

CITY OF FERRIS, TEXAS

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2016

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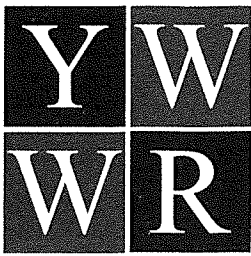
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YELDELL, WILSON, WOOD & REEVE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA
Glenda Valek, CPA | Caitlyn Keller, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, City Council and City Manager
City of Ferris, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferris, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Honorable Mayor, City Council and City Manager
City of Ferris, Texas
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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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferris, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and net pension liability information on pages 4-12 and 52-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ferris, Texas' basic financial statements. The combining and individual fund financial statements and schedules, component unit financial statements, and supplementary financial data are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Mayor, City Council and City Manager
City of Ferris, Texas
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The combining and individual fund financial statements and schedules and component unit financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules and component unit financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

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

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Ennis, Texas
February 6, 2017

CITY OF FERRIS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Ferris, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

Financial Highlights

- 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 \$9,931,997 (net position). Of this amount, \$1,860,874 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$17,517.
- As of the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,726,114, a decrease of \$135,133 in comparison with the prior year. Approximately 95% of this amount (\$1,648,431) is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General fund was \$1,648,431 or 43% of the total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

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

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

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

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

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

Governmental Funds. *Governmental funds* are used to account for essentially the 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, which is considered to be a major fund. Data from the other four funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary Funds. The City maintains one type of proprietary fund. The *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise fund to account for its water and wastewater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire 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 22-50 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's Schedule of Revenues and Expenditures - Budget and Actual - Major Governmental Funds, the Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Contributions. Required supplementary information can be found on page 51-54 of this report.

This report also presents combining and individual fund financial statements and schedules in connection with the nonmajor governmental funds and water and wastewater fund. These combining and individual fund financial statements and schedules can be found on pages 55-62 of this report.

In addition, this report presents fund financial statements and schedules in connection with the Ferris 4A Economic Development Corporation and Ferris 4B Economic Development Corporation. The individual fund financial statement and schedule can be found on pages 63-65 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,931,997, at the close of the most recent fiscal year.

CITY OF FERRIS' NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,050,451	\$ 2,181,579	\$ 547,518	\$ 606,544	\$ 2,597,969	\$ 2,788,123
Capital assets	7,625,866	7,581,175	2,703,610	2,881,221	10,329,476	10,462,396
Total assets	9,676,317	9,762,754	3,251,128	3,487,765	12,927,445	13,250,519
Deferred outflows of resources	318,511	144,022	32,464	11,160	350,975	155,182
Long-term liabilities	2,231,096	2,425,088	569,876	594,868	2,800,972	3,019,956
Other liabilities	286,972	288,353	140,497	133,367	427,469	421,720
Total liabilities	2,518,068	2,713,441	710,373	728,235	3,228,441	3,441,676
Deferred inflows of resources	105,288	44,308	12,694	5,237	117,982	49,545
Net position:						
Net investment in capital assets	5,781,430	5,418,790	2,212,042	2,349,576	7,993,472	7,768,366
Restricted	77,651	74,432	-	-	77,651	74,432
Unrestricted	1,512,391	1,655,805	348,483	415,877	1,860,874	2,071,682
Total net position	\$ 7,371,472	\$ 7,149,027	\$ 2,560,525	\$ 2,765,453	\$ 9,931,997	\$ 9,914,480

Certain reclassifications have been made to the prior year data to conform with current year presentation.

By far, the largest portion of the City's net position (80%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in 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 (1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of \$1,860,874 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's overall net position increased \$17,517 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

CITY OF FERRIS' CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 449,361	\$ 598,185	\$ 1,092,097	\$ 1,031,162	\$ 1,541,458	\$ 1,629,347
Operating grants and contributions	83,932	62,372	3,025	-	86,957	62,372
Capital grants and contributions	141,676	209,800	-	-	141,676	209,800
General revenues:						
Property taxes	725,628	711,044	-	-	725,628	711,044
Sales taxes	209,058	237,136	-	-	209,058	237,136
Franchise taxes	119,908	127,294	-	-	119,908	127,294
Alcoholic beverage taxes	1,291	1,362	-	-	1,291	1,362
Host fees	1,437,323	1,384,941	-	-	1,437,323	1,384,941
Gas royalty	181,017	176,052	-	-	181,017	176,052
Investment earnings	7,750	6,555	484	258	8,234	6,813
Gain (loss) on sale of capital assets	328,343	(867)	-	-	328,343	(867)
Miscellaneous	136,165	35,999	-	-	136,165	35,999
Total revenues	3,821,452	3,549,873	1,095,606	1,031,420	4,917,058	4,581,293
Expenses:						
General government	832,590	720,050	-	-	832,590	720,050
Public safety	1,937,400	1,780,441	-	-	1,937,400	1,780,441
Cultural and recreational	342,813	319,805	-	-	342,813	319,805
Public works	479,538	452,818	-	-	479,538	452,818
Interest on long-term debt	83,333	93,900	-	-	83,333	93,900
Water and wastewater	-	-	1,223,867	1,066,003	1,223,867	1,066,003
Total expenses	3,675,674	3,367,014	1,223,867	1,066,003	4,899,541	4,433,017
Increase (decrease) in net position before transfers	145,778	182,859	(128,261)	(34,583)	17,517	148,276
Transfers	76,667	110,000	(76,667)	(110,000)	-	-
Increase (decrease) in net position	222,445	292,859	(204,928)	(144,583)	17,517	148,276
Net position - beginning, as restated	7,149,027	6,856,168	2,765,453	2,910,036	9,914,480	9,766,204
Net position - ending	\$ 7,371,472	\$ 7,149,027	\$ 2,560,525	\$ 2,765,453	\$ 9,931,997	\$ 9,914,480

Certain reclassifications have been made to the prior year data to conform with current year presentation.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$222,445 from the prior fiscal year for an ending balance of \$7,371,472.

- Charges for services governmental activities decreased by \$148,824 (24.88%) during the year. The majority of this decrease is the product of a decrease in revenue from municipal court collections.
- Gain on sale of capital assets increased to \$328,343 as the result of the City's sale of property during the year.

- Miscellaneous revenue increased by \$100,166 (278.25%) during the year. The majority of this increase is the product of insurance proceeds received related to damage incurred by the City's fire and police station.
- General government expenses increased by \$112,540 (15.63%). The majority of this increase is due to an increase in salaries and wages, legal services, and consultant costs.
- Public safety expenses increased by \$156,959 (8.82%). The majority of this increase is the result of increased expenses for repairs and maintenance and professional services.

Business-type Activities. For the City's business-type activities, the current fiscal year resulted in a net decrease in net position to an ending balance of \$2,560,525. The total decrease in net position for business-type activities (water and wastewater operations) was \$204,928 from the prior fiscal year. Revenues from charges for services increased 5.91% (\$60,935) due to an increase in customers and consumption. Total expenses increased 14.81% (\$157,864) in the current fiscal year due to an increase in repairs and maintenance and increased utility costs as a result of the increase in consumption and number of customers.

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's *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 discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At September 30, 2016, the City's governmental funds reported combined fund balances of \$1,726,114, a decrease of \$135,133 in comparison with the prior year. Approximately 95.5% of this amount (\$1,648,431) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable or restricted to indicate that it is 1) not in spendable form (\$32) or 2) restricted for particular purposes (\$77,651).

The General fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,648,431, while total fund balance increased to \$1,649,361. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General fund expenditures. Unassigned fund balance represents approximately 43.27 percent of total General fund expenditures, while total fund balance represents approximately 43.29 percent of that same amount.

The fund balance of the City's General fund decreased \$138,350 during the current fiscal year.

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

Unrestricted net position of the Water and Wastewater fund at the end of the year amounted to \$348,483. Net position decreased in 2016 by \$204,928. Other factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, the City increased the original estimated expenditures of the general fund by \$419,761. This was offset with an increase in the use of existing fund balance.

Final budget compared to actual results. General fund budgeted revenues of \$3,313,541 exceeded actual revenues of \$2,854,094 by \$459,447.

- The fines and forfeitures decrease of \$250,557 (38.5%) is primarily due to officers writing less citations than were budgeted as a result of increased speed limits inside the City.
- The licenses and permits decrease of \$28,275 (46.2%) is due to less than expected new construction within the City
- The intergovernmental decrease of \$187,462 (55.44%) is due to a grant for fire department equipment that was budgeted in fiscal year 2016 but not awarded.

Budgeted general fund expenditures of \$4,289,339 exceeded actual expenditures of \$3,719,979 by \$569,360. This positive variance in expenditures was achieved through a series of expenditure restrictions imposed during the year.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016 amounts to \$10,329,476 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment and infrastructure. The total decrease in capital assets for the current fiscal year was approximately 1.27%.

City of Ferris' Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 495,734	\$ 616,114	\$ 27,817	\$ 27,817	\$ 523,551	\$ 643,931
Construction in progress	7,658	7,658	-	-	7,658	7,658
Buildings	1,506,959	1,309,504	40,925	46,199	1,547,884	1,355,703
Improvements	151,886	169,649	2,563,665	2,717,145	2,715,551	2,886,794
Machinery and equipment	537,240	349,923	71,203	90,060	608,443	439,983
Infrastructure	4,926,389	5,128,327	-	-	4,926,389	5,128,327
Total	\$ 7,625,866	\$ 7,581,175	\$ 2,703,610	\$ 2,881,221	\$ 10,329,476	\$ 10,462,396

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

- Building additions of approximately \$285,000.
- Machinery and equipment purchases of approximately \$328,000.
- Machinery and equipment disposals of approximately \$29,000.
- Improvements other than buildings of approximately \$27,000

Additional information on the City's capital assets can be found in note 2.D on pages 33-34 of this report.

Long-term debt. At the end of the current fiscal year, the City had a total bonded debt of \$2,385,000. This amount is backed by the full faith and credit of the government.

City of Ferris' Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Certificates of obligation	\$ 1,090,000	\$ 1,180,000	\$ 530,000	\$ 570,000	\$ 1,620,000	\$ 1,750,000
Tax and revenue refunding bonds	765,000	1,000,000	-	-	765,000	1,000,000
Total	\$ 1,855,000	\$ 2,180,000	\$ 530,000	\$ 570,000	\$ 2,385,000	\$ 2,750,000

Additional information on the City of Ferris' long term-debt can be found in note 2.G on pages 38-40 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2016-17 Adopted Budget, all combined revenue sources less expenditures leave the City with positive fund balances. The City is focused on revenue diversification, stabilization, and enhancement. General Fund revenues decreased 14% from the 2015-16 budget year. Host fees from Waste Management total about 49% of the General Fund budgeted revenues and the City anticipates an increase in revenue due to steady utilization of the service and the landfill now operating 24 hours a day. Ferris' overall assessed value of property increased by \$4,500,000 creating an increase of 4% in property taxes collected while our ad valorem tax rate remained unchanged. The City is focused on restructuring debt in order to lower the current 37% of the property tax rate dedicated to I & S. A major priority for fiscal year 2017 is in economic development initiatives aimed at increasing the tax base of the City. As such Ferris has restructured our Economic Development program inclusive of investing resources in large scale development.

The Utility Fund is another area of focus for 2016-17 as diminished water quality will cause an increased amount of water purchase from Rockett Special Utility District which will have a negative impact on current rates.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 100 Town Plaza, Ferris, Texas 75125.

CITY OF FERRIS, TEXAS
STATEMENT OF NET POSITION
September 30, 2016

				Component Units	
	Primary Government			Ferris 4A	Ferris 4B
	Governmental	Business-type	Total	Economic	Economic
	Activities	Activities		Development	Development
				Corporation	Corporation
ASSETS					
Cash and cash equivalents	\$ 1,527,479	\$ 372,006	\$ 1,899,485	\$ 630,468	\$ 174,773
Receivables (net of allowance for uncollectibles)	522,940	127,248	650,188	-	-
Due from primary government	-	-	-	19,203	19,203
Inventories	32	9,832	9,864	-	-
Restricted assets:					
Cash and cash equivalents	-	38,432	38,432	-	-
Capital assets:					
Non-depreciable	503,392	27,817	531,209	18,000	-
Depreciable (net of accumulated depreciation)	7,122,474	2,675,793	9,798,267	-	-
Total Assets	<u>9,676,317</u>	<u>3,251,128</u>	<u>12,927,445</u>	<u>667,671</u>	<u>193,976</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	39,211	-	39,211	-	-
Deferred outflows - contributions	83,904	9,059	92,963	-	-
Deferred outflows - assumption changes	17,906	2,172	20,078	-	-
Deferred outflows - investment experience	177,490	21,233	198,723	-	-
Total Deferred Outflows of Resources	<u>318,511</u>	<u>32,464</u>	<u>350,975</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Accounts payable and other current liabilities	191,338	35,444	226,782	-	-
Accrued payroll payable	26,491	3,348	29,839	-	-
Accrued interest payable	5,737	1,953	7,690	-	-
Due to component units	38,406	-	38,406	-	-
Customer deposits payable	-	99,752	99,752	-	-
Unearned revenue	25,000	-	25,000	-	-
Noncurrent liabilities:					
Due within one year	379,587	51,499	431,086	-	-
Due in more than one year	1,851,509	518,377	2,369,886	-	-
Total Liabilities	<u>2,518,068</u>	<u>710,373</u>	<u>3,228,441</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - actuarial experience	105,288	12,694	117,982	-	-
Total Deferred Inflows of Resources	<u>105,288</u>	<u>12,694</u>	<u>117,982</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	5,781,430	2,212,042	7,993,472	18,000	-
Restricted for:					
Debt service	32,066	-	32,066	-	-
Economic development	-	-	-	649,671	193,976
Public safety	45,585	-	45,585	-	-
Unrestricted	1,512,391	348,483	1,860,874	-	-
Total Net Position	<u>\$ 7,371,472</u>	<u>\$ 2,560,525</u>	<u>\$ 9,931,997</u>	<u>\$ 667,671</u>	<u>\$ 193,976</u>

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

CITY OF FERRIS, TEXAS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016

Function/Program Activities	Net (Expense) Revenue and Changes in Net Position					
	Program Revenues			Primary Government		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Ferris 4A Economic Development Corporation
Expenses						Ferris 4B Economic Development Corporation
					Total	
General government:						
General government	\$ 832,590	\$ 32,875	\$ -	\$ (738,738)	\$ -	\$ -
Public safety	1,937,400	416,486	141,676	(1,356,732)	-	-
Cultural and recreational	342,813	-	449	(342,364)	-	-
Public works	479,538	-	-	(479,538)	-	-
Interest on long-term debt	83,333	-	-	(83,333)	-	-
Total governmental activities	3,675,674	449,361	141,676	(3,000,705)	(3,000,705)	-
Business-type activities:						
Water and wastewater	1,223,867	1,092,097	-	-	(128,745)	-
Total business-type activities	1,223,867	1,092,097	-	-	(128,745)	-
Total primary government	\$4,899,541	\$ 1,541,458	\$ 141,676	(3,000,705)	(3,129,450)	-
Component Units						
Ferris 4A Economic Development Corporation	\$ 29,294	\$ -	\$ -	-	(29,294)	-
Ferris 4B Economic Development Corporation	44,208	-	-	-	-	(44,208)
Total component units	\$ 29,294	\$ -	\$ -	-	(29,294)	(44,208)
General revenues:						
Property taxes				725,628	-	-
Sales taxes				209,058	-	-
Franchise taxes				119,908	-	104,529
Alcoholic beverage taxes				1,291	-	-
Host fees				1,437,323	-	-
Gas royalty				181,017	-	-
Investment earnings				484	-	-
Gain on disposal of capital asset				328,343	1,183	283
Miscellaneous				136,165	-	-
Transfers				76,667	-	-
Total general revenues and transfers	3,223,150			(76,183)	105,712	104,812
Change in net position	222,445			(204,928)	17,517	60,604
Net position - beginning, as restated	7,149,027			2,765,453	591,253	133,372
Net position - ending	\$ 7,371,472	\$ 2,560,525	\$ 9,931,997	\$ 9,931,997	\$ 667,671	\$ 193,976

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

CITY OF FERRIS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,449,026	\$ 78,453	\$ 1,527,479
Receivables (net of allowance for uncollectibles)	522,940	-	522,940
Inventories	32	-	32
Total assets	<u>\$ 1,971,998</u>	<u>\$ 78,453</u>	<u>\$ 2,050,451</u>
LIABILITIES			
Accounts payable	\$ 189,638	\$ 1,700	\$ 191,338
Accrued payroll payable	26,491	-	26,491
Due to component units	38,406	-	38,406
Unearned revenue	25,000	-	25,000
Total liabilities	<u>279,535</u>	<u>1,700</u>	<u>281,235</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	<u>43,102</u>	<u>-</u>	<u>43,102</u>
FUND BALANCES			
Nonspendable:			
Inventories	32	-	32
Restricted:			
Debt service	-	32,066	32,066
Public safety	898	44,687	45,585
Unassigned	<u>1,648,431</u>	<u>-</u>	<u>1,648,431</u>
Total fund balances	<u>1,649,361</u>	<u>76,753</u>	<u>1,726,114</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,971,998</u>	<u>\$ 78,453</u>	<u>\$ 2,050,451</u>

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

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

Amounts reported for governmental activities in the statement of net position (page 13) are different because:

Total fund balances - governmental funds (page 15)	\$ 1,726,114
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,625,866
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	43,102
Deferred outflows of resources are not reported in the governmental funds:	
Deferred charge on refunding	\$ 39,211
Deferred outflows-contributions	83,904
Deferred outflows-assumption changes	17,906
Deferred outflows-investment experience	<u>177,490</u>
	318,511
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(5,737)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Due within one year	(379,587)
Due in more than one year	<u>(1,851,509)</u>
	(2,231,096)
Deferred outflows of resources are not reported in the governmental funds:	
Difference in expected and actual pension experience	<u>(105,288)</u>
Net position of governmental activities (page 13)	<u><u>\$ 7,371,472</u></u>

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

CITY OF FERRIS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2016

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 452,223	\$ 268,862	\$ 721,085
Sales taxes	209,058	-	209,058
Franchise taxes	119,908	-	119,908
Alcoholic beverage taxes	1,291	-	1,291
Licenses and permits	32,875	-	32,875
Fines and forfeitures	398,198	18,288	416,486
Host fee	1,437,323	-	1,437,323
Gas royalty	181,017	-	181,017
Golf course lease	20,000	-	20,000
Revenues from use of money	7,561	189	7,750
Other	20,192	-	20,192
Intergovernmental	150,675	-	150,675
Contributions and donations	19,932	-	19,932
Total revenues	<u>3,050,253</u>	<u>287,339</u>	<u>3,337,592</u>
EXPENDITURES			
Current:			
General government	930,089	-	930,089
Public safety	2,163,243	16,369	2,179,612
Cultural and recreational	231,968	-	231,968
Public works	350,295	-	350,295
Debt service:			
Principal retirement	90,000	235,000	325,000
Interest and fiscal charges	44,373	32,751	77,124
Total expenditures	<u>3,809,968</u>	<u>284,120</u>	<u>4,094,088</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(759,715)</u>	<u>3,219</u>	<u>(756,496)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	76,667	-	76,667
Insurance proceeds	95,973	-	95,973
Proceeds from sale of capital assets	448,723	-	448,723
Total other financing sources (uses)	<u>621,363</u>	<u>-</u>	<u>621,363</u>
Net change in fund balances	(138,352)	3,219	(135,133)
Fund balances - beginning	<u>1,787,713</u>	<u>73,534</u>	<u>1,861,247</u>
Fund balances - ending	<u>\$ 1,649,361</u>	<u>\$ 76,753</u>	<u>\$ 1,726,114</u>

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

CITY OF FERRIS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016

Amounts reported for governmental activities in the statement of activities (page 14) are different because:

Net Change in Fund Balances - total governmental funds (page 17)		\$ (135,133)
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.		520,040
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.		(475,349)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond principal retirement	\$ 325,000	
Amortization of bond premiums/discounts	2,753	
Amortization of bond refunding losses	<u>(9,804)</u>	317,949
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest.		843
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		4,543
Pension contributions are recorded as expenditures in the governmental funds. However, in the statement of activities, these contributions are converted to the full accrual GASBS 68 pension amounts.		
Deferred outflows-contributions	13,711	
Deferred outflows-assumption changes	17,906	
Deferred outflows-investment experience	152,676	
Deferred inflows-actuarial experience	<u>(60,980)</u>	123,313
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences	(2,547)	
Net pension liability	<u>(131,214)</u>	<u>(133,761)</u>
Change in net position of governmental activities (page 14)		<u><u>\$ 222,445</u></u>

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

CITY OF FERRIS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2016

	Business-type Activities - Enterprise (Water and Wastewater) Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 372,006
Receivables (net of allowance for uncollectibles)	127,248
Inventories	9,832
Total current assets	<u>509,086</u>
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents - revenue bond construction account	38,432
Capital assets (net of accumulated depreciation)	2,703,610
Total noncurrent assets	<u>2,742,042</u>
Total assets	<u>3,251,128</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - assumption changes	2,172
Deferred outflows - contributions	9,059
Deferred outflows - investment experience	21,233
Total deferred outflows of resources	<u>32,464</u>
LIABILITIES	
Current liabilities:	
Accounts payable	35,444
Accrued payroll payable	3,348
Accrued interest payable	1,953
Compensated absences	6,499
Customer deposits payable	99,752
Bonds payable	45,000
Total current liabilities	<u>191,996</u>
Noncurrent liabilities:	
Net pension liability	33,377
Bonds payable	485,000
Total noncurrent liabilities	<u>518,377</u>
Total liabilities	<u>710,373</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - actuarial experience	12,694
Total deferred inflows of resources	<u>12,694</u>
NET POSITION	
Net investment in capital assets	2,212,042
Unrestricted	348,483
Total net position	<u>\$ 2,560,525</u>

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

CITY OF FERRIS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2016

	Business-type Activities - Enterprise (Water and Wastewater) Fund
OPERATING REVENUES	
Water sales	\$ 570,051
Wastewater service	422,436
Miscellaneous	99,610
Total operating revenues	<u>1,092,097</u>
OPERATING EXPENSES	
Water and wastewater	1,021,092
Depreciation	177,611
Total operating expenses	<u>1,198,703</u>
Operating income (loss)	<u>(106,606)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	484
Interest and fiscal charges	(25,164)
Total nonoperating revenue (expenses)	<u>(24,680)</u>
Income (loss) before capital contributions and transfers	(131,286)
Capital contributions	3,025
Transfer out	<u>(76,667)</u>
Change in net position	(204,928)
Net position - beginning	2,765,453
Net position - ending	<u><u>\$ 2,560,525</u></u>

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

CITY OF FERRIS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2016

	Business-type Activities - Enterprise (Water and Wastewater) Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,079,757
Payments to suppliers	(758,450)
Payments to employees	(259,544)
Net cash provided by (used for) operating activities	<u>61,763</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Repayment of advances to other funds	84
Transfers to other funds	(76,667)
Net cash provided by (used for) noncapital financing activities	<u>(76,583)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	3,025
Principal paid on bond maturities	(40,000)
Interest and fiscal charges paid on bonds	(25,300)
Net cash provided by (used for) capital and related financing activities	<u>(62,275)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	484
Net cash provided by investing activities	<u>484</u>
Net decrease in cash and cash equivalents	(69,154)
Cash and cash equivalents October 1 (including \$38,355 reported in restricted accounts)	<u>479,592</u>
Cash and cash equivalents September 30 (including \$38,432 reported in restricted accounts)	<u><u>\$ 410,438</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (106,606)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	177,611
(Increase) decrease in accounts receivable	(11,917)
(Increase) decrease in inventories	1,705
(Increase) decrease in pension related deferred outflows	(21,304)
Increase (decrease) in accounts payable	13,957
Increase (decrease) in accrued payroll payable	(6,268)
Increase (decrease) in compensated absences	587
Increase (decrease) in customer deposits	(423)
Increase (decrease) in pension related deferred inflows	7,457
Increase (decrease) in net pension liability	14,421
Total adjustments	<u>175,826</u>
Net cash provided by (used for) operating activities	<u><u>\$ 69,220</u></u>

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

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

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

B. Reporting entity

The City of Ferris, Texas (the "City") is a general law municipality and was incorporated 1874. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

Discretely presented component units. The Corporations described below are included in the City's reporting entity because the City appoints the governing body and the Corporations are fiscally dependent on the City. The Corporations are reported as discretely presented component units since the governing body is not substantively the same as the governing body of the City, and they provides services to the citizens of Ferris and the surrounding area as opposed to only the primary government. To emphasize that they are legally separate from the City, they are reported in separate columns in the financial statements.

The *Ferris 4A Economic Development Corporation* was created under Section 4A of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended, and is responsible for collecting and disbursing the one-fourth percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund type and has a September 30 year-end.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting entity (continued)

The *Ferris 4B Economic Development Corporation* was created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended, and is responsible for collecting and disbursing the one-fourth percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund type and has a September 30 year-end.

Separate financial statements for the Corporations are not issued.

C. Basis of presentation - government-wide financial statements

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

As discussed earlier, the City has discretely presented component units. The Ferris 4A Economic Development Corporation and Ferris 4B Economic Development Corporation are considered to be major component units and are shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of presentation - fund financial statements

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

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of presentation - fund financial statements (continued)

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

The *water and wastewater fund* accounts for the activities of the City's water distribution and wastewater collection system.

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

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

E. Measurement focus and basis of accounting

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

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

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement focus and basis of accounting (continued)

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

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

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less from the date of acquisition.

2. Restricted cash and cash equivalents

Certain proceeds of the City's enterprise fund revenue bonds are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue bond construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

3. Receivables and Allowances for Doubtful Accounts

All trade and property tax receivables are shown net of an allowance for uncollectibles. All past due trade accounts receivables comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is the lesser of .2 percent of the tax levy for each fiscal year or the outstanding property taxes for each fiscal year at year end.

4. Inventories and prepaid items

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

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

5. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year.

As the City constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period. The amount of interest capitalized depends on the specific circumstances.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance
(continued)**

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Buildings	30-40
Improvements	10-30
Machinery and equipment	5-15
Infrastructure	15-40

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources reported in this year's financial statements include (1) a deferred outflow of resources related to changes in actuarial assumptions of the City's defined benefit pension plan, (2) a deferred outflow of resources for contributions made to the City's defined benefit pension plan between the measurement date of the net pension liabilities from that plan and the end of the City's fiscal year, (3) deferred outflows of resources related to the differences between the projected and actual investment earnings for the City's multiple-employer defined benefit plan, and (4) deferred charge on refunding. Deferred outflows for changes in actuarial assumptions is attributed to pension expense over a total of 3.57 years. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The differences between the projected and actual investment earnings are attributed to pension expense over a total of 5 years, including the current year. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. No deferred outflows of resources affect the governmental funds financial statements in the current year.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources are reported in the City's various statements of net position for the difference between expected and actual experience data used by the actuary. This deferred inflow of resources is attributed to pension expense over a total of 3.57 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenue from property taxes is reported in the governmental funds balance sheet.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund type 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 statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

8. Net position flow assumption

Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net positions are classified in the following categories:

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

Net investment in capital assets —This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position —This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund balance flow assumption

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance—amounts that are not in spendable form (such as inventories and prepaid items) or are required to be maintained intact.

Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Councils). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)

Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

Unassigned fund balance—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. 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. Positive balances are reported only in the general fund.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

In the general fund, the City's underlying and overriding financial reserve strategy is to maintain the unassigned fund balance at a level of 20% of annual operating expenditures, excluding capital expenditures.

G. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

2. *Property taxes*

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Ellis Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Ellis County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

3. *Compensated absences*

The City's policy permits employees to accumulate earned but unused vacation pay benefits. The liability for such unused vacation is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Unused vacation shall be taken during the year following its accumulation.

4. *Proprietary funds operating and nonoperating revenues and expenses*

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

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenues and expenditures/expenses (continued)

5. Pensions

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

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully insured or collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year-end, the City's bank balance was \$2,095,679. Of the bank balance, \$374,781 was covered by federal depository insurance and the remaining balance, \$1,720,898 was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping departments of the pledging bank's agent and had a fair value of approximately \$1,969,000.

B. Investments

Investments. Public funds of the City of Ferris may be invested in the following: (1) obligations of the United States of America, its agencies and instrumentalities, (2) direct obligations of the State of Texas and agencies thereof, (3) other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas and United States of America, (4) obligations of the States, agencies thereof, Counties, Cities and other political subdivisions of any state having been rates as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent; (5) certificates of deposit of state and national banks domiciled in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations described in 1 through 4 above, (6) fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, and (7) joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by current law.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

C. Receivables

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

Receivables:	General	Water and Wastewater	Total
Taxes	\$ 137,511	\$ -	\$ 137,511
Accounts	-	158,324	158,324
Other	401,030	-	401,030
Gross receivables	538,541	158,324	696,865
Less: allowance for uncollectibles	(15,601)	(31,076)	(46,677)
Net receivables	<u>\$ 522,940</u>	<u>\$ 127,248</u>	<u>\$ 650,188</u>

D. Capital assets

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

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 616,114	\$ -	\$ (120,380)	\$ 495,734
Construction in progress	7,658	-	-	7,658
Total capital assets not being depreciated	<u>623,772</u>	<u>-</u>	<u>(120,380)</u>	<u>503,392</u>
Capital assets being depreciated:				
Buildings	1,764,609	284,919	-	2,049,528
Improvements	179,170	-	-	179,170
Machinery and equipment	1,883,734	328,477	(29,000)	2,183,211
Infrastructure	7,396,933	27,024	-	7,423,957
Totals capital assets being depreciated	<u>11,224,446</u>	<u>640,420</u>	<u>(29,000)</u>	<u>11,835,866</u>
Less accumulated depreciation for:				
Buildings	(455,105)	(87,464)	-	(542,569)
Improvements	(9,521)	(17,763)	-	(27,284)
Machinery and equipment	(1,533,811)	(141,160)	29,000	(1,645,971)
Infrastructure	(2,268,606)	(228,962)	-	(2,497,568)
Total accumulated depreciation	<u>(4,267,043)</u>	<u>(475,349)</u>	<u>29,000</u>	<u>(4,713,392)</u>
Total capital assets, being depreciated, net	<u>6,957,403</u>	<u>165,071</u>	<u>-</u>	<u>7,122,474</u>
Governmental activities capital assets, net	<u>\$ 7,581,175</u>	<u>\$ 165,071</u>	<u>\$ (120,380)</u>	<u>\$ 7,625,866</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Capital assets (continued)

Certain reclassifications have been made to the prior year data to conform with current year presentation.

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

Governmental activities:

General government	\$ 26,572
Public safety	132,348
Cultural and recreational	136,296
Public works	180,133
Total depreciation expense - governmental activities	<u>\$ 475,349</u>

Business-type activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 27,817	\$ -	\$ -	\$ 27,817
Total capital assets not being depreciated	<u>27,817</u>	<u>-</u>	<u>-</u>	<u>27,817</u>
Capital assets being depreciated:				
Buildings	172,776	-	-	172,776
Improvements	5,881,969	-	-	5,881,969
Machinery and equipment	322,262	-	-	322,262
Total capital assets being depreciated	<u>6,377,007</u>	<u>-</u>	<u>-</u>	<u>6,377,007</u>
Less accumulated depreciation for:				
Buildings	(126,577)	(5,274)	-	(131,851)
Improvements	(3,164,824)	(153,480)	-	(3,318,304)
Machinery and equipment	(232,202)	(18,857)	-	(251,059)
Total accumulated depreciation	<u>(3,523,603)</u>	<u>(177,611)</u>	<u>-</u>	<u>(3,701,214)</u>
Total capital assets being depreciated, net	<u>2,853,404</u>	<u>(177,611)</u>	<u>-</u>	<u>2,675,793</u>
Business-type capital assets, net	<u>\$ 2,881,221</u>	<u>\$ (177,611)</u>	<u>\$ -</u>	<u>\$2,703,610</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Significant commitments

The City has entered into a contract with the Trinity River Authority of Texas (Authority) – Ten Mile Regional Wastewater System to obtain wastewater treatment services, expiring in 2036. In the contract, the Authority agreed to acquire and construct a regional wastewater treatment system to serve the City and other contractual parties, in the area of the watershed or drainage basin of Red Oak Creek, being a tributary of the Trinity River, and located in Ellis and Dallas Counties, Texas. The Trinity River Authority is a governmental agency, which is controlled by directors appointed by the governor.

The City is responsible for a proportionate share of the system's annual operation, maintenance and debt service costs for the term of the contract. These costs are determined annually and are payable in monthly installments. The estimated future contracted payments due under the contract as of September 30, 2016 are shown below:

<u>Year Ending September 30</u>	<u>Monthly</u>	<u>Annual</u>
2017	\$ 27,203	\$ 326,436
2018	27,726	332,712
2019	28,204	338,448
2020	28,884	346,608
2021	29,559	354,708
2022-2026	159,056	1,908,672
2027-2031	146,090	1,753,080
2032-2036	148,176	1,778,112
	<u>\$ 594,898</u>	<u>\$ 7,138,776</u>

Expenses incurred for the year ended September 30, 2016 were \$280,010. The payments to be received from the City of Ferris, Texas are used as collateral for the bonds issued by TRA to construct the facility.

The City has entered into a contract with the Authority whereby the City acquired the right to purchase .72 million gallons per day (MGD) of water annually from the Authority through its raw water supply contract with Tarrant County Water Control and Improvement District Number One. The contract is for a period of forty years commencing December 1, 1991 and ending November 30, 2031. The Authority is a governmental agency, which is controlled by directors appointed by the governor. The City agreed to pay to the Authority \$60 each month increasing \$1.50 per month each fiscal year for the Authority's costs and expenses of administering the contract. A current schedule of estimated future contractual payments due the Authority is shown below:

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Significant commitments (continued)

<u>Year Ending September 30</u>	<u>Amount</u>
2017	\$ 3,510
2018	3,564
2019	3,618
2020	3,672
2021	3,726
2022-2026	19,440
2027-2031	20,790
	<u>\$ 58,320</u>

The City has entered into an agreement with the Authority whereby the Authority will provide inspection, sampling, and analytical services for the City for a period of five years commencing October 1, 2015 and expiring September 30, 2020. Total payment from the City to the Authority will not exceed \$75,000 for the period of this contract and shall not exceed \$15,000 per year.

Complete separate financial statements for the Trinity River Authority may be obtained at Trinity River Authority of Texas, 5300 South Collins, P.O. Box 60, Arlington, Texas 76004.

The City has entered into a contract with Rockett Special Utility District (the "District") whereby the District agrees to sell treated water to the City. The contract requires the City to purchase at least an average of 100,000 gallons per day on an annualized basis whether or not the City actually takes and utilizes said water amount. The contract is for a period of twenty years commencing October 15, 2012 and ending October 14, 2032.

A schedule of future minimum payments due the District at the current rate of \$4.75 per thousand gallons is shown below:

<u>Year Ending September 30</u>	<u>Amount</u>
2017	\$ 177,025
2018	182,135
2019	185,785
2020	189,435
2021	195,275
2022-2026	976,375
2027-2031	976,375
2032	195,275
	<u>\$ 3,077,680</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

E. Significant commitments (continued)

Incurred expenses for the year ended September 30, 2016 were \$171,550.

The City has entered into a contract with CareFlite to provide EMS ambulance services, effective October 1, 2013 and expiring September 30, 2018. Costs are determined annually and are payable in monthly installments. The City has agreed to pay CareFlite on an annual basis at a rate of \$36,000 per year, which shall be paid in twelve equal monthly installments.

The City has entered into an agreement with a Developer to provide financial assistance, effective March 5, 2012 and expiring May 1, 2022. The City has agreed to annually pay the Developer the portion of sales and use tax generated by and attributed solely to sales from the Developer's property, until the aggregate payments total \$65,728. Amounts paid to the Developer under the agreement for the year end September 30, 2016 totaled \$14,146. As of September 30, 2016 the unpaid amount associated with the agreement totaled \$11,770.

The City has entered into a noncancellable operating lease for modular building to serve as police and fire department offices, effective February 26, 2016 and expiring February 26, 2018. Future minimum operating lease commitments are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2017	\$ 33,684
2018	14,035
	<u>\$ 47,719</u>

Expenses incurred for the year ended September 30, 2016 were \$22,987.

F. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Long-term liabilities

Certificates of Obligation

The City issues certificates of obligation to provide fund for the acquisition and construction of major capital facilities. Certificates of obligation have been issued for governmental and business-type activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the government and are further secured by and payable from a pledge of the surplus net revenues derived from the operation of the City's water and wastewater system.

Certificates of obligation currently outstanding and reported as liabilities of the City's governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2011	\$ 1,500,000	3/1/2026	2.00-4.25%	<u>\$ 1,090,000</u>

Certificates of obligation currently outstanding and reported as liabilities of the City's business-type activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2006	\$ 850,000	3/1/2026	4.60%	<u>\$ 530,000</u>

Tax and Revenue Refunding Bonds

In a prior year, the City issued bonds in a partial refunding of certificates of obligation to reduce total future debt service payments.

Tax and revenue refunding bonds currently outstanding and reported as liabilities on the City's governmental activities are:

<u>Series</u>	<u>Issue Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Year-end Balances</u>
2005	\$ 2,355,000	3/1/2019	3.71%	<u>\$ 765,000</u>

Compensated Absences -

Compensated absences represent the estimated liability for employees' paid time off benefits for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund and Water and Wastewater Fund based on the assignment of an employee at termination.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Long-term liabilities (continued)

Net Pension Liability -

The net pension liability represents the liability for employees' for projected pension benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the pension plan's fiduciary net position.

Changes in Long-term Liabilities –

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
Certificates of obligation	\$ 1,180,000	\$ -	\$ (90,000)	\$ 1,090,000	\$ 90,000
Tax and revenue refunding	1,000,000	-	(235,000)	765,000	245,000
Less deferred amounts:					
For issuance					
discount/premium	31,400	-	(2,753)	28,647	-
Total bonds payable	2,211,400	-	(327,753)	1,883,647	335,000
Compensated absences	42,040	50,217	(47,670)	44,587	44,587
Net pension liability	171,648	131,214	-	302,862	-
Governmental activity					
Long-term liabilities	<u>\$2,425,088</u>	<u>\$ 181,431</u>	<u>\$ (375,423)</u>	<u>\$ 2,231,096</u>	<u>\$ 379,587</u>

Certificates of obligation and tax and revenue refunding bonds issued for governmental activity purposes are liquidated by the General fund and Debt Service fund. Governmental compensated absences and net pension liability will be liquidated by the General fund.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Certificates of obligation	\$ 570,000	\$ -	\$ (40,000)	\$ 530,000	\$ 45,000
Compensated absences	5,912	4,200	(3,613)	6,499	6,499
Net pension liability	18,956	14,421	-	33,377	-
Business-type activity					
Long-term liabilities	<u>\$ 594,868</u>	<u>\$ 18,621</u>	<u>\$ (43,613)</u>	<u>\$ 569,876</u>	<u>\$ 51,499</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Long-term liabilities (continued)

Certificates of obligations issued for business-type activities are repaid from those activities. Business-type compensated absences and net pension liability will be liquidated by the Water and Wastewater fund.

Annual debt service requirements to maturity are as follows -

Year Ending September 30	Governmental Activities			
	Certificates of Obligation		Tax and Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 90,000	\$ 42,113	\$ 245,000	\$ 23,837
2018	95,000	39,206	255,000	14,562
2019	100,000	35,424	265,000	4,916
2020	100,000	31,424	-	-
2021	105,000	27,324	-	-
2022-2026	600,000	65,738	-	-
	<u>\$ 1,090,000</u>	<u>\$ 241,229</u>	<u>\$ 765,000</u>	<u>\$ 43,315</u>

Year Ending September 30	Business-Type Activities Certificates of Obligation	
	Principal	Interest
2017	\$ 45,000	\$ 23,345
2018	45,000	21,275
2019	45,000	19,205
2020	50,000	17,020
2021	50,000	14,720
2022-2026	295,000	35,075
	<u>\$ 530,000</u>	<u>\$ 130,640</u>

H. Interfund transfers

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

Interfund transfers:

Transfer Out:

Water and wastewater

Transfer In:	
General	Total
\$ 76,667	\$ 76,667
<u>\$ 76,667</u>	<u>\$ 76,667</u>

Transfers are primarily used to move funds from the Water and Wastewater Fund to the General Fund for administrative services.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

I. Related party transactions

The significant transactions between the primary government and its component units during the year ended September 30, 2016 consisted of administrative services provided by the City in the amount of \$24,500 for the Ferris 4A Economic Development Corporation and \$24,500 for the Ferris 4B Economic Development Corporation.

J. Contingencies

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

K. Subsequent events

On October 17, 2016, the City approved a contract for consulting in the amount of \$50,000.

L. Discretely presented component units

1. Ferris 4A Economic Development Corporation Fund

Cash Deposits with Financial Institutions

At year end the bank balance of the Corporation's deposits was \$630,468. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance, \$380,468 was covered by collateral pledged in the Corporation's name. The collateral was held in the Corporation's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately \$426,000.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

L. Discretely presented component unit (continued)

Capital Assets

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

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 18,000	\$ -	\$ -	\$ 18,000
Total capital assets not being depreciated	18,000	-	-	18,000
Governmental activities capital assets, net	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,000</u>

2. Ferris 4B Economic Development Corporation Fund

Cash Deposits with Financial Institutions

At year end the bank balance of the Corporation's deposits was \$174,773. Of the bank balance, \$174,773 was covered fully by federal depository insurance.

M. Prior period adjustment

Corrections have been made to the governmental activities beginning net position in the government-wide financial statements due to an error in the recording of a financial transaction in a prior period resulting in an understatement of assets and net position. The change to the beginning net position as of October 1, 2015 is summarized as follows:

	<u>Government-wide Financial Statements Governmental Activities</u>
As previously reported, October 1, 2015	\$ 7,028,647
Correct understatement of assets	120,380
Restated, October 1, 2015	<u>\$ 7,149,027</u>
Effect of restatement on operations for the year ended September 30, 2015:	<u>\$ -</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS

A. Plan description

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

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 payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

B. Benefits provided (continued)

	Plan Provisions
Employee deposit rate	5%
Municipal current matching ratio	1.5 - 1
Updated service credits:	
Rate (%)	100 T
Year effective	2000R
Increase benefits to retirees:	
Rate (%) ⁽¹⁾	70
Year effective	2000R
Vesting	5 yrs
Service retirement eligibilities	5 yrs/age 60, 20 yrs/any age
Restricted prior service credit effective date	8-01
Supplemental death benefits:	
Employees	Yes
Retirees	Yes
Statutory maximum (%)	9.5%

⁽¹⁾ For years prior to 1982, the rate is the actual percentage in annuities. For 1982 and later, the rate is the percentage of the change in the CPI-U since retirement date, granted to each annuitant as an increase of the original annuity.

T — Includes Transfer Credits.

R — Annually Repeating. Ordinance automatically renews effective January 1 of each successive year.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	36
Active employees	40
	<hr/> 99

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (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 for the City of Ferris, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Ferris, Texas were 5.99% and 6.62% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$110,315, and were equal to the required contributions.

D. Net pension liability

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

Actuarial assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

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

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

Asset Class	Target Allocation	Long-Term Expected
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.0%
Total	100%	

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 3,345,743	\$ 3,166,406	\$ 179,337
Changes for the year:			
Service cost	180,871	-	180,871
Interest	232,113	-	232,113
Difference between expected and actual experience	(124,273)	-	(124,273)
Changes of assumptions	27,891	-	27,891
Contributions - employer	-	101,254	(101,254)
Contributions - employee	-	84,519	(84,519)
Net investment income	-	4,672	(4,672)
Benefit payments, including refunds of employee contributions	(240,556)	(240,556)	-
Administrative expense	-	(2,846)	2,846
Other changes	-	(141)	141
Net Changes	\$ 76,046	\$ (53,096)	\$ 129,142
Balance at 12/31/2015	\$ 3,421,789	\$ 3,113,310	\$ 308,479

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

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

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

D. Net pension liability (continued)

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)	Discount
City's net pension liability	\$ 821,974	\$ 308,479	\$	(104,069)

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan - Legally required contributions outstanding at the end of the year totaled \$12,115.

E. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2016, the City recognized pension expense of \$112,905.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Contributions subsequent to the measurement	\$ 83,726	\$ -
Changes in actuarial assumptions	20,078	-
Difference between projected and actual investment earnings	196,773	-
Differences between expected and actual economic experience	-	117,982
Total	\$ 300,577	\$ 117,982

\$83,726 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	
2016	\$ 3,103
2017	16,634
2018	35,736
2019	43,396
Total	<u>\$ 98,869</u>

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

B. Texas Emergency Services Retirement System

Plan Description and Benefits Provided

The City of Ferris, Texas is a nonemployer contributing entity in the Texas Emergency Services Retirement System (TESRS) for its volunteer firefighters. 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. TESRS is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine members Board of Trustees, appointed by the Governor, establishes policy for the administration of the Texas Emergency Services Retirement System.

The TESRS was created as a standalone agency by the 83rd Legislature via the passage of SB 220, effective September 1, 2013, to assume the related functions of the abolished Office of the Fire Fighters' Pension Commissioner. While the agency is new, the System has been in existence since 1977. TESRS, which is under the authority of Title 8, Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fire fighters and first responders, and a pension to members with vested service, as well as to their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS' financial statements are included in the State's Comprehensive Annual Financial Report. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. No contributions are required from the individuals who are members of the System, nor are they allowed. The City is required to make contributions for each month a member performs emergency services for a department. The State of Texas 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. For the fiscal year ending September 30, 2016, total contributions to the plan were \$5,817.

CITY OF FERRIS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – DEFINED BENEFIT PENSION PLANS (continued)

B. Texas Emergency Services Retirement System (continued)

Net Pension Liability

At September 30, 2016, the City reported a liability of \$27,760 for its proportionate share of the net pension liability. The net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions to the pension plan for the fiscal year ended August 31, 2015 relative to the contributions of all participating entities. At August 31, 2015, the City's proportion was 0.104 percent which was an increase of 0.042 from its proportion measured as of August 31, 2014.

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

For the year ended September 30, 2016, the City recognized pension expense of \$11,704.

NOTE 4 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS

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.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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.

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

The City's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$3,297, \$3,877 and \$3,585, respectively, which equaled the required contributions each year.

REQUIRED SUPPLEMENTARY INFORMATION

These supplementary schedules are included to supplement the basic financial statements as required by the Governmental Accounting Standards Board.

CITY OF FERRIS, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
MAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2016

	Budget Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	Final Budget
			Basis	Basis	Basis	
REVENUES						
Property taxes	\$ 447,304	\$ 447,304	\$ 452,223	\$ (1,317)	\$ 450,906	\$ 3,602
Sales taxes	240,000	240,000	209,058	5,081	214,139	(25,861)
Franchise taxes	119,500	119,500	119,908	1,513	121,421	1,921
Alcoholic beverage taxes	1,000	1,000	1,291	130	1,421	421
Licenses and permits	61,150	61,150	32,875	-	32,875	(28,275)
Fines and forfeitures	650,100	650,100	398,198	1,345	399,543	(250,557)
Host fee	1,400,000	1,400,000	1,437,323	(21,441)	1,415,882	15,882
Gas royalty	-	-	181,017	(181,017)	-	-
Golf course lease	20,000	20,000	20,000	-	20,000	-
Revenues from use of money	8,100	8,100	7,561	(453)	7,108	(992)
Other	17,050	17,050	20,192	-	20,192	3,142
Intergovernmental	338,762	338,137	150,675	-	150,675	(187,462)
Contributions and donations	7,600	11,200	19,932	-	19,932	8,732
Total revenues	3,310,566	3,313,541	3,050,253	(196,159)	2,854,094	(459,447)
EXPENDITURES						
Current:						
General government:						
City council	155,250	353,250	166,870	(1,034)	165,836	(187,414)
City manager	408,480	639,123	455,878	5,925	461,803	(177,320)
Municipal finance	191,781	188,381	168,330	2,974	171,304	(17,077)
Senior services	26,555	26,705	26,195	371	26,566	(139)
Information technology	111,666	115,026	112,816	2,835	115,651	625
Total general government	893,732	1,322,485	930,089	11,071	941,160	(381,325)
Public safety:						
Code compliance	163,297	171,984	133,130	2,047	135,177	(36,807)
Fire	449,548	493,994	559,196	9,032	568,228	74,234
EMS	50,770	50,770	43,086	(156)	42,930	(7,840)
Police	1,023,293	1,220,061	1,210,764	14,770	1,225,534	5,473
Municipal court	168,374	168,524	148,346	1,139	149,485	(19,039)
Animal control	64,618	64,618	68,721	927	69,648	5,030
Total public safety	1,919,900	2,169,951	2,163,243	27,759	2,191,002	21,051
Cultural and recreational:						
Parks	69,000	69,000	75,889	-	75,889	6,889
Library	213,797	211,207	156,079	2,640	158,719	(52,488)
Total cultural and recreational	282,797	280,207	231,968	2,640	234,608	(45,599)
Public works						
Main Street Program	88,709	93,256	69,499	2,895	72,394	(20,862)
Streets and drainage	524,440	423,440	280,796	19	280,815	(142,625)
Total public works	613,149	516,696	350,295	2,914	353,209	(163,487)
Debt service:						
Principal and interest charges	-	-	90,000	(90,000)	-	-
Interest and fiscal charges	-	-	44,373	(44,373)	-	-
Total debt service	-	-	134,373	(134,373)	-	-
Total expenditures	3,709,578	4,289,339	3,809,968	(89,989)	3,719,979	(569,360)
Excess (deficiency) of revenues over (under) expenditures	(399,012)	(975,798)	(759,715)	(106,170)	(865,885)	109,913
OTHER FINANCING SOURCES (USES)						
Transfers in	80,000	80,000	76,667	-	76,667	(3,333)
Insurance proceeds	8,000	8,000	95,973	-	95,973	87,973
Proceeds from the sale of capital assets	10,000	370,000	448,723	-	448,723	78,723
Total other financing sources and uses	98,000	458,000	621,363	-	621,363	163,363
Net change in fund balance	\$ (301,012)	\$ (517,798)	\$ (138,352)	\$ (106,170)	\$ (244,522)	\$ 273,276

NOTES TO BUDGETARY INFORMATION

1. Budgetary basis of accounting

An annual budget for the general fund is adopted on the budgetary basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

CITY OF FERRIS, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed)

	2014	2015
Total Pension Liability		
Service Cost	\$ 158,522	\$ 190,265
Interest (on the Total Pension Liability)	229,599	240,923
Difference between expected and actual experience	(70,569)	(124,273)
Changes of assumptions	-	27,891
Benefit payments, including refunds of employee contributions	(193,896)	(245,235)
Net Change in Total Pension Liability	123,656	89,571
Total Pension Liability - Beginning	3,290,197	3,413,853
Total Pension Liability - Ending (a)	\$ 3,413,853	\$ 3,503,424
 Plan Fiduciary Net Position		
Contributions - Employer	\$ 83,861	\$ 101,254
Contributions - Employee	81,736	84,519
Contributions - Participating department	2,590	3,656
Contributions - State	949	1,703
Net Investment Income	180,218	1,248
Benefit payments, including refunds of employee contributions	(193,896)	(245,235)
Administrative Expense	(1,908)	(3,071)
Other	(148)	(141)
Net Change in Plan Fiduciary Net Position	153,402	(56,067)
Plan Fiduciary Net Position - Beginning	3,069,847	3,223,249
Plan Fiduciary Net Position - Ending (b)	\$ 3,223,249	\$ 3,167,182
 Net Pension Liability - Ending (a) - (b)	\$ 190,604	\$ 336,242
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.42%	90.40%
 Covered Employee Payroll	1,634,722	1,690,384
 Net Pension Liability as a Percentage of Covered Employee Payroll	11.66%	19.89%

Notes to Schedule:

N/A

CITY OF FERRIS, TEXAS
SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 98,220	\$ 110,315
Contributions in relation to the actuarially determined contribution	<u>98,220</u>	<u>110,315</u>
Contribution deficiency (excess)	-	-
Covered employee payroll	1,705,659	1,708,629
Contributions as a percentage of covered employee payroll	5.76%	6.46%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to be used for specified purposes.

Court Technology Fund – This fund is used to account for revenues that are to be used for technological enhancements to the municipal court.

Court Security Fund – This fund is used to account for the revenues to provide security services for buildings housing a municipal court.

DEBT SERVICE FUND - The debt service fund is used to account for the accumulation of resources for the payment of principal and interest on general long-term debt.

CITY OF FERRIS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2016

	Nonmajor Special Revenue	Nonmajor Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 46,387	\$ 32,066	\$ 78,453
Total assets	<u>\$ 46,387</u>	<u>\$ 32,066</u>	<u>\$ 78,453</u>
LIABILITIES			
Accounts payable	\$ 1,700	\$ -	\$ 1,700
Total liabilities	<u>1,700</u>	<u>-</u>	<u>1,700</u>
FUND BALANCES			
Restricted:			
Debt service	-	32,066	32,066
Public safety	44,687	-	44,687
Total fund balance	<u>44,687</u>	<u>32,066</u>	<u>76,753</u>
Total liabilities and fund balances	<u>\$ 46,387</u>	<u>\$ 32,066</u>	<u>\$ 78,453</u>

CITY OF FERRIS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended September 30, 2016

	Nonmajor Special Revenue	Nonmajor Debt Service	Total Nonmajor Governmental Funds
REVENUES			
Property taxes	\$ -	\$ 268,862	\$ 268,862
Fines and forfeitures	18,288	-	18,288
Revenues from use of money	64	125	189
Total revenues	<u>18,352</u>	<u>268,987</u>	<u>287,339</u>
EXPENDITURES			
Current:			
Public safety	16,369	-	16,369
Debt service:			
Principal retirement	-	235,000	235,000
Interest and fiscal charges	-	32,751	32,751
Total expenditures	<u>16,369</u>	<u>267,751</u>	<u>284,120</u>
Net change in fund balances	1,983	1,236	3,219
Fund balances - beginning	<u>42,704</u>	<u>30,830</u>	<u>73,534</u>
Fund balances - ending	<u><u>\$ 44,687</u></u>	<u><u>\$ 32,066</u></u>	<u><u>\$ 76,753</u></u>

CITY OF FERRIS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
September 30, 2016

	<u>Court Technology</u>	<u>Court Security</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 30,943	\$ 15,444	\$ 46,387
Total assets	<u>\$ 30,943</u>	<u>\$ 15,444</u>	<u>\$ 46,387</u>
LIABILITIES			
Accounts payable	\$ 1,500	\$ 200	\$ 1,700
Total liabilities	<u>1,500</u>	<u>200</u>	<u>1,700</u>
FUND BALANCES			
Restricted:			
Public safety	<u>29,443</u>	<u>15,244</u>	<u>44,687</u>
Total fund balance	<u>29,443</u>	<u>15,244</u>	<u>44,687</u>
Total liabilities and fund balances	<u>\$ 30,943</u>	<u>\$ 15,444</u>	<u>\$ 46,387</u>

CITY OF FERRIS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended September 30, 2016

	<u>Court Technology</u>	<u>Court Security</u>	<u>Totals</u>
REVENUES			
Fines and forfeitures	\$ 10,449	\$ 7,839	\$ 18,288
Revenues from use of money	58	6	64
Total revenues	<u>10,507</u>	<u>7,845</u>	<u>18,352</u>
EXPENDITURES			
Current:			
Public safety	<u>15,536</u>	<u>833</u>	<u>16,369</u>
Total expenditures	<u>15,536</u>	<u>833</u>	<u>16,369</u>
Net change in fund balances	(5,029)	7,012	1,983
Fund balances - beginning	<u>34,472</u>	<u>8,232</u>	<u>42,704</u>
Fund balances - ending	<u><u>\$ 29,443</u></u>	<u><u>\$ 15,244</u></u>	<u><u>\$ 44,687</u></u>

CITY OF FERRIS, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Fiscal Year Ended September 30, 2016

	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Property taxes	\$ 267,741	\$ 268,862	\$ 1,121
Revenues from use of money	-	125	125
Total revenues	<u>267,741</u>	<u>268,987</u>	<u>1,246</u>
EXPENDITURES			
Debt service:			
Principal on bonds	235,000	235,000	-
Interest and fiscal charges	<u>32,741</u>	<u>32,751</u>	<u>10</u>
Total expenditures	<u>267,741</u>	<u>267,751</u>	<u>10</u>
 Net change in fund balance	 <u><u>\$ -</u></u>	 <u><u>\$ 1,236</u></u>	 <u><u>\$ 1,236</u></u>

PROPRIETARY FUND

ENTERPRISE FUNDS - Enterprise funds account for services provided primarily to customers outside the financial reporting entity.

Water and Wastewater Fund - The City's water and wastewater utility operations are accounted for in this fund.

CITY OF FERRIS, TEXAS
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
ENTERPRISE FUND - WATER AND WASTEWATER
For the Fiscal Year Ended September 30, 2016

	Budget Amounts		Actual	Adjustments	Actual	Variance with
	Original	Final	GAAP	Budget	Budget	
			Basis	Basis	Basis	Final Budget
OPERATING REVENUES						
Water sales	\$ 555,000	\$ 555,000	\$ 570,051	\$ 3,793	\$ 573,844	\$ 18,844
Wastewater service	405,000	405,000	422,436	(15,827)	406,609	1,609
Miscellaneous	41,720	45,803	99,610	-	99,610	53,807
Total operating revenues	<u>\$1,001,720</u>	<u>\$1,005,803</u>	<u>\$1,092,097</u>	<u>\$ (12,034)</u>	<u>\$1,080,063</u>	<u>\$ 74,260</u>
OPERATING EXPENSES						
Water and wastewater operations	\$ 1,007,066	\$ 1,137,063	\$ 1,021,092	\$ 2,724	\$ 1,023,816	\$ (113,247)
Depreciation and amortization	-	-	177,611	(177,611)	-	-
Total operating expenses	<u>\$ 1,007,066</u>	<u>\$ 1,137,063</u>	<u>\$ 1,198,703</u>	<u>\$ (174,887)</u>	<u>\$ 1,023,816</u>	<u>\$ (113,247)</u>

COMPONENT UNIT FINANCIAL STATEMENTS

Ferris 4A Economic Development Corporation Fund - This fund is used to account for the Ferris Economic Development Corporation created under Section 4A of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended.

Ferris 4B Economic Development Corporation Fund - This fund is used to account for the Ferris Economic Development Corporation created under Section 4B of the Development Corporation Act of 1979, as amended, Article 5190.6, Vernon's Texas civil statutes, as amended.

CITY OF FERRIS, TEXAS
BALANCE SHEET - GENERAL FUND
COMPONENT UNITS
September 30, 2016

	Ferris 4A Economic Development Corporation	Ferris 4B Economic Development Corporation
ASSETS		
Cash and cash equivalents	\$ 630,468	\$ 174,773
Due from primary government	19,203	19,203
Total assets	<u>\$ 649,671</u>	<u>\$ 193,976</u>
LIABILITIES	\$ -	\$ -
FUND BALANCES		
Restricted:		
Economic development	649,671	193,976
Total fund balances	<u>649,671</u>	<u>193,976</u>
Total liabilities and fund balances	<u>\$ 649,671</u>	<u>\$ 193,976</u>

CITY OF FERRIS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GENERAL FUND
COMPONENT UNITS
For the Fiscal Year Ended September 30, 2016

	Ferris 4A Economic Development Corporation	Ferris 4B Economic Development Corporation
REVENUES		
Sales taxes	\$ 104,529	\$ 104,529
Revenues from use of money	1,183	283
Total revenues	<u>105,712</u>	<u>104,812</u>
EXPENDITURES		
Current:		
Economic development	<u>29,294</u>	<u>44,208</u>
Total expenditures	<u>29,294</u>	<u>44,208</u>
Net change in fund balances	76,418	60,604
Fund balances - beginning	<u>573,253</u>	<u>133,372</u>
Fund balances - ending	<u><u>\$ 649,671</u></u>	<u><u>\$ 193,976</u></u>

SUPPLEMENTARY FINANCIAL DATA

CITY OF FERRIS, TEXAS
SCHEDULE OF CASH BALANCES - ALL FUNDS
September 30, 2016

GENERAL FUND

Cash on hand	\$	1,100	
Cash in bank - Operating		1,042,772	
- Court Restricted		7,127	
- Court State Fees		9,940	
- Police Awarded Funds		10,422	
- Police Seized Funds		1,652	
- WMI Meth Electric Funds		243,782	
- Deep Reserve General		<u>132,231</u>	\$ 1,449,026

SPECIAL REVENUE FUNDS

Cash in bank - Court Technology		30,943	
- Court Security		<u>15,444</u>	<u>46,387</u>

DEBT SERVICE FUND

Cash in bank - Interest and Sinking Funds			<u>32,066</u>
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ENTERPRISE FUND - WATER AND WASTEWATER

Cash on hand		200	
Cash in bank - Operating		227,655	
- Fluid 1 Funds		3,768	
- Fluid 2 Funds		10,051	
- Deep Reserve - Water and Wastewater		130,332	
- Restricted - 2000 CO Proceeds		<u>38,432</u>	<u>410,438</u>
			<u>\$ 1,937,917</u>

CITY OF FERRIS, TEXAS
COMBINED SCHEDULE OF BONDED DEBT - ALL FUNDS
For the Fiscal Year Ended September 30, 2016

	Original Amount	Balance Outstanding 10/1/2015	Bonds Issued	Retired	Balance Outstanding 9/30/2016	Interest Rate
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION						
Series 2006	\$ 850,000	\$ 570,000	\$ -	\$ 40,000	\$ 530,000	4.60%
Series 2011	1,500,000	1,180,000	-	90,000	1,090,000	2-00%-4.25%
Total Certificates of Obligation		<u>\$ 1,750,000</u>	<u>\$ -</u>	<u>\$ 130,000</u>	<u>\$ 1,620,000</u>	
TAX AND REVENUE REFUNDING BONDS						
Series 2005	\$ 2,355,000	\$ 1,000,000	\$ -	\$ 235,000	\$ 765,000	3.71%
Total Tax and Revenue Refunding Bonds		<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ 765,000</u>	
TOTAL COMBINED BONDED DEBT		<u>\$ 2,750,000</u>	<u>\$ -</u>	<u>\$ 365,000</u>	<u>\$ 2,385,000</u>	

CITY OF FERRIS, TEXAS**DEBT REQUIREMENTS**

October 1, 2016 to Maturity

Issue: Combination Tax and Revenue Certificates of Obligation
Date: March 1, 2006
Original Amount: \$850,000
Denomination: \$5,000
Interest: 4.60%
Payable from: Ad Valorem Taxes and Water and Wastewater Revenues

Fiscal Year Ending 9/30	Principal Due 3/1	Interest Due 3/1	Interest Due 9/1	Totals
2017	\$ 45,000	\$ 12,190	\$ 11,155	\$ 68,345
2018	45,000	11,155	10,120	66,275
2019	45,000	10,120	9,085	64,205
2020	50,000	9,085	7,935	67,020
2021	50,000	7,935	6,785	64,720
2022	55,000	6,785	5,520	67,305
2023	55,000	5,520	4,255	64,775
2024	60,000	4,255	2,875	67,130
2025	60,000	2,875	1,495	64,370
2026	65,000	1,495	-	66,495
	<u>\$ 530,000</u>	<u>\$ 71,415</u>	<u>\$ 59,225</u>	<u>\$ 660,640</u>

Average Annual Requirements

\$ 66,064

CITY OF FERRIS, TEXAS
DEBT REQUIREMENTS
October 1, 2016 to Maturity

Issue: Tax and Waterworks and Sewer System Revenue Refunding Bonds
Date: September 1, 2005
Original Amount: \$2,355,000
Denomination: \$5,000
Interest: 3.71%
Payable from: Ad Valorem Taxes and Water and Wastewater Revenues

Fiscal Year Ending 9/30	Principal Due 3/1	Interest Due 3/1	Interest Due 9/1	Totals
2017	\$ 245,000	\$ 14,191	\$ 9,646	\$ 268,837
2018	255,000	9,646	4,916	269,562
2019	<u>265,000</u>	<u>4,916</u>	<u>-</u>	<u>269,916</u>
	<u>\$ 765,000</u>	<u>\$ 28,753</u>	<u>\$ 14,562</u>	<u>\$ 808,315</u>

Average Annual Requirements \$ 269,438

CITY OF FERRIS, TEXAS
DEBT REQUIREMENTS
October 1, 2016 to Maturity

Issue: Tax and Waterworks and Sewer System Revenue Certificates of Obligation
Date: March 15, 2011
Original Amount: \$1,500,000
Denomination: \$5,000
Interest: 2-00% - 4.25%
Payable from: Ad Valorem Taxes and Water and Wastewater Revenues

Fiscal Year Ending 9/30	Principal Due 3/1	Interest Due 3/1	Interest Due 9/1	Totals
2017	\$ 90,000	\$ 21,619	\$ 20,494	\$ 132,113
2018	95,000	20,494	18,712	134,206
2019	100,000	18,712	16,712	135,424
2020	100,000	16,712	14,712	131,424
2021	105,000	14,712	12,612	132,324
2022	110,000	12,612	10,412	133,024
2023	115,000	10,412	7,969	133,381
2024	120,000	7,969	5,419	133,388
2025	125,000	5,419	2,763	133,182
2026	130,000	2,763	-	132,763
	<u>\$ 1,090,000</u>	<u>\$ 131,424</u>	<u>\$ 109,805</u>	<u>\$ 1,331,229</u>

Average Annual Requirements \$ 133,123