

Customer Receivables

The allowance for uncollectible receivables related to City services, including water and sewer, garbage, and EMS, is determined based on historical experience and evaluation of collectability in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2015 was \$ 1,389, \$ 276, and \$ 3,827,949.

Municipal Court Receivables

Municipal court receivables are reported in the governmental activities statement of net position. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectability in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2015 was \$ 1,134,004.

NOTE 8 - EMPLOYEE SICK LEAVE BENEFITS

The City's sick leave policy provides fifteen paid sick days per year and allows employees to carryover unused sick days to subsequent years. After five years of service, an employee will be paid up to eighty hours for unused sick leave at the time of resignation or termination. For the year ended September 30, 2015, the City had accrued sick leave in the governmental activities for \$ 66,266 and in the business-type activities for \$ 1,520.

The City's vacation policy does not allow unused vacation to carry over from one year to the next. Accordingly, no liability is recorded for accrued vacation.

NOTE 9 - CONTINGENT LIABILITIES

The City is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the City at September 30, 2015.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 10 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN

#### A. Plan Description

The City of Clute participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publically available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

#### B. 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. Member 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.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. Members in most cities can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Some cities have elected retirement eligibility with 25 years of service regardless of age. Most plans also provide death benefits and all provide disability benefits. Effective January 1, 2002, members are vested after 5 years, unless a city opted to maintain 10-year vesting. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

**Employees covered by benefit terms.** At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	48
Inactive employees entitled to but not yet receiving benefits	62
Active employees	<u>87</u>
	197

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 10 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

#### C. Contributions

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

Employees of the City of Clute were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Clute were 11.42% and 10.77% in the calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$ 431,105, and were equal to the required contributions.

#### D. Net Pension Liability

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

#### ***Actuarial Assumptions***

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions.

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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.

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

**NOTE 10 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued**

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long term-expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities:		
Domestic	17.5%	4.80%
International	17.5%	6.05%
Fixed Income:		
Core	30.0%	1.50%
Non-Core	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
Total	100%	

***Discount Rate***

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefits 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 CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 10 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN** - Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2013	\$ 17,741,737	\$ 17,275,098	\$ 466,639
Changes for the Year:			
Service cost	570,571		570,571
Interest	1,229,598		1,229,598
Difference between expected and actual experience	( 470,415)		( 470,415)
Contributions - employer		424,399	( 424,399)
Contributions - employee		264,306	( 264,306)
Net investment income		988,195	( 988,195)
Benefit payment, including refunds of employee contributions	( 922,660)	( 922,660)	-0-
Administrative expense		( 10,318)	10,318
Other changes		( 848)	848
Net changes	407,094	743,074	( 335,980)
Balance at 12/31/2014	\$ 18,148,831	\$ 18,018,172	\$ 130,659

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 7.0%, as well as what's the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease In Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase In Discount Rate (8.0%)
City's Net Pension Liability	\$ 2,739,273	\$ 130,659	\$( 1,998,715)
Changes for the Year:			

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issues TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2015, the city recognized pension expense of \$ 244,765.

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

**NOTE 10 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued**

At September 30, 2015, 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	\$	\$ 201,365
Difference between projected and actual investment earnings	124,181	
Contributions subsequent to the measurement date	<u>308,517</u>	<u>                    </u>
Total	<u>\$ 432,698</u>	<u>\$ 201,365</u>

\$ 308,517 reported as deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30.</u>	
2016	\$( 93,007)
2017	\$( 15,546)
2018	\$( 5,053)
2019	\$ 36,422
2020	-0-
Thereafter	-0-

**NOTE 11 - OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN**

**OPEB-Supplemental Death Benefits Fund**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

NOTE 11 - OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN - Continued

OPEB-Supplemental Death Benefits Fund - Continued

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

The City's contributions to the TMRS SDBF for the years ended September 30, 2015, 2014, and 2013 were \$ 7,088, \$ 6,911, and \$ 6,510, respectively, which equaled 100% of the required contributions each year.

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following: Texas Municipal Retirement System, PO Box 149153, Austin, TX 78714-9153, (877) 634-8595.

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN

A. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the "System") established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member Board of Trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2014, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,073
Terminated Members Entitled to Benefits by Not Yet Receiving Them	2,161
Active Participants (Vested and Nonvested)	4,036

**CITY OF CLUTE**  
Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN - Continued**

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vested requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

**B. Funding Policy**

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$ 36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate is 0% since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two Contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

**NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN - Continued**

A small subset of participating departments have a different contribution arrangement which is being phased in over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who are pensioners when their respective departments merged with the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

**C. Contributions**

The contribution requirement per active emergency services personnel members per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, the total contributions (dues, prior service, and interest on prior service financing) of \$ 24,900 were paid into TESRS by the City.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection D below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$ 625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014, the actuarial liabilities exceeded the actuarial assets by \$ 26,093,761.

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of August 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial Assumptions***

The Total Pension Liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50% per year
Salary increases	N/A
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities:		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed international	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnerships	5%	7.1%
Fixed Income:		
Domestic	21%	1.4%
International	5%	1.6%
Cash	<u>0%</u>	0.0%
Total	100%	

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$ 7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. 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 CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN - Continued

***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 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease In Discount Rate <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase In Discount Rate <u>(8.75%)</u>
City's Net Pension Liability	\$ 219,325	\$ 106,433	\$ 40,566

NOTE 13 - INDUSTRIAL DISTRICT CONTRACT

The City of Clute in conjunction with the Cities of Lake Jackson and Freeport has entered into a contract with the Dow Chemical Company, BASF Corporation, and the Brock interests. The Cities gave consideration in the two following forms:

1. The Cities have agreed to refrain from initiating proceedings for the annexation of all or part of land described and outlined in the contract as Industrial Districts.
2. Respective codes, ordinances and laws of the Cities pertaining to building or construction, zoning, electrical, plumbing, health and safety regulations, air and water quality regulations and supervision; will not be applicable to the Districts.

The two corporations have in turn given consideration to the Cities in the following two forms:

1. Each City is to receive a specified sum of money on an annual basis over the terms of the contract.
2. The Cities will not be expected to provide within the Districts the ordinary municipal services such as water, sewage disposal, drainage, police and fire protection except in the event of an emergency.

During the year ended September 30, 2011, a new industrial district contract was negotiated. The term of this contract is for fifteen (15) years from December 31, 2011, through December 1, 2026. Contract payments are payable in semi-annual installments each June 30 and December 31. The amount of the payments are to be calculated each year based upon the higher percentage growth of the most recent annual Consumer Price Index or a value based formula (Brazosport Industrial District assessed value less abatements granted by Brazoria County/\$100 x \$.55 @ 50% or 27.5 cents). Total industrial district revenues received during the year ended September 30, 2015 amounted to \$ 1,450,322.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 14 - JOINT VENTURE

The City was involved in a joint venture with the City of Richwood for the construction of a sewer plant which provides service to both cities. The joint venture was substantially completed and placed in service as of September 30, 1987. This project was funded by a federal EPA construction grant for waste treatment plant in which the federal portion of qualifying expenditures was 75 percent and the cities portion was 25 percent. The City's portion of the 25 percent of qualifying expenditures and all non-qualifying expenditures was 75 percent. The City of Richwood was responsible for the remaining 25 percent.

In addition, the City is party to an agreement with the City of Richwood to share costs associated with the operation of the sewer treatment plant. The percentage for sharing the operating expenses (excludes capital outlay) is determined based upon metered flow. For the year ended September 30, 2015 the City of Richwood's portion of these expenses was determined to be 18 percent, which amounted to \$ 205,902.

Further, the City of Richwood shares in 25 percent of maintenance costs (including capital acquisitions), which amounted to \$ 89,910 for the year ended September 30, 2015. The City maintains both budgetary and accounting responsibility over these expenses and disbursements and, therefore, has reported intergovernmental revenue, from the City of Richwood, in the amount of \$ 205,902 within the Enterprise Fund for the year ended September 30, 2015.

The City is also in agreement with the City of Richwood to provide Emergency Medical Service for the residents of Richwood. The City is to receive \$ 16,250 each quarter from the City of Richwood. For the year ended September 30, 2015, the City received \$ 70,000 from the City of Richwood.

During the year ended September 30, 2003, the City began a joint venture with the City of Freeport, City of Lake Jackson, and the SPCA for an animal shelter. The shelter is located in Lake Jackson and provides programs for the claiming and adoption of lost or abandoned animals for the three cities. The City and Freeport contributed \$ 150,000 each and the SPCA contributed \$ 250,000 for a total of \$ 550,000 to Lake Jackson for the design, construction, and furnishing of the \$ 1,100,000 facility. The term of the agreement is from March 1, 2003 through February 28, 2023. During the fiscal year, the City paid \$ 76,030 to the shelter for their portion to cover the administrative operating expenses.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 15 - OPERATING LEASES

Lessee

The city is committed under leases for the following:

- 1) The City is committed under a lease for the use of 2.5 acres of land being utilized as a gun range for the Police Department. The lease is for the period October 1, 2013 through September 30, 2018. Payments are due on October 1<sup>st</sup> each year in the amount of \$ 2,400.
- 2) On August 15, 2010, the City leased six copiers and paid \$ 594.89 per month for sixty-three months from August 20, 2010 through October 20, 2015. On July 20, 2015, the City terminated this lease and made its final payment. On August 15, 2015, the City leased six copiers and paid \$ 740 per month for thirty-six months from August 14, 2015 through July 15, 2018.
- 3) On July 10, 2012, the City leased two copiers and pays \$ 445.38 per month for sixty months from August 15, 2012 through July 15, 2017.
- 4) On March 4, 2013, the City leased communication equipment and pays \$ 695.18 per month for thirty-six months from March 20, 2013 through January 20, 2016, including one payment in advance on March 20, 2015.

For accounting purposes, these leases are considered operating leases.

Minimum future rentals to be paid on operating leases, as of September 30, 2015, for each of the next five years and in the aggregate are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>2015</u>
2016	\$ 19,005
2017	16,225
2018	<u>9,845</u>
	<u>\$ 45,075</u>

Gross rental expenditures for operating leases, including month-to-month for the year ended September 30, 2015 was as follows:

	<u>2015</u>
Copier rental and usage	\$ 14 164
Upgraded communications equipment	8,342
Gun Range	<u>2,400</u>
	<u>\$ 24,906</u>

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 15 - OPERATING LEASES - Continued

Lessor

On February 26, 2010, the City's Enterprise Fund entered into an inter-local waste water transmission line lease agreement, an operating lease, with the City of Richwood. The lease requires quarterly payments on January 15, April 15, July 15, and October 15 of each year from 2010 to 2025. The lease requires total payments of \$ 2,413,627 with varying quarterly payments. During the year ended September 30, 2015, the business-type activities reported revenues in the amount of \$ 133,299. The following are the minimal lease payments from Richwood required under this lease:

<u>Year Ending September 30,</u>	<u>Total Requirements</u>
2016	\$ 134,366
2017	135,592
2018	137,252
2019	139,087
2020	140,987
2021-2025	735,844
2026	<u>38,025</u>
 Total	 <u>\$ 1,461,153</u>

NOTE 16 - LONG-TERM DEBT

General Long-Term Debt:

On October 20, 2005, the City issued \$ 3,500,000 of Series 2005 Certificates of Obligation Bonds. The bonds were for the acquisition, construction and improvements of certain public works.

On November 14, 2013, the City issued \$ 9,500,000 of Series 2013 Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The bond proceeds were split between general long-term debt (\$ 4,500,000) and the proprietary fund debt (\$ 5,000,000). Proceeds within the governmental funds were for the purchase of land and construction of a new fire station, construction of new streets and drainage improvements, and landscaping.

The certificates of obligation bonds payable at September 30, 2015 is summarized as follows:

<u>Purpose</u>	<u>Interest Rate (%)</u>	<u>Series Dates</u>			<u>Bonds Outstanding 09/30/15</u>
		<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	
Certificate Obligation Bonds					
Series 2005	3.920	2005	2025	2007	\$ 2,190,000
Certificate Obligation Bonds					
Series 2013	1.000 - 4.000	2013	2033	2024	<u>4,120,000</u>
					<u>\$ 6,310,000</u>

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2015

NOTE 16 - LONG-TERM DEBT - Continued

General Long-Term Debt: - Continued

Certificate of obligation bond transactions for the year ended September 30, 2015 were as follows:

	<u>2014</u>
Bonds outstanding, October 1, 2014	\$ 6,665,000
Matured	<u>( 355,000)</u>
Bonds outstanding, September 30, 2015	<u>\$ 6,310,000</u>

Aggregate maturities of certificate of obligation bonds for the years subsequent to September 30, 2015 are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 365,000	\$ 215,670	\$ 580,670
2017	375,000	206,619	581,619
2018	380,000	195,470	575,470
2019	395,000	184,127	579,127
2020	410,000	172,290	582,290
2021-2025	2,265,000	637,952	2,902,952
2026-2030	1,255,000	305,998	1,560,998
2031-2033	<u>865,000</u>	<u>70,200</u>	<u>935,200</u>
	<u>\$ 6,310,000</u>	<u>\$ 1,988,326</u>	<u>\$ 8,298,326</u>

Since property taxes are not utilized for the payment of the Certificate of Obligation, Series 2005, the City is not required to maintain a Debt Service Fund for the Series 2005. The Economic Development Corporation (a special revenue fund) transferred funds in the amount of \$ 267,708 to the General Fund for the payment of the principal, interest, and fees of the Certificate of Obligation, Series 2005.

Although the Certificate of Obligation, Series 2013 bonds are not paid by property taxes, the City chose to account for the payment of these bond within a debt service fund. The Economic Development Corporation (a special revenue fund) transferred funds in the amount of \$ 311,622 to the Debt Service Fund for the payment of the principal, interest, and fees of the Certificate of Obligation, Series 2013.

Proprietary Fund Debt:

On August 19, 2009, the City issued \$ 3,000,000 of Series 2009 Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The bonds were acquired to provide improvements to the waterworks and sewer system and the payment of professional services related thereto, including costs of issuing the certificates.

On November 14, 2013, the City issued \$ 9,500,000 of Series 2013 Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The bond proceeds were split between general long-term debt (\$ 4,500,000) and the proprietary fund debt (\$ 5,000,000). Proceeds within the proprietary fund were for improvements to the City's utility system.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 16 - LONG-TERM DEBT - Continued

Proprietary Fund Debt: - Continued

The certificates of obligation bonds payable at September 30, 2015 is as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09/30/15
		Issued	Maturity	Callable	
Certificate Obligation Bonds					
Series 2009	2.000 - 5.750	2009	2029	No	\$ 2,315,000
Certificate Obligation Bonds					
Series 2013	1.000 - 4.000	2013	2024	2024	<u>4,575,000</u>
					<u>\$ 6,890,000</u>

Certificate of obligation bond transactions for the year ended September 30, 2015 were as follows:

	<u>2015</u>
Bonds outstanding, October 1, 2014	\$ 7,210,000
Matured	<u>( 320,000)</u>
Bonds outstanding, September 30, 2015	<u>\$ 6,890,000</u>

Aggregate maturities of certificate of obligation bonds for the years subsequent to September 30, 2015 are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 330,000	\$ 250,355	\$ 580,355
2017	330,000	244,155	574,155
2018	345,000	235,518	580,518
2019	355,000	226,505	581,505
2020	365,000	216,755	581,755
2021-2025	1,995,000	882,987	2,877,987
2026-2030	2,210,000	431,985	2,641,985
2031-2033	<u>960,000</u>	<u>77,600</u>	<u>1,037,600</u>
	<u>\$ 6,890,000</u>	<u>\$ 2,565,860</u>	<u>\$ 9,455,860</u>

Capital Lease:

On October 1, 2013, the City acquired various cardio and weight lifting equipment for \$ 116,434 under capital lease for thirty-six months with as interest rate of 3.663 % and monthly payments of \$ 3,483 due on December 15, 2012 through October 15, 2015.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

NOTE 16 - LONG-TERM DEBT - Continued

On March 1, 2015, the City acquired seventy-three radios for \$ 192,480 under capital lease for three years, with an interest rate of 3.320% with no interest for the first year, and a down payment of \$75,000 and three annual payments \$ 40,446 due on March 1, 2016 through March 1, 2018.

The asset acquired through capital lease is as follows:

	2015		
	Cardio and Weight Lifting	Radios	Total
Asset:			
Equipment	\$ 116,315	\$ 192,480	\$ 308,795
Less accumulated depreciation	58,158	19,248	77,406
Net assets	\$ 58,157	\$ 173,232	\$ 231,389
Current year depreciation	\$ 38,772	\$ 19,248	\$ 58,020

The following is a schedule of future minimum lease payments under capital lease, together with the net present value of the minimum lease payments at September 30, 2015:

	2015		
Year Ended September 30,	Kansas State Bank of Manhattan	Motorola	Total
2016	\$ 3,483	\$ 40,446	\$ 43,929
2017		40,446	40,446
2018		40,445	40,445
	3,483	121,337	124,820
Less amount representing interest	15	3,857	3,872
Net present value of minimum lease payments	\$ 3,468	\$ 117,480	\$ 120,948

The City paid \$ 1,337 in interest during the year ended September 30, 2015.

**CITY OF CLUTE**

Clute, Texas

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

**NOTE 16 - LONG-TERM DEBT** - Continued

Inter-fund Note:

During the year ended September 30, 2013, the City set-up a long-term interfund note between the Equipment Replacement General Fund and the Hotel-Motel Special Revenue Fund. The Equipment Replacement General Fund loaned the Hotel-Motel Special Revenue Fund \$ 610,396 with an interest rate of 1.00% to be paid in semi-annual payments for five years. Payments are to be paid on September 30<sup>th</sup> and March 30<sup>th</sup>. The purpose of the note was to fund a portion of the costs related to the construction of the Parks Office, Convention Center, and Visitor's Bureau Facility. During the year ended September 30, 2015, the City paid the interfund note off in advance of previously scheduled payments.

Interfund note transactions for the year ended September 30, 2015 were as follows:

	<u>2015</u>
Interfund note payable, October 1, 2014	\$ 275,196
Matured	<u>( 275,196)</u>
Interfund note payable, September 30, 2015	\$ <u><u>-0-</u></u>

The Hotel-Motel Special Revenue Fund paid the Equipment Replacement General Fund \$ 2,447 in interest for the year ended September 30, 2015.

**Changes in Long-Term Liabilities**

Long-term liability for the governmental activities for the year ended September 30, 2015:

	<u>Balance</u> <u>10/01/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>09/30/15</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Type Activities:</b>					
General obligation bonds	\$ 6,665,000	\$	\$ 355,000	\$ 6,310,000	\$ 365,000
Capital lease	43,927	192,480	115,459	120,948	43,914
Net pension liability	571,031	1,950,846	2,295,199	226,678	
Compensated absences	73,051	169,753	176,538	66,266	66,266
Component on Bonded Debt:					
Accrued interest payable	37,587	36,052	37,587	36,052	36,052
Premium on bonds	<u>90,176</u>		<u>5,357</u>	<u>84,819</u>	<u>5,357</u>
<b>Total governmental activities</b>	<u>7,480,772</u>	<u>2,349,131</u>	<u>2,985,140</u>	<u>6,844,763</u>	<u>516,589</u>
<b>Business Type Activities:</b>					
General obligation bonds	7,210,000		320,000	6,890,000	330,000
Net pension liability	37,191	161,983	188,760	10,414	
Compensated absences	3,684	5,619	7,783	1,520	1,520
Component on Bonded Debt:					
Accrued interest payable	43,010	42,074	43,010	42,074	42,074
Premium on bonds	<u>182,268</u>		<u>11,676</u>	<u>170,592</u>	<u>11,676</u>
<b>Total business type activities</b>	<u>7,476,153</u>	<u>209,676</u>	<u>571,229</u>	<u>7,114,600</u>	<u>385,270</u>
<b>Total government (net)</b>	<u>\$14,956,925</u>	<u>\$ 2,558,807</u>	<u>\$ 3,556,369</u>	<u>\$13,959,363</u>	<u>\$ 891,859</u>

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 17 - CHAPTER 380 PERFORMANCE AGREEMENTS

The City has established a program in accordance with Article 3, Section 52-a of the Texas Constitution, and Chapter 380 of the Texas Local Government Code (hereafter "Chapter 380"); under which the City has elected its authority to use public funds for the public purposes of promoting local economic development and stimulating business and commercial activity within the City. Further, the City recognizes the positive economic impact the Projects will bring to the City through timely development and diversification of the economy, elimination of unemployment and underemployment through the production of new jobs, the attraction of new businesses and the additional ad valorem taxes, sales and use taxes, and utility revenues generated by the Projects for the City.

Section 10.17 of the Home Rule Charter of the City requires that at least forty (40%) percent of all monies, funds and revenues derived from and as a result of the local sales and use tax shall be used and expended by the City for the construction of new storm sewers, new sidewalks, new curbs and gutters, and for the construction of new streets in conformance with the ordinances of the City, excluding the cost of routine maintenance and the purchase of equipment. In addition, Section 14.02 of the Home Rule Charter of the City authorizes the City Council thereof to cooperate in every manner with persons interested in the development of property within or beyond its corporate limits, but makes such cooperation permissive and limits it to extension of utilities or services to a privately owned subdivision, and Subsection (b), Item (3) of Section 98-38 of the Code of Ordinances of the City allows the City to finance street improvements by the Real Estate Lien note of the owner of abutting property which is secured by a voluntary contract lien.

The City, in consideration of the design, timely construction and development of the Projects, which will bring additional sales tax and ad valorem tax revenues to the City, and additional jobs resulting from the construction of the Projects, the City desires to enter into these Agreements pursuant to Chapter 380 and other applicable laws for the development of municipal infrastructure as an economic incentive for the Developer to develop and construct the Projects.

#### College Park Subdivision - Section 6

On October 25, 2012 (Effective Date), the City entered into a Chapter 380 Performance Agreement (the "Agreement") with Woodland Development, LLC a Texas Limited Liability Company (the "Developer") as follows:

- The Developer owns certain tracts of land totaling twenty-eight (28) acres within the corporate limits of the City (the "Property") for the development of the College Park Subdivision – Section 6 development (the "Project"); and,
- The Developer has agreed to construct certain public works and improvements including public streets and alleys, public access easements, drainage systems, water, wastewater, and storm drain systems, detention ponds, landscaping, and other public facilities in accordance with the terms of the Agreement and construct the qualified public improvements no later than December 31, 2013; and,

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 17 - CHAPTER 380 PERFORMANCE AGREEMENTS - Continued

#### College Park Subdivision - Section 6 - Continued

- The City, pursuant to its Economic Development Authority, has agreed to provide a non interest bearing construction loan (a maximum of \$ 1,400,000, and \$ 650,000 of which may only be spent for the construction of new storm sewers, new sidewalks, new curbs and gutters, and new streets) to the Developer to finance the construction of the Public Improvements, to be evidenced by a Real Estate Lien Note, guaranteed by the owners of the Developer, and secured further by a Deed of Trust for all twenty-eight (28) acres of land in the Project; and,
- The Developer agrees to sub-divide the real property into seventy-four (74) building lots and shall repay the City \$ 19,000 or a sum equal to seventy-five percent (75%) of the sales price of each lot, provided, however any of the principal not so repaid shall be due and payable in full in four years (1,460 days) after August 13, 2013 (the date the City accepted the Project as completed).

During the year ended September 30, 2013, the City adopted a resolution and advanced \$ 1,400,000 (\$ 650,000 from the Streets, Drainage and Sidewalk Special Revenue Fund and \$ 750,000 from the Water and Sewer Enterprise Fund) to the Chapter 380 Fund (Sub-Fund of the General Fund) for purposes of funding the Project. As of September 30, 2015 and 2014, the City had funded \$ 1,400,000 and \$ 1,400,000, respectively of the construction loan to the Developer and the Developer had repaid \$ 1,352,625 and \$ 682,125 from the sale of lots leaving a construction loan balance of \$ 47,375 and \$ 717,875, respectively.

#### Woodshore Development

On February 28, 2013 (Effective Date), the City entered into a Chapter 380 Performance Agreement (the "Agreement") with DHK Clute, LLC a Texas Limited Liability Company (the "Developer") as follows:

- The Developer owns certain tracts of land within the corporate limits of the City, and has proposed a new mixed-use planned community development containing approximately two hundred and five (205) acres (the "Property") to be constructed by the Developer, including public improvements to be constructed by the City, and consisting of approximately two hundred seventy-seven (277) home sites, thirty-seven (37) townhome sites, and 15.8 acres of commercial acreage (the "Project"), and the Project start date shall be no later than July 31, 2013 and the Project Completion date shall be no later than December 31, 2025; and,
- The Developer has obtained the rights to purchase the remaining property within the Project on or before May 20, 2015; and,
- The Developer will develop the Property in six platted residential Sections and additional platted commercial Sections, and has agreed to dedicate in the final plat, all right-of-ways and easements to be used for the construction of certain public works and improvements by the City and including public streets and alleys, public access easements, drainage systems, water, wastewater, and storm drain systems, detention ponds, and other public facilities which must be developed to serve the Project, a portion of which will be reimbursed by the Developer to the City; and,
- The City's participation in the development will be defined on a section by section basis, which will limit the City's liability to funding the qualified public improvements; and,

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2015

### NOTE 17 - CHAPTER 380 PERFORMANCE AGREEMENTS - Continued

#### Woodshore Development - Continued

- The qualified public improvements shall be constructed by the City with total funding of improvements not to exceed seven million five hundred sixty-five thousand one hundred and sixty-three dollars (\$ 7,565,163), and within easements or dedicated rights of way to which Lender has subordinated the liens. In addition, at no time will the City's total net contribution for the improvements for the Project exceed four million two hundred thirty seven thousand two hundred eighty-five dollars (\$ 4,237,285). Further, the City agrees to fund one million eight hundred thousand dollars (\$ 1,800,000) of qualified public improvements cost (total net contribution), and,
- The Developer shall reimburse the City up to five million seven hundred sixty-five thousand one hundred sixty-three dollars (\$ 5,765,163) for costs associated with the City's qualified public improvements. The Developer shall reimburse when residential lots are sold (1% of the sales price for payment of closing costs, 10% of sales price will be retained for payment of Developer costs, and, 89% of sales price (remaining funds) 90% to lender and 10% of remaining funds plus any amount not due lender will be paid to the City) and when commercial land is sold (7% of the sales price for payment of closing costs, 10% of sales price will be retained for payment of Developer costs, and, 83% of sales price (remaining funds) 95% to lender and 5% of remaining funds plus any amount not due lender will be paid to the City), however any of the principal not so repaid shall be due and payable in full in four years (1,460 days) after the completion of the qualified public improvements.

During the year ended September 30, 2013, the City adopted a resolution to advance up to \$ 4,237,285 (\$ 1,500,000 from the Streets, Drainage and Sidewalk Special Revenue Fund, \$ 500,000 from the Water and Sewer Enterprise Fund, \$ 2,000,000 from the General Fund (Equipment Replacement Sub-Fund), and \$ 237,285 from the General Fund (Operating Sub-Fund) to the Chapter 380 Fund Capital Project Fund for purposes of funding the Project). As of September 30, 2013, the City had not funded the 380 Capital Project Fund and had not incurred any qualified public improvement costs.

During the year ended September 30, 2014, the City funded the \$ 1,800,000 of qualified public improvement costs, and advanced an additional \$ 529,525. During the year ended September 30, 2015, the City advanced an additional \$ 1,210,405 for a total of \$ 1,739,930 in advances to date. During the year the City received \$ 429,482 in payments from the developer from the sale of lots. As of September 30, 2015, there is a note receivable balance of \$ 1,310,448.

### NOTE 18 - RISK POOL PARTICIPATION

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property and worker's compensation claims. The City pays annual premiums to the pool for the coverage stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Therefore, the City's exposure for claims is designed to be limited to their deductible.

### NOTE 19 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through March 15, 2016, the date which the financial statements were available to be issued.

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***REQUIRED SUPPLEMENTARY INFORMATION***

# CITY OF CLUTE

Clute, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,337,783	\$ 2,337,783	\$ 2,396,090	\$ 58,307
Sales tax	987,061	987,061	1,111,781	124,720
Other taxes	593,500	593,500	602,165	8,665
Industrial district	1,457,988	1,457,988	1,450,322	( 7,666)
Intergovernmental revenues	8,500	134,500	11,173	( 123,327)
Revenue producing facilities	1,515,950	1,515,950	1,502,688	( 13,262)
Fines and fees	598,285	598,285	563,850	( 34,435)
Licenses and fees	114,900	114,900	241,558	126,658
Investment income	61,612	61,612	91,854	30,242
Miscellaneous	144,100	177,044	357,518	180,474
Total revenues	<u>7,819,679</u>	<u>7,978,623</u>	<u>8,328,999</u>	<u>350,376</u>
<b>Expenditures:</b>				
Current:				
Administration	720,266	721,766	623,196	98,570
Public safety	3,370,014	3,455,014	3,414,719	40,295
Sanitation	1,354,499	1,354,499	1,328,605	25,894
Streets and drainage	840,825	840,825	595,273	245,552
Culture and recreation	861,647	818,811	715,902	102,909
Capital outlay	3,840,400	4,680,315	1,449,373	3,230,942
Debt Service:				
Principal retirement	215,459	283,814	283,892	( 78)
Interest and fiscal charges	94,045	94,045	94,045	-0-
Total expenditures	<u>11,297,155</u>	<u>12,249,089</u>	<u>8,505,005</u>	<u>3,744,084</u>
Excess of revenues over (under) expenditures	<u>( 3,477,476)</u>	<u>( 4,270,466)</u>	<u>( 176,006)</u>	<u>4,094,460</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets	10,000	10,000		( 10,000)
Issuance of capital leases		175,426	175,426	-0-
Transfers in	523,185	523,185	569,392	46,207
Transfers out	( 205,732)	( 205,732)	( 205,372)	360
Total other financing sources (uses)	<u>327,453</u>	<u>502,879</u>	<u>539,446</u>	<u>36,567</u>
Change in fund balances	<u>( 3,150,023)</u>	<u>( 3,767,587)</u>	<u>363,440</u>	<u>4,131,027</u>
Fund balance, beginning	<u>11,180,859</u>	<u>11,180,859</u>	<u>11,180,859</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 8,030,836</u>	<u>\$ 7,413,272</u>	<u>\$ 11,544,299</u>	<u>\$ 4,131,027</u>

**CITY OF CLUTE**

Clute, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
STREETS, DRAINAGE AND SIDEWALKS SPECIAL REVENUE FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 658,041	\$ 658,041	\$ 741,187	\$ 83,146
Investment (loss)	36,400	36,400	13,363	( 23,037)
Miscellaneous	<u>500,000</u>	<u>500,000</u>	<u>                    </u>	<u>( 500,000)</u>
Total revenues	<u>1,194,441</u>	<u>1,194,441</u>	<u>754,550</u>	<u>( 439,891)</u>
Expenditures:				
Current:				
Administration			641	( 641)
Capital outlay	<u>1,144,441</u>	<u>1,144,441</u>	<u>240,325</u>	<u>904,116</u>
Total expenditures	<u>1,144,441</u>	<u>1,144,441</u>	<u>240,966</u>	<u>903,475</u>
Excess of revenues over expenditures	<u>50,000</u>	<u>50,000</u>	<u>513,584</u>	<u>463,854</u>
Other Financing Sources (Uses):				
Transfers out	<u>( 50,000)</u>	<u>( 50,000)</u>	<u>( 50,000)</u>	<u>-0-</u>
Total other financing sources (uses)	<u>( 50,000)</u>	<u>( 50,000)</u>	<u>( 50,000)</u>	<u>-0-</u>
Change in fund balance	-0-	-0-	463,584	463,584
Fund balance, beginning	<u>2,117,059</u>	<u>2,117,059</u>	<u>2,117,059</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 2,117,059</u>	<u>\$ 2,117,059</u>	<u>\$ 2,580,643</u>	<u>\$ 463,584</u>

# CITY OF CLUTE

Clute, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL EMERGENCY MEDICAL SERVICE SPECIAL REVENUE FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental revenues	\$ 2,000	\$ 2,000	\$ 2,064	\$ 64
EMS revenues	735,000	735,000	743,510	8,510
Investment income			26	26
Miscellaneous	257,750	257,750	264,197	6,447
Total revenues	994,750	994,750	1,009,797	15,047
<b>Expenditures:</b>				
Current:				
Public safety	1,153,428	1,145,482	1,135,576	9,906
Capital outlay		17,054	17,054	
Principal retirement		6,645	6,567	78
Total expenditures	1,153,428	1,169,181	1,159,197	9,984
Excess of revenues over (under) expenditures	( 158,678)	( 174,431)	( 149,400)	25,031
<b>Other Financing Sources (Uses):</b>				
Issuance of capital lease		17,054	17,054	-0-
Transfers in	205,732	212,377	205,372	( 7,005)
Transfers out	( 30,000)	( 55,000)	( 51,207)	3,793
Total other financing sources (uses)	175,732	174,431	171,219	21,819
Change in fund balance	17,054	-0-	21,819	21,819
Fund balance, beginning	122,279	122,279	122,279	-0-
Fund balance, ending	\$ 139,333	\$ 122,279	\$ 144,098	\$ 21,819

**CITY OF CLUTE**

Clute, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
ECONOMIC DEVELOPMENT CORPORATION SPECIAL REVENUE FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 822,551	\$ 822,551	\$ 926,484	\$ 103,933
Investment income	<u>24,550</u>	<u>24,550</u>	<u>43,682</u>	<u>19,132</u>
Total revenues	<u>847,101</u>	<u>847,101</u>	<u>970,166</u>	<u>123,065</u>
Expenditures:				
Current:				
Administration	167,770	167,770	18,900	148,870
Capital outlay	<u>50,000</u>	<u>50,000</u>		<u>50,000</u>
Total expenditures	<u>217,770</u>	<u>217,770</u>	<u>18,900</u>	<u>198,870</u>
Excess of revenues over expenditures	<u>629,331</u>	<u>629,331</u>	<u>951,266</u>	<u>321,935</u>
Other Financing Sources (Uses):				
Transfers out	( 629,331)	( 629,331)	( 629,331)	-0-
Total other financing sources (uses)	( 629,331)	( 629,331)	( 629,331)	-0-
Change in fund balance	-0-	-0-	321,935	321,935
Fund balance, beginning	<u>2,371,319</u>	<u>2,371,319</u>	<u>2,371,319</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 2,371,319</u>	<u>\$ 2,371,319</u>	<u>\$ 2,693,524</u>	<u>\$ 321,935</u>

# CITY OF CLUTE

Clute, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL HOTEL-MOTEL TAX SPECIAL REVENUE FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 656,000	\$ 656,000	\$ 864,774	\$ 208,774
Revenue producing facilities	2,500	2,500	4,900	2,400
Investment income	300	300	189	( 111)
Total revenues	658,800	658,800	869,863	211,063
Expenditures:				
Current:				
Culture and Recreation:				
Tourism Council	381,616	357,779	354,188	3,591
Miscellaneous	56,250	56,250	25,382	30,868
Debt Service:				
Interest and fiscal charges	2,447	2,447	2,447	-0-
Total expenditures	440,313	416,476	382,017	34,459
Excess of revenues over (under) expenditures	218,487	242,324	487,846	245,522
Other Financing Sources (Uses):				
Transfers out	( 40,000)	( 40,000)	( 40,000)	-0-
Total other financing sources (uses)	( 40,000)	( 40,000)	( 40,000)	-0-
Change in fund balance	178,487	202,324	447,846	245,522
Fund balance, beginning	317,249	317,249	317,249	-0-
Fund balance, ending	\$ 495,736	\$ 519,573	\$ 765,095	\$ 245,522

**CITY OF CLUTE**

Clute, Texas

**TMRS SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE LAST TEN YEARS (1)  
SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF DECEMBER 31, 2014**

	<u>2015</u>
Service cost	\$ 570,571
Interest (on the Total Pension Liability)	1,229,598
Difference between expected and actual experience	( 470,415 )
Benefit payments, including refunds of employee contributions	<u>( 922,660 )</u>
Net Change in Total Pension Liability	407,094
Total Pension Liability – Beginning	<u>17,741,737</u>
Total Pension Liability – Ending (a)	<u>\$ 18,148,831</u>
Contributions – Employer	\$ 424,399
Contributions – Employee	264,306
Net Investment Income	988,195
Benefit payments, including refunds of employee contributions	( 922,660 )
Administrative expense	( 10,318 )
Other	<u>( 848 )</u>
Net Change in Plan Fiduciary Net Position	743,074
Plan Fiduciary Net Position – Beginning	<u>17,275,098</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 18,018,172</u>
Net Pension Liability (a-b)	\$ 130,659
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	99.28%
Covered Employee Payroll	\$ 3,775,801
Net Pension Liability as a Percentage of Covered Employee Payroll	3.46%

Notes to Schedule:

N/A

(1) The first TMRS actuarial report was completed for the year ended December 31, 2014 (measurement date), therefore, only one year of required supplemental information is available.

# CITY OF CLUTE

Clute, Texas

## TMRS SCHEDULE OF CONTRIBUTIONS FOR THE LAST TEN YEARS (1) SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF DECEMBER 31, 2014

	<u>2015</u>
Actuarially determined contribution	\$ 424,399
Contributions in relation to the actuarially determined contribution	<u>424,399</u>
Contribution deficiency (excess)	<u>\$ -0-</u>
Covered-employee payroll	<u>\$ 3,775,801</u>
Contributions as a percentage of covered-employee payroll	11.24%

### 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	25 years
Asset valuation method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.50% to 12.00% including inflation
Investment rate of return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 – 2009.
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 generated basis with scale BB

#### Other Information

Notes There were no benefit changes during the year.

(1) The first TMRS actuarial report was completed for the year ended December 31, 2014 (measurement date), therefore, only one year of required supplemental information is available.

## CITY OF CLUTE

Clute, Texas

### TESRS SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS FOR THE LAST TEN YEARS (1) SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF DECEMBER 31, 2014

	2015
Service cost	\$ 10,052
Interest (on the Total Pension Liability)	44,282
Changes in benefit terms	
Difference between expected and actual experience	
Changes in assumptions	
Benefit payments, including refunds of employee contributions	( 34,012 )
<b>Net Change in Total Pension Liability</b>	<b>20,322</b>
 Total Pension Liability – Beginning (2)	 <u>572,792</u>
 Total Pension Liability – Ending (a)	 <u>\$ 593,114</u>
 Contributions by the City	 \$ 24,900
Contributions by the State	
Net Investment Income	65,495
Benefit payments, including refunds of employee contributions	( 34,012 )
Administrative expense	( 911 )
Other	<u>          </u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>55,472</b>
 Plan Fiduciary Net Position – Beginning	 <u>431,209</u>
 Plan Fiduciary Net Position – Ending (b)	 <u>\$ 486,681</u>
 Net Pension Liability (a-b)	 \$ 106,433
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	 82.06%
 Number of Active Members (3)	 N/A
 City's Net Pension Liability per Active Member	 N/A

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) Determined from the end of year total pension liability using the roll back procedure allowed for the initial year of implementing GASB 67.
- (3) There is no compensation for active members.

**CITY OF CLUTE**

Clute, Texas

TESRS SCHEDULE OF INVESTMENT RETURNS  
FOR THE LAST TEN YEARS (1)  
SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF AUGUST 31, 2014

<u>Fiscal Year Ending</u>	<u>Annual Money-Weighted Net Real Rate of Return (2)</u>
August 31, 2013	13.84%
August 31, 2014	14.92%

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) The money-weighted rate of return expresses investment performance, net of investment expenses, reflecting changing amounts actually invested during the year.

***OTHER SCHEDULES***

**CITY OF CLUTE**

Clute, Texas

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
September 30, 2015

	<u>Special Revenue Fund</u>		Total Nonmajor Governmental Funds
	<u>Great Texas Mosquito Festival</u>	<u>Debt, Service Fund</u>	<u></u>
Assets and Deferred Outflows of Resources			
Assets:			
Cash and temporary investments	\$ <u>174,292</u>	\$ <u>12,610</u>	\$ <u>186,902</u>
Total assets	<u>174,292</u>	<u>12,610</u>	<u>186,902</u>
Deferred Outflows of Resources:			
Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total assets and deferred outflows of resources	<u>\$ 174,292</u>	<u>\$ 12,610</u>	<u>\$ 186,902</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ <u>1,240</u>	\$ <u></u>	\$ <u>1,240</u>
Total liabilities	<u>1,240</u>	<u>-0-</u>	<u>1,240</u>
Deferred Inflows of Resources:			
Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balance:			
Economic development	173,052		173,052
Debt service	<u></u>	<u>12,610</u>	<u>12,610</u>
Total fund balances	<u>173,052</u>	<u>12,610</u>	<u>185,662</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 174,292</u>	<u>\$ 12,610</u>	<u>\$ 186,902</u>

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

**CITY OF CLUTE**

Clute, Texas

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2015

	<u>Special Revenue Fund</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Great Texas Mosquito Festival</u>	<u>Debt, Service Fund</u>	
Revenues:			
Concession and fees	\$ <u>176,038</u>	\$ <u>          </u>	\$ <u>176,038</u>
Total revenues	<u>176,038</u>	<u>-0-</u>	<u>176,038</u>
Expenditures:			
Current:			
Culture and Recreation:			
Festival	210,174		210,174
Debt Service:			
Principal retirement		180,000	180,000
Interest and fiscal charges		<u>131,623</u>	<u>131,623</u>
Total expenditures	<u>210,174</u>	<u>311,623</u>	<u>521,797</u>
Excess of revenues over (under) expenditures	<u>( 34,136)</u>	<u>( 311,623)</u>	<u>( 345,759)</u>
Other Financing Sources (Uses):			
Transfers in		<u>311,623</u>	<u>311,623</u>
Total other financing sources (uses)	<u>-0-</u>	<u>311,623</u>	<u>311,623</u>
Change in fund balances	<u>( 34,136)</u>		<u>( 34,136)</u>
Fund balance - beginning	<u>207,188</u>	<u>12,610</u>	<u>219,798</u>
Fund balance - ending	\$ <u>173,052</u>	\$ <u>12,610</u>	\$ <u>185,662</u>

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

# CITY OF CLUTE

Clute, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GREAT TEXAS MOSQUITO FESTIVAL

For the Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue producing facilities	\$ <u>181,600</u>	\$ <u>181,600</u>	\$ <u>176,038</u>	\$ <u>(5,562)</u>
Total revenues	<u>181,600</u>	<u>181,600</u>	<u>176,038</u>	<u>(5,562)</u>
Expenditures:				
Current:				
Culture and Recreation:				
Festival	<u>201,575</u>	<u>225,412</u>	<u>210,174</u>	<u>15,238</u>
Total expenditures	<u>201,575</u>	<u>225,412</u>	<u>210,174</u>	<u>15,238</u>
Change in fund balance	( 19,975)	( 43,812)	( 34,136)	9,676
Fund balance, beginning	<u>207,188</u>	<u>207,188</u>	<u>207,188</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 187,213</u>	<u>\$ 163,376</u>	<u>\$ 173,052</u>	<u>\$ 9,676</u>

# CITY OF CLUTE

Clute, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Total revenues	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Expenditures:				
Debt Service:				
Principal retirement	180,000	180,000	180,000	-0-
Interest and fiscal charges	131,623	131,623	131,623	-0-
Total expenditures	311,623	311,623	311,623	-0-
Excess (deficiency) of revenues over Expenditures	( 311,623)	( 311,623)	( 311,623)	-0-
Other Financing Sources (Uses):				
Transfers in	311,623	311,623	311,623	-0-
Total other financing sources (uses)	311,623	311,623	311,623	-0-
Change in fund balance	-0-	-0-	-0-	-0-
Fund balance, beginning	12,610	12,610	12,610	-0-
Fund balance, ending	\$ 12,610	\$ 12,610	\$ 12,610	\$ -0-

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF ASSETS, LIABILITIES AND  
FUND BALANCES - GENERAL FUND - SUB-FUNDS**

September 30, 2015

	<u>Operating</u>	<u>Chapter 380</u>	<u>Capital Improvement</u>
<b>ASSETS AND DEFERRED INFLOWS OF RESOURCES</b>			
<b>Assets:</b>			
Cash and temporary investments	\$ 2,511,318	\$ 1,197,615	\$ 2,730,869
Investments	208,583		
Receivables:			
Ad valorem taxes (less allowance for uncollectibles - \$ 49,263)	64,579		
Sales tax	526,726		
Other taxes	59,720		
Customer accounts (less allowance for uncollectibles - \$ 276)	11,685		
Due from other governments	47,154		
Due from other funds	221,446		
Long-term notes receivable		1,357,823	
Intrafund – due from (to)	<u>248,670</u>	<u>( 1,937,285)</u>	<u>1,371,990</u>
 Total assets	 <u>3,899,881</u>	 <u>618,153</u>	 <u>4,102,859</u>
 <b>Deferred Outflows of Resources:</b>			
Deferred outflows of resources	<u>                    </u>	<u>                    </u>	<u>                    </u>
 Total deferred outflows of resources	 <u>-0-</u>	 <u>-0-</u>	 <u>-0-</u>
 Total assets and deferred outflows of resources	 <u>\$ 3,899,881</u>	 <u>\$ 618,153</u>	 <u>\$ 4,102,859</u>

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$ 18,423	\$ 11,326	\$	\$ 48,092	\$ 245,532	\$ 6,763,175
174,637		3,314,389			3,697,609
					64,579
					526,726
					59,720
					11,685
					47,154
					221,446
					1,357,823
		<u>328,010</u>	<u>( 11,385 )</u>		<u>-0-</u>
<u>193,060</u>	<u>11,326</u>	<u>3,642,399</u>	<u>36,707</u>	<u>245,532</u>	<u>12,749,917</u>
					<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 193,060</u>	<u>\$ 11,326</u>	<u>\$ 3,642,399</u>	<u>\$ 36,707</u>	<u>\$ 245,532</u>	<u>\$ 12,749,917</u>

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF ASSETS, LIABILITIES AND  
FUND BALANCES - GENERAL FUND - SUB-FUNDS - Continued**

September 30, 2015

	<u>Operating</u>	<u>Chapter 380</u>	<u>Capital Improvement</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 330,405	\$ 70,778	\$
Accrued wages payable	167,902		
Due to other funds		547,375	
Unearned revenue	<u>2,454</u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>500,761</u>	<u>618,153</u>	<u>-0-</u>
Deferred Inflows of Resources:			
Deferred inflows of resources – property taxes	<u>57,572</u>	<u>                    </u>	<u>                    </u>
Total deferred inflows of resources	<u>57,572</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:			
Non-Spendable:			
Long-term note receivable		1,357,823	
Restricted:			
Municipal court security	44,259		
Municipal court technology	94,224		
Judicial efficiency	3,566		
Assigned:			
Capital improvement			4,102,859
Equipment replacement			
Police department			
Unassigned	<u>3,199,499</u>	<u>( 1,357,823 )</u>	<u>                    </u>
Total fund balances	<u>3,341,548</u>	<u>-0-</u>	<u>4,102,859</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,899,881</u>	<u>\$ 618,153</u>	<u>\$ 4,102,859</u>

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$ 771	\$	\$	\$ 28,361	\$	\$ 430,315
					167,902
					547,375
					2,454
<u>771</u>	<u>-0-</u>	<u>-0-</u>	<u>28,361</u>	<u>-0-</u>	<u>1,148,046</u>
					57,572
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>57,572</u>
					1,357,823
					44,259
					94,224
					3,566
					4,102,859
		3,642,399			3,642,399
			8,346		8,346
<u>192,289</u>	<u>11,326</u>			<u>245,532</u>	<u>2,290,823</u>
<u>192,289</u>	<u>11,326</u>	<u>3,642,399</u>	<u>8,346</u>	<u>245,532</u>	<u>11,544,299</u>
<u>\$ 193,060</u>	<u>\$ 11,326</u>	<u>\$ 3,642,399</u>	<u>\$ 36,707</u>	<u>\$ 245,532</u>	<u>\$ 12,749,917</u>

# CITY OF CLUTE

Clute, Texas

## CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL FUND - SUB-FUNDS

For the Year Ended September 30, 2015

	Operating	Chapter 380	Capital Improvement
Revenues:			
Ad valorem taxes	\$ 2,396,090	\$	\$
Sales tax	1,111,781		
Other taxes	602,165		
Industrial district	1,450,322		
Intergovernmental revenues	11,173		
Revenue producing facilities	1,502,688		
Fines and fees	563,850		
Licenses and fees	241,558		
Investment income	5,569		2,126
Miscellaneous	314,652	_____	_____
Total revenues	8,199,848	-0-	2,126
Expenditures:			
Current:			
Administrative:			
Administration	271,848		
Legislative	156,834		
Legal	43,982		
Finance	116,879		
Public Safety:			
Municipal court	283,155		
Code enforcement	221,786		
Police	2,748,393		
Fire	149,645		
Sanitation	1,328,605		
Streets and drainage	595,273		
Culture and Recreation:			
Library	92,894		
Parks and recreation	618,493		
Capital outlay	1,409,569		39,804
Debt Service:			
Principal retirement	283,892		
Interest and fiscal charges	94,045	_____	_____
Total expenditures	8,415,293	-0-	39,804
Excess of revenues over (under) expenditures	( 215,445 )	-0-	( 37,678 )

(Continued)

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$ 2,396,090
					1,111,781
					602,165
					1,450,322
					11,173
					1,502,688
					563,850
					241,558
4,091	1	80,029	38		91,854
<u>          </u>	<u>      890</u>	<u>          </u>	<u>      7,289</u>	<u>      34,687</u>	<u>      357,518</u>
<u>      4,091</u>	<u>      891</u>	<u>      80,029</u>	<u>      7,327</u>	<u>      34,687</u>	<u>      8,328,999</u>
				33,653	305,501
					156,834
					43,982
					116,879
					283,155
					221,786
			11,740		2,760,133
					149,645
					1,328,605
					595,273
	4,515				92,894
					623,008
					1,449,373
					283,892
					94,045
<u>      -0-</u>	<u>      4,515</u>	<u>      -0-</u>	<u>      11,740</u>	<u>      33,653</u>	<u>      8,505,005</u>
<u>      4,091</u>	<u>(      3,624)</u>	<u>      80,029</u>	<u>(      4,413)</u>	<u>      1,034</u>	<u>(      176,006)</u>

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GENERAL FUND - SUB-FUNDS - Continued**

For the Year Ended September 30, 2015

	<u>Operating</u>	<u>Chapter 380</u>	<u>Capital Improvement</u>
Other Financing Sources (Uses):			
Issuance of capital leases	\$ 175,426	\$	\$
Operating transfers in	523,185		
Operating transfers out	( 205,372)		
Intrafund transfers in (out)	<u>116,459</u>	<u>                    </u>	<u>                    </u>
Total other financing sources (uses)	<u>609,698</u>	<u>-0-</u>	<u>-0-</u>
Change in fund balances	394,253	-0-	( 37,678)
Fund balance, beginning	<u>2,947,295</u>	<u>                    </u>	<u>4,140,537</u>
Fund balance, ending	<u>\$ 3,341,548</u>	<u>\$ -0-</u>	<u>\$ 4,102,859</u>

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$ 2,774	\$	\$ 43,433	\$	\$	\$ 175,426
( 3,548)	3,500	( 116,411)			569,392
( 774)	3,500	( 72,978)	-0-	-0-	( 205,372)
3,317	( 124)	7,051	( 4,413)	1,034	-0-
188,972	11,450	3,635,348	12,759	244,498	539,446
3,317	( 124)	7,051	( 4,413)	1,034	363,440
188,972	11,450	3,635,348	12,759	244,498	11,180,859
<u>\$ 192,289</u>	<u>\$ 11,326</u>	<u>\$ 3,642,399</u>	<u>\$ 8,346</u>	<u>\$ 245,532</u>	<u>\$ 11,544,299</u>

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF NET POSITION  
ENTERPRISE FUND - SUB-FUNDS**

September 30, 2015

	<u>Operating</u>	<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Construction</u>	<u>Total</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>Assets:</b>					
<b>Current Assets:</b>					
Cash and temporary investments	\$ 1,125,466	\$	\$ 79,950	\$	\$ 1,205,416
Investments	4,420				4,420
Accounts receivable utilities (less allowance for uncollectibles - \$ 1,389)	157,756				157,756
Other receivables	46,207			57,694	103,901
Due from other funds	547,375				547,375
Due from other governments				205,215	205,215
Prepaid items	161,556				161,556
Intrafund due from (to)	<u>3,619</u>			<u>( 3,619)</u>	<u>-0-</u>
Total unrestricted current assets	<u>2,046,399</u>	<u>-0-</u>	<u>79,950</u>	<u>259,290</u>	<u>2,385,639</u>
<b>Restricted Assets:</b>					
Cash and temporary investments	376,392	441,606			817,998
Investments		<u>1,031</u>			<u>1,031</u>
Total restricted current assets	<u>376,392</u>	<u>442,637</u>	<u>-0-</u>	<u>-0-</u>	<u>819,029</u>
Total current assets	<u>2,422,791</u>	<u>442,637</u>	<u>79,950</u>	<u>259,290</u>	<u>3,204,668</u>
<b>Noncurrent Assets:</b>					
<b>Capital Assets:</b>					
Property, plant and equipment (less accumulated depreciation - \$ 10,100,784)	<u>13,074,269</u>			<u>5,749,271</u>	<u>18,823,540</u>
Total capital assets (net of accumulated depreciation)	<u>13,074,269</u>	<u>-0-</u>	<u>-0-</u>	<u>5,749,271</u>	<u>18,823,540</u>
Total assets	<u>15,497,060</u>	<u>442,637</u>	<u>79,950</u>	<u>6,008,561</u>	<u>22,028,208</u>
<b>Deferred Outflows of Resources:</b>					
Deferred outflows of resources	<u>32,951</u>				<u>32,951</u>
Total deferred outflows of resources	<u>32,951</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>32,951</u>
Total assets and deferred outflows of resources	<u>\$ 15,530,011</u>	<u>\$ 442,637</u>	<u>\$ 79,950</u>	<u>\$ 6,008,561</u>	<u>\$ 22,061,159</u>

(Continued)

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF NET POSITION  
ENTERPRISE FUND - SUB-FUNDS - Continued**

September 30, 2015

	<u>Operating</u>	<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Construction</u>	<u>Total</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>					
<b>Liabilities:</b>					
Current Liabilities:					
Accounts payable	\$ 126,382	\$	\$	\$ 251,707	\$ 378,089
Accrued wages	9,722				9,722
Accrued compensated absences	1,520				1,520
Accrued interest payable	42,074				42,074
Bonds payable - current	341,676				341,676
Due to other funds	3,780				3,780
Unearned revenue	<u>9,051</u>				<u>9,051</u>
Total current unrestricted liabilities	<u>534,205</u>	<u>-0-</u>	<u>-0-</u>	<u>251,707</u>	<u>785,912</u>
Current Liabilities Payable from Restricted Assets:					
Customer deposits payable	<u>376,392</u>				<u>376,392</u>
Total current restricted liabilities	<u>376,392</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>376,392</u>
Total current liabilities	<u>910,597</u>	<u>-0-</u>	<u>-0-</u>	<u>251,707</u>	<u>1,162,304</u>
Noncurrent Liabilities:					
Bonds payable - net	6,718,916				6,718,916
Pension liability - net	<u>10,414</u>				<u>10,414</u>
Total noncurrent liabilities	<u>6,729,330</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,729,330</u>
Total liabilities	<u>7,639,927</u>	<u>-0-</u>	<u>-0-</u>	<u>251,707</u>	<u>7,891,634</u>
Deferred Inflows of Resources:					
Deferred inflows of resources	<u>13,503</u>				<u>13,503</u>
Total deferred inflows of resources	<u>13,503</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>13,503</u>
Net Position:					
Net investment in capital assets	6,003,263			5,749,271	11,752,534
Unrestricted	<u>1,873,318</u>	<u>442,637</u>	<u>79,950</u>	<u>7,583</u>	<u>2,403,488</u>
Total net position	<u>7,876,581</u>	<u>442,637</u>	<u>79,950</u>	<u>5,756,854</u>	<u>14,156,022</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,530,011</u>	<u>\$ 442,637</u>	<u>\$ 79,950</u>	<u>\$ 6,008,561</u>	<u>\$ 22,061,159</u>

# CITY OF CLUTE

Clute, Texas

## CONSOLIDATED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - ENTERPRISE FUND - SUB-FUNDS

For the Year Ended September 30, 2015

	Operating	Equipment Replacement	Unemployment Insurance	Construction	Total
Operating Revenues:					
Water service	\$ 1,635,220	\$	\$	\$	\$ 1,635,220
Sewer service	1,568,242				1,568,242
Tapping and reconnection fees	44,555				44,555
Penalties	44,723				44,723
Other governments	205,902				205,902
Operating lease income	133,299				133,299
Miscellaneous	4,613				4,613
	<u>3,636,554</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,636,554</u>
Total operating revenues					
Operating Expenses:					
Water and sewer	2,143,471				2,143,471
Administrative	370,654				370,654
	<u>2,514,125</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,514,125</u>
Operating expenses before depreciation					
Depreciation	551,394			203,939	755,333
	<u>3,065,519</u>	<u>-0-</u>	<u>-0-</u>	<u>203,939</u>	<u>3,269,458</u>
Total operating expenses					
Net operating income	<u>571,035</u>	<u>-0-</u>	<u>-0-</u>	<u>( 203,939 )</u>	<u>367,096</u>
Non-operating Revenues (Expenses):					
Interest revenue	378	229	26	30	663
Unrealized loss on investments	103	24			127
Bond Interest and fees	( 246,468 )				( 246,468 )
	<u>( 245,987 )</u>	<u>253</u>	<u>26</u>	<u>30</u>	<u>( 245,678 )</u>
Total non-operating revenues (expenses)					
Net income (loss) before contributions and transfers	325,048	253	26	( 203,909 )	121,418
Contributions	3,575			666,162	669,737
Transfers out	( 110,477 )				( 110,477 )
Change in net position	218,146	253	26	462,253	680,678
Net position, beginning (restated)	<u>7,658,435</u>	<u>442,384</u>	<u>79,924</u>	<u>5,294,601</u>	<u>13,475,344</u>
Net position, ending	<u>\$ 7,876,581</u>	<u>\$ 442,637</u>	<u>\$ 79,950</u>	<u>\$ 5,756,854</u>	<u>\$ 14,156,022</u>

**CITY OF CLUTE**

Clute, Texas

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION - BUDGET AND ACTUAL - ENTERPRISE FUND**

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating Revenues:				
Water service	\$ 1,798,000	\$ 1,798,000	\$ 1,635,220	\$ ( 162,780)
Sewer service	1,730,000	1,730,000	1,568,242	( 161,758)
Tapping and reconnection fees	41,750	41,750	44,555	2,805
Penalties	45,000	45,000	44,723	( 277)
Other governments	165,000	165,000	205,902	40,902
Operating lease income	133,299	133,299	133,299	-0-
Miscellaneous	4,100	4,100	4,613	513
	<u>3,917,149</u>	<u>3,917,149</u>	<u>3,636,554</u>	<u>( 280,595)</u>
Total operating revenues				
Operating Expenses:				
Water and sewer	2,354,567	3,181,386	2,143,471	1,037,915
Administrative	377,445	377,445	370,654	6,791
	<u>2,732,012</u>	<u>3,558,831</u>	<u>2,514,125</u>	<u>1,044,706</u>
Operating expenses before depreciation				
Depreciation	837,557	887,557	755,333	132,224
	<u>3,569,569</u>	<u>4,446,388</u>	<u>3,269,458</u>	<u>1,176,930</u>
Total operating expenses				
Net operating income	<u>347,580</u>	<u>( 529,239)</u>	<u>367,096</u>	<u>896,335</u>
Non-operating Revenues (Expenses):				
Interest revenue	545	545	663	118
Unrealized loss on investments	5,525	5,525	127	( 5,398)
Bond interest and fees	( 258,680)	( 258,680)	( 246,468)	12,212
	<u>( 252,610)</u>	<u>( 252,610)</u>	<u>( 245,678)</u>	<u>6,932</u>
Total non-operating revenues (expenses)				
Net income (loss) before contributions and transfers	94,970	( 781,849)	121,418	903,267
Contributions		1,326,819	669,737	( 657,082)
Transfers out	( 110,477)	( 110,477)	( 110,477)	-0-
Change in net position	( 15,507)	434,493	680,678	246,185
Net position, beginning (restated)	<u>13,475,344</u>	<u>13,475,344</u>	<u>13,475,344</u>	<u>-0-</u>
Net position, ending	<u>\$ 13,459,837</u>	<u>\$ 13,909,837</u>	<u>\$ 14,156,022</u>	<u>\$ 246,185</u>

**CITY OF CLUTE**

Clute, Texas

**SCHEDULE OF AD VALOREM TAX LEVIES AND COLLECTIONS**

September 30, 2015

<u>Year of Tax Levy</u>	<u>Total Assessed Valuation</u>	<u>Tax Rate/\$100</u>	<u>Tax Levy</u>
2005 and Prior	\$ ---	\$ ---	\$ ---
2006	237,057,953	0.723	1,713,929
2007	277,939,255	0.698	1,940,016
2008	285,658,246	0.693	1,970,417
2009	288,722,917	0.672	1,940,218
2010	316,770,387	0.672	2,128,697
2011	281,276,339	0.672	1,890,177
2012	291,333,780	0.672	1,957,763
2013	284,839,881	0.672	1,914,124
2014	321,724,256	0.672	2,161,987

Taxes Receivable 10-01-14	Current Year Levy	Collections	Adjustments	Taxes Receivable 9-30-15
\$ 14,954	\$	\$ 205	\$( 1,059)	\$ 13,690
2,239		23		2,216
2,395		109		2,286
2,455		141		2,314
2,836		298		2,538
3,889		2,699	1,605	2,795
10,138		5,951	1,518	5,705
19,849		7,658	1,160	13,351
55,097		26,390	( 3,253)	25,454
	<u>2,161,987</u>	<u>2,330,585</u>	<u>212,091</u>	<u>43,493</u>
<u>\$ 113,852</u>	<u>\$ 2,161,987</u>	<u>\$ 2,374,059</u>	<u>\$ 212,062</u>	<u>\$ 113,842</u>

Less: Reserve for Uncollectible Taxes 49,263

Net Delinquent Taxes Receivable \$ 64,579

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**FEDERAL AWARDS SECTION**

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# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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**Houston Office:**  
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Houston, Texas 77042  
281-974-3416

## Independent Auditor's Report

On Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of City Council  
City of Clute  
Clute, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 15, 2016.

### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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To the Honorable Mayor and  
Members of City Council  
City of Clute  
Page 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Kerremey, Masters & Kingford, LLC*

Lake Jackson, Texas  
March 15, 2016

# Kennemer, Masters & Lunsford

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## Independent Auditor's Report

On Compliance for each Major Program and on Internal  
Control over Compliance Required by OMB Circular A-133

To the Honorable Mayor and  
Members of City Council  
City of Clute  
Clute, Texas

### **Report on Compliance for Each Major Federal Program**

We have audited City of Clute's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2015. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

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To the Honorable Mayor and  
Members of City Council  
City of Clute  
Page 2

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Clute, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Kennemer, Masters & Hunzford, LLC*

Lake Jackson, Texas 77566  
March 15, 2016

**CITY OF CLUTE**

Clute, Texas

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED SEPTEMBER 30, 2015**

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No internal control finding, that was required to be reported in this schedule, was disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control findings, that were required to be reported in this schedule, were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unmodified.
6. Did the audit disclose findings, which are required to be reported under Sec.\_510(a):  
No.
7. Major programs include:
  - Community Development Block Grant – Disaster Recovery (CFDA #14.228)
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000.
9. Low risk auditee: No.

II. Findings related to the financial statements.

The audit disclosed the following finding required to be reported:

None.

III. Findings and questioned costs related to the federal awards.

The audit disclosed the following finding required to be reported:

None.

**CITY OF CLUTE**

Clute, Texas

SCHEDULE OF STATUS OF PRIOR FINDINGS

YEAR ENDED SEPTEMBER 30, 2015

None.

**CITY OF CLUTE**

Clute, Texas

CORRECTIVE ACTION PLAN

YEAR ENDED SEPTEMBER 30, 2015

None.

**CITY OF CLUTE**

Clute, Texas

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

For the Year Ended September 30, 2015

(1)	(2)	(2A)	(3)
Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>			
Passed Through the County of Brazoria, Texas:			
Community Development Block Grant	14.218	---	\$ 3,575
Passed Through the Texas General Land Office:			
Community Development Block Grant - Disaster Recovery	14.228	12-520-000-6747	<u>534,725</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			\$ <u>538,300</u>
TOTAL FEDERAL ASSISTANCE			\$ <u>538,300</u>

See notes to supplemental Schedule of Expenditures of Federal Awards.

# CITY OF CLUTE

Clute, Texas

## NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS

For the Year Ended September 30, 2015

1. The City uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designated to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designated to provide accountability for certain assets and deferred outflows of resources, and liabilities and deferred inflows of resources that are not recorded in the funds because they do not directly affect net expendable available resources. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn is divided into separate "fund types". The following fund types were utilized to account for federal awards.

### Governmental Fund Types:

General Fund - is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund. Federal financial assistance not required to be reported in other funds is accounted for in the General Fund.

Special Revenue Funds - used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Federal financial assistance generally is accounted for in a Special Revenue Fund unless required to be reported in a Capital Projects Fund or a proprietary fund type. Generally, unused balances are returned to the grantor at the close of specified project periods.

### Proprietary Fund Types:

Enterprise Fund - used to account for activities similar to those found in the private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing services be financed primarily through user charges, or where periodic determination of net income is appropriate. Federal financial assistance for the benefiting enterprise operations generally is accounted for in the Enterprise Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance. Federal and State grant funds were accounted for in the General Fund and Special Revenue Fund, a component of the Governmental Fund type.

**CITY OF CLUTE**  
Clute, Texas

NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS - Continued

For the Year Ended September 30, 2015

2. Continued

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the balance sheet. Fund equity (total net position) is segregated into contributed capital and retained earnings components for proprietary funds. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Federal grant funds were accounted for in the Enterprise Fund, a component of the Proprietary Fund type.

The modified accrual basis of accounting is used for the Governmental Fund Types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accrual basis of accounting is used for the Proprietary Fund Types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Federal grant funds are considered to be earned to the extent of expenditures/expenses made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as Unearned revenues until earned.

3. The period of availability for state grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement.

# Kennemer, Masters & Lunsford

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**Houston Office:**  
10850 Richmond Ave., Ste 135  
Houston, Texas 77042  
281-974-3416

March 15, 2016

To the Members of Council  
of the City of Clute  
Clute, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute (the "City") for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2015. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during September 30, 2015. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of the useful lives of capital assets subject to depreciation is based on those within the same industry and their knowledge of the assets being depreciated. We evaluated key factors and assumptions used to develop useful lives of capital assets subject to depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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To the Members of Council  
of the City of Clute  
Clute, Texas  
March 15, 2016  
Page 2

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached material misstatements detected as a result of audit procedures were corrected by management.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 15, 2016.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund, Streets, Drainage and Sidewalks Special Revenue Fund, Emergency Medical Service Special Revenue Fund, Economic Development Corporation Special Revenue Fund, Hotel-Motel Tax Special Revenue Fund, the Texas Municipal Retirement System Schedule of Funding Progress - Last Three Fiscal Years,

To the Members of Council  
of the City of Clute  
Clute, Texas  
March 15, 2016  
Page 3

and the Texas Statewide Emergency Services Personnel Retirement Fund - Funding Progress - Last Three Years, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion to provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City Council and the management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Kennebrew, Masters & Hunsford, LLC*