

**CITY OF NEW FAIRVIEW, TX**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016**

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Independent Auditor's Report

To the City Council  
City of New Fairview, Texas

I have audited the accompanying financial statements of the governmental activities and major funds of the City of New Fairview, 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 misstatements, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of New Fairview, Texas, as of September 30, 2016, and the respective changes in financial position 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, the budgetary comparison schedules, the schedule of changes in net pension liability and related ratios and the schedule of pension contributions be presented to supplement the basic financial statements. Such information, although not 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. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

*William C. Spore, P.C.*

Keller, Texas

Certified Public Accountants

September 14, 2020

**CITY OF NEW FAIRVIEW, TX**

**CITY OFFICIALS**

**September 30, 2016**

|                              |                         |
|------------------------------|-------------------------|
| <b>MAYOR</b>                 | <b>Joe Max Wilson</b>   |
| <b>MAYOR PRO TEM</b>         | <b>Louis Moran</b>      |
| <b>COUNCIL MEMBERS</b>       | <b>Mike Georgia</b>     |
|                              | <b>Scott Johnson</b>    |
|                              | <b>Curtis Kent</b>      |
|                              | <b>Wes Williams</b>     |
| <b>SECRETARY</b>             | <b>Monica Rodriguez</b> |
| <b>MUNICIPAL COURT JUDGE</b> | <b>Manuel Valdez</b>    |

## **CITY OF NEW FAIRVIEW MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of New Fairview, 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.

Management's discussion and analysis ("MD&A") has been designed to [1] assist readers and interested parties in focusing on significant financial issues [2] provide an overview of the City's financial activity, [3] identify changes in the City's financial position, including its ability to address the next and subsequent years challenges, [4] identify material deviations from the approved budgets adopted by the City Council (those charged with governance), and [5] identify individual fund issues or concerns.

Because MD&A focuses on the current year's activity, resulting changes and currently known facts, you are encouraged to read it in conjunction with the basic financial statements including notes thereto, required supplemental information, and other supplementary data provided below.

### **FINANCIAL HIGHLIGHTS**

- The City's government-wide assets exceeded its government-wide liabilities on September 30, 2016 by \$1,328,640, a decrease of \$63,541 from the prior year.
- On September 30, 2016, the City's governmental funds reported fund balances of \$68,061, a decrease of \$35,003 from the prior year.
- The City's capital assets, reported at cost less accumulated depreciation, total \$1,345,904 on September 30, 2016 while the City's outstanding long-term debt totaled \$40,000 on September 30, 2016.

### **USING THIS ANNUAL REPORT**

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

#### **Reporting the City as a Whole - Government-wide Financial Statements**

##### **The Statement of Net Position and the Statement of Activities:**

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 (page 11) presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities (page 12) presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences). Capital grant funds are reported as revenues in the Statement of Activities.

The City currently only provides Governmental type activities. Governmental activities include basic services such as police, municipal court, code enforcement, inspection, public works, and general administration. Sales taxes, franchise fees, municipal court fines and permit revenues finance most of these activities. The City does not provide any Business-type activities such as water or sewer systems and related fees.

## **Fund Financial Statements**

### **Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances**

All of the City's activities are accounted for in the Governmental Funds. Governmental funds focus on how money flows into and out of the funds and the balances left at the end of the year that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements, the Balance Sheet (page 13) and the Statement of Revenues, Expenditures and Changes in Fund Balance (page 14) provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

## **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 15.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the City's net position is its investment in capital assets, (land, building, equipment, and infrastructure.) The City uses these capital assets to provide services to the City's citizens, consequently these assets are not available for future spending.

The City's net position are as follows:

|  | NET<br>POSITION     |                     |
|--|---------------------|---------------------|
|  | 2016                | 2015                |
| Current and Other Assets                   | \$ 83,295           | \$ 112,382          |
| Capital Assets                             | <u>1,345,904</u>    | <u>1,391,505</u>    |
| Total Assets                               | <u>1,429,199</u>    | <u>1,503,887</u>    |
| <br>                                       |                     |                     |
| Deferred Outflows of Resources             | <u>12,225</u>       | <u>3,628</u>        |
| <br>                                       |                     |                     |
| Long-Term Liabilities                      | 40,000              | 60,000              |
| Net Pension Liability                      | 57,550              | 46,016              |
| Other Liabilities                          | <u>15,234</u>       | <u>9,318</u>        |
| Total Liabilities                          | <u>112,784</u>      | <u>115,334</u>      |
| <br>                                       |                     |                     |
| Deferred Inflows of Resources              | <u>0</u>            | <u>0</u>            |
| <br>                                       |                     |                     |
| Net Position:                              |                     |                     |
| Invested in Capital Assets, net<br>of debt | 1,305,904           | 1,331,505           |
| Unrestricted                               | <u>22,736</u>       | <u>60,676</u>       |
| Total Net Position                         | <u>\$ 1,328,640</u> | <u>\$ 1,392,181</u> |

The City's net position decreased \$63,541 from September 30, 2015 to September 30, 2016. The largest portion (99%) of the City's net position is its investment in capital assets, (land, building, equipment, and infrastructure.) The City uses these capital assets to provide services to the City's citizens; consequently, these assets are not available for future spending.

During the fiscal year 2015 the City added capital assets of \$4,667 and reduced its long-term debt by \$20,000. The City's actuarially calculated net pension liability increased \$11,534 (25%) from September 2015 to September 2016.



## Analysis of City's Operations

A summary of the City's operations for the years ended September 30, 2016 & 2015 are as follows:

|                             | CHANGES IN NET POSITION |                    |
|-----------------------------|-------------------------|--------------------|
|                             | 2016                    | 2015               |
| <b>REVENUES</b>             |                         |                    |
| Program Revenues:           |                         |                    |
| Charges for Services        | \$ 37,085               | \$ 57,166          |
| General Revenues:           |                         |                    |
| Sales Taxes                 | 154,775                 | 191,208            |
| Franchise Fees              | 32,349                  | 33,826             |
| Interest Income             | 130                     | 206                |
| Total Revenues              | <u>\$ 224,339</u>       | <u>\$ 282,406</u>  |
| <b>PROGRAM EXPENSES</b>     |                         |                    |
| General Government          | \$ 212,155              | \$ 258,436         |
| Public Safety               | 23,251                  | 44,317             |
| Public Works                | 49,608                  | 49,181             |
| Interest on Long-Term Debts | <u>2,866</u>            | <u>2,914</u>       |
| Total Expenses              | <u>287,880</u>          | <u>354,848</u>     |
| Increase (Decrease) in      |                         |                    |
| Net Position                | <u>\$ (63,541)</u>      | <u>\$ (72,442)</u> |

Charges for services revenues includes permit revenues and municipal court fines. Growth in the City continued to be slow for the second year in row as permit revenues decreased \$13,975 (35%) while municipal court fines increased \$4,206 (77%) during 2016 as more tickets were presented to the City's court for processing.

The City continued to feel the effect of the change in the state law related to sales tax on oil and gas revenues as the City's sales tax revenues continued to decline from 2014 levels and the 2016 collections of \$154,775 represented a \$36,433 (19%) decline from 2015.

Total program expenses decreased \$66,968 (19%) in 2016 from 2015 primarily due to a decrease in personnel costs, office contract labor and police contract labor.

## GOVERNMENTAL FUND ANALYSIS

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

Governmental fund operating revenues and expenditures compared to the prior year are as follows:

|                                | 2016               | 2015                | % CHANGE       |
|--------------------------------|--------------------|---------------------|----------------|
| <b>REVENUES</b>                |                    |                     |                |
| Sales Taxes                    | \$ 154,775         | \$ 191,208          | -19.05%        |
| Franchise Fees                 | 32,349             | 33,826              | -4.37%         |
| Permits & Fees                 | 25,450             | 39,425              | -35.45%        |
| Municipal Court                | 9,687              | 5,481               | 76.74%         |
| Miscellaneous Revenues         | 1,948              | 12,260              | -84.11%        |
| Proceeds from Issuance of Debt | 0                  | 60,000              | 0.00%          |
| Interest Income                | 130                | 206                 | -36.89%        |
| <b>TOTAL REVENUES</b>          | <b>\$ 224,339</b>  | <b>\$ 342,406</b>   | <b>-34.48%</b> |
| <b>EXPENDITURES</b>            |                    |                     |                |
| General Government             | \$ 182,334         | \$ 241,968          | -24.65%        |
| Public Safety                  | 23,251             | 44,317              | -47.53%        |
| Public Works                   | 26,224             | 25,797              | 1.66%          |
| Debt Service                   | 22,866             | 2,914               | 684.69%        |
| Capital Outlay                 | 4,667              | 156,082             | -97.01%        |
| <b>TOTAL EXPENDITURES</b>      | <b>\$ 259,342</b>  | <b>\$ 471,078</b>   | <b>-44.95%</b> |
| <b>CHANGE IN FUND BALANCE</b>  | <b>\$ (35,003)</b> | <b>\$ (128,672)</b> |                |

Fund basis revenues decreased \$190,093 (56%) due the decrease in sales tax and permit revenues noted above.

Fund basis revenues in 2015 include the loan proceeds borrowed during the year for the parking lot at the new municipal complex. There were no similar debt proceeds revenues in 2016.

Governmental fund operating expenditures include capital outlay expenditures related to the construction of the new municipal complex. These expenditures totaled \$4,667 in 2016 and \$156,082 in 2015.

Debt service expenditures represent the principal and interest payments made on the parking lot loan. A principal reduction of \$20,000 was made in fiscal year 2016.

## **General Fund Budgetary Highlights**

Actual general fund revenues were \$52,103 less than budgeted revenues primarily due to decreases in sales tax and permit revenues received in 2016. The 2016 budget for revenues was based on prior years collections for the revenue line items.

Total actual 2016 general fund expenditures were \$17,100 less than budgeted general fund expenditures. General government expenditures were \$5,036 (3%) under budget, municipal court was \$8 (0.2%) over budget, police were \$16,749 (42%) under budget and public works was \$18,224 (228%) over budget.

Capital outlay expenditures totaled \$4,667 in 2016. These expenditures were not included in the budget.

## **PENSIONS**

Pensions continue to receive negative media attention as governments around the nation struggle to fund these commitments. The City is committed to providing retirement programs that are fair to both employees and taxpayers and that can be sustained over the long term.

Effective for fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" created specific reporting requirements for pensions that are different than that used for funding purposes. Both valuations are important as the reporting valuation provides a rigorous standard measure that can be used to compare the City's pension liabilities to other governments from around the nation. The funding valuation is important as the actuarial methods used included strategies for repaying any unfunded actuarial accrued liabilities combined with the City's history of making those contributions provides insights regarding the City's commitment to and the effectiveness of its funding strategy. Information contained in the financial statements themselves including the Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. On a reporting basis, The City's financial statements reflect a Net Pension Liability as of September 30, 2016 of \$57,550 which is 81.85% of the City's annual covered payroll of \$70,312.

## CAPITAL ASSETS

The City's investment in capital assets as of September 30, 2016 amounts to \$1,345,904 (net of depreciation). The investment in capital assets includes land, buildings, equipment and infrastructure.

Capital additions during the year included \$4,667 of expenditures related to the City's new municipal complex.

The City's capital assets, net of accumulated depreciation, are as follows:

|                          | 2016                | 2015                |
|--------------------------|---------------------|---------------------|
| Land                     | \$ 256,193          | \$ 256,193          |
| Construction in Progress | 0                   | 0                   |
| Buildings & Improvements | 860,775             | 877,110             |
| Equipment                | 5,649               | 11,532              |
| Infrastructure-Streets   | <u>223,287</u>      | <u>246,670</u>      |
| TOTAL                    | \$ <u>1,345,904</u> | \$ <u>1,391,505</u> |

Additional information on the City's Capital Assets can be found in Note 4.

## DEBT ADMINISTRATION

The City did not incur any new long-term debts in fiscal year 2016.

Outstanding long-term debts are as follows:

|               | 2016             | 2015             |
|---------------|------------------|------------------|
| Notes Payable | <u>40,000</u>    | <u>60,000</u>    |
| TOTAL         | \$ <u>40,000</u> | \$ <u>60,000</u> |

Additional information on the City's long-term debts can be found in Note 5.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The 2017 general fund budget is a deficit budget as budgeted expenditures exceed budgeted revenues by \$31,549. This deficit was to be funded from reserve funds on hand on October 1, 2016

General fund budgeted revenues for fiscal year 2017 are \$229,835. These revenues include sales tax, franchise fees, permit and municipal court revenues which were budgeted at levels comparative to the 2016 actual revenues.

Budgeted 2017 general fund expenditures are \$261,384. Budgeted expenditures include \$22,943 for debt service.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City of New Fairview. If you have questions about this report or need any additional information, contact the City Secretary at 400 Woodland Drive, New Fairview, TX 75077 or at (940) 241-2677.

**CITY OF NEW FAIRVIEW, TX**  
**GOVERNMENT-WIDE**  
**STATEMENT OF NET POSITION**

*September 30, 2016*

|  | <b>GOVERNMENTAL<br/>ACTIVITIES</b> |
|--|------------------------------------|
| <b>ASSETS</b>  |                                    |
| <b>CURRENT ASSETS</b>                                |                                    |
| Cash   | \$ 60,127                          |
| Receivable-Sales Taxes                               | 23,168                             |
| <b>TOTAL CURRENT ASSETS</b>                          | <u>83,295</u>                      |
| <b>CAPITAL ASSETS</b>                                |                                    |
| Land   | 256,193                            |
| Buildings & Improvements                             | 914,473                            |
| Equipment  | 108,548                            |
| Infrastructure-Roads                                 | 350,754                            |
| Accumulated Depreciation                             | (284,064)                          |
| <b>NET CAPITAL ASSETS</b>                            | <u>1,345,904</u>                   |
| <b>TOTAL ASSETS</b>                                  | <u>\$ 1,429,199</u>                |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                |                                    |
| Pension Contributions After Measurement Date         | \$ 2,547                           |
| Difference in Projected and Actual Earnings-Pension  | 1,785                              |
| Difference in Expected and Actual Pension Experience | 3,399                              |
| Pension Assumption Changes                           | 4,494                              |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>          | <u>\$ 12,225</u>                   |
| <b>LIABILITIES</b>                                   |                                    |
| <b>CURRENT LIABILITIES</b>                           |                                    |
| Accounts Payable                                     | \$ 13,100                          |
| Accrued Liabilities                                  | 2,134                              |
| Notes Payable  | 40,000                             |
| Net Pension Liability                                | 57,550                             |
| <b>TOTAL CURRENT LIABILITIES</b>                     | <u>112,784</u>                     |
| <b>TOTAL LIABILITIES</b>                             | <u>\$ 112,784</u>                  |
| <b>NET POSITION</b>                                  |                                    |
| Invested in Capital Asset, Net of Related Debt       | 1,305,904                          |
| Unrestricted   | 22,736                             |
| <b>TOTAL NET POSITION</b>                            | <u>\$ 1,328,640</u>                |

CITY OF NEW FAIRVIEW, TX

GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

| FUNCTIONS/PROGRAMS                       | <u>EXPENSES</u>     | <u>CHARGES FOR<br/>SERVICES</u> | <u>OPERATING<br/>GRANTS &amp;<br/>DONATIONS</u> | <u>CAPITAL<br/>GRANTS &amp;<br/>REIMBURSE-<br/>MENTS</u> | <u>NET<br/>(EXPENSE)<br/>REVENUE</u> |
|--|---------------------|---------------------------------|---|--|--------------------------------------|
| <b>GOVERNMENTAL ACTIVITIES:</b>          |                     |                                 |   |  |                                      |
| General Government                       | \$ (212,155)        | \$ 27,398                       | \$ 0  | \$ 0   | \$ (184,757)                         |
| Public Safety                            | (23,251)            | 9,687                           | 0   | 0  | (13,564)                             |
| Public Works                             | (49,608)            | 0                               | 0   | 0  | (49,608)                             |
| Interest on Long-Term Debt               | (2,866)             | 0                               | 0   | 0  | (2,866)                              |
| <b>TOTAL GOVERNMENTAL<br/>ACTIVITIES</b> | <b>\$ (287,880)</b> | <b>\$ 37,085</b>                | <b>\$ 0</b>                                     | <b>\$ 0</b>  | <b>(250,795)</b>                     |
| <b>GENERAL REVENUE</b>                   |                     |                                 |   |  |                                      |
| Sales Taxes                              |                     |                                 |   |  | 154,775                              |
| Franchise Fees                           |                     |                                 |   |  | 32,349                               |
| Interest Income                          |                     |                                 |   |  | 130                                  |
| <b>TOTAL GENERAL REVENUE</b>             |                     |                                 |   |  | <b>187,254</b>                       |
| <b>CHANGE IN NET POSITION</b>            |                     |                                 |   |  | <b>(63,541)</b>                      |
| <b>NET POSITION - BEGINNING</b>          |                     |                                 |   |  | <u>1,392,181</u>                     |
| <b>NET POSITION - ENDING</b>             |                     |                                 |   |  | <u><u>\$ 1,328,640</u></u>           |

**CITY OF NEW FAIRVIEW, TX**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**September 30, 2016**

| <b>ASSETS</b>   |  |                  |
|---|--|------------------|
| Cash  |  | \$ 60,127        |
| Receivables:  |  |                  |
| Sales Taxes   |  | 23,168           |
| <b>TOTAL ASSETS</b>   |  | <u>83,295</u>    |
|   |  |                  |
| <b>LIABILITIES</b>  |  |                  |
| Accounts Payable  |  | 13,100           |
| Accrued Payroll Expenses  |  | 2,134            |
| <b>TOTAL LIABILITIES</b>  |  | <u>15,234</u>    |
|   |  |                  |
| <b>FUND BALANCE</b>   |  |                  |
| Unassigned  |  | 68,061           |
| <b>TOTAL FUND BALANCE</b>   |  | <u>68,061</u>    |
|   |  |                  |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>AND FUND LIABILITIES</b> |  | <u>\$ 83,295</u> |

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO STATEMENT OF NET POSITION**

**September 30, 2016**

|   |  |                     |
|---|--|---------------------|
| Fund Balance Above  |  | \$ 68,061           |
|   |  |                     |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:                                    |  |                     |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Fund Balance Sheet |  | 1,345,904           |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the Fund Balance Sheet:       |  | (40,000)            |
| Net Pension Liability and related deferred inflows and deferred outflows of Resources   |  | (45,325)            |
| <b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>  |  | <u>\$ 1,328,640</u> |



**CITY OF NEW FAIRVIEW, TX**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS**

*For the Year Ended September 30, 2016*

|                                    | <b>GENERAL<br/>FUND</b> |
|------------------------------------|-------------------------|
| <b>REVENUES</b>                    |                         |
| Sales Taxes                        | \$ 154,775              |
| Franchise Fees                     | 32,349                  |
| Municipal Court                    | 9,687                   |
| Permits & Fees                     | 25,450                  |
| Other Revenues                     | 1,948                   |
| Interest Income                    | 130                     |
| <b>TOTAL REVENUES</b>              | <u>224,339</u>          |
| <b>EXPENDITURES</b>                |                         |
| General Government                 | 182,334                 |
| Public Safety                      | 23,251                  |
| Public Works                       | 26,224                  |
| Debt Service - Principal           | 20,000                  |
| Debt Service - Interest            | 2,866                   |
| Capital Outlay                     | 4,667                   |
| <b>TOTAL EXPENDITURES</b>          | <u>259,342</u>          |
| <b>NET CHANGE IN FUND BALANCES</b> | (35,003)                |
| <b>FUND BALANCE - BEGINNING</b>    | 103,064                 |
| <b>FUND BALANCE - ENDING</b>       | <u>\$ 68,061</u>        |

**CITY OF NEW FAIRVIEW, TX**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO  
STATEMENT OF ACTIVITIES**

*For the Year Ended September 30, 2016*

|   |  |    |          |
|---|--|----|----------|
| Net Change in Fund Balance - Governmental Funds |  | \$ | (35,003) |
|---|--|----|----------|

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

Governmental funds report capital outlay as expenditures. However,  
in the statement of activities the cost of these assets is allocated  
over the estimated useful lives as depreciation expense:

|   |  |  |          |
|---|--|--|----------|
| Capital assets recorded in the current period |  |  | 4,667    |
| Depreciation expense on capital assets        |  |  | (50,268) |

|   |  |  |   |
|---|--|--|---|
| The issuance of debt is revenue in the governmental funds, but increases<br>long-term liabilities in the statement of net assets: |  |  | 0 |
|---|--|--|---|

|  |  |  |        |
|--|--|--|--------|
| Repayment on debt principle is an expenditure in the governmental<br>funds, but the repayment reduces long-term liabilities in the statement<br>of net position: |  |  | 20,000 |
|--|--|--|--------|

|   |  |  |         |
|---|--|--|---------|
| Governmental funds report pension expense as it paid into the retirement<br>plan during the fiscal year, However, in the statement of activities pension<br>expense reflects the change in net pension liability and related deferred<br>inflows and outflows of resources. |  |  | (2,937) |
|---|--|--|---------|

|  |  |    |                        |
|--|--|----|------------------------|
| <b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b> |  | \$ | <u><u>(63,541)</u></u> |
|--|--|----|------------------------|

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

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

The City of New Fairview operates under a Council-Mayor form of government, following the laws of a General Law City as defined by the State of Texas. The City provides the following services: code enforcement, inspection, police, municipal court, public works, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles accepted in the United States of America (GAAP) applicable to local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. The more significant accounting policies of the City are discussed below:

**A. REPORTING ENTITY**

These financial statements present the City (the primary government). The City has no component units (separately administered organizations that are controlled or dependent on the City).

**B. BASIC FINANCIAL STATEMENTS-GOVERNMENT-WIDE STATEMENTS:**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's code enforcement inspection, police, municipal court, public works, and general administrative services are classified as governmental activities. The City does not provide any business-type activities.

In the government-wide Statement of Net Position governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net costs of each of the City's Functions (general government, public safety, and public works). The functions are also supported by general government revenues (property, sales, and franchise taxes). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, inspection). Operating grants include operating-specific and discretionary grants while capital grants reflect capital specific grants.

# CITY OF NEW FAIRVIEW

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

The net costs (by function) are normally covered by general revenue (property, sales, and franchise taxes).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

### **C: BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS:**

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The City only provides Governmental Fund type activities and these activities are accounted for the General Fund. The General Fund is the general operating fund of the City. It is used to account for all financial resources of the City.

The City does not provide any Business-type activities.

The City does not have any Fiduciary Funds.

### **D: MEASUREMENT FOCUS/BASIS OF ACCOUNTING:**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

1. Government-wide financial statements and fund financial statements for proprietary funds are presented using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total assets. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

## CITY OF NEW FAIRVIEW

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

2. Governmental fund financial statements are presented using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Measurable" means the amount of the transaction can be determined and "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (typical within 60 days after year end). Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principle and interest on general obligation long-term debt, if any, is recognized only when payment is due.

#### 3. Revenue Recognition:

The City considers property, sales, and franchise taxes as available if collected within 60 days after year end. All other governmental revenues are recognized when received.

#### 4. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles to local governments in the United States of America requires management and those charged with governance to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### 5: New Accounting Principles:

The City has adopted all current GASB pronouncements that are applicable to its operations and activities. The accounting principles governing the reported amounts, financial presentations, and disclosures are subject to change from time to time based on new pronouncements and / or rules issued by various standards-setting bodies. The GASB has issued the following new statements that are potentially applicable to the City of New Fairview.

- Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement will not affect the City.
- Statement No. 77, *Tax Abatement Disclosures*. This statement will not affect the City.
- Statement No.78, *Pension Provided Through Certain Multi-Employer Defined Benefit Pension Plan*. This statement will not affect the City.
- Statement No.79, *Certain External Investment Pools and Pool Participants*. This statement will not affect the City.
- Statement No.80, *Blending Requirements for Certain Component Units*. This statement will not affect the City · Statement No. 72, *Technical Corrections - amendment of GASB no. 10 and No. 62*. This statement will not affect the City.

The City is currently studying these new pronouncements and will adopt them in the fiscal year ending September 2017, as required.

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

**E. FINANCIAL STATEMENT AMOUNTS:**

**1. Cash and cash Equivalents:**

The City has defined cash and cash equivalents to include cash on hand and demand deposits.

**2. Capital Assets:**

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, or improvements and other capital outlays that significantly extend the useful lives of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is provided on the straight-line basis over the following estimated useful lives:

|                  |               |
|------------------|---------------|
| Buildings        | 20 - 50 years |
| Office Equipment | 3 - 10 years  |
| Infrastructure   | 15 - 20 years |

**3. Restricted Resources:**

When an expense is incurred for purposes for which both restricted and unrestricted resources are available the City first applies restricted resources.

**4. Compensated Absences:**

The City Secretary is the only paid employee of the City. The amount, if any, of any accrued compensated absences is immaterial and is not recorded in these financial statements.

**5. Deferred Outflows of Resources:**

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. Deferred outflows of resources reported in this year's financial statement include (1) a deferred outflow of resources for contributions made to the City's retirement plan between the measurement date of the net pension liabilities from the plan and the end of the City's fiscal year end (2) deferred outflows of resources related to differences between the plans' projected and actual earnings (3) deferred outflows related to differences in expected and actual pension experience and (4) differences between actuarial assumptions for demographic factors.

## CITY OF NEW FAIRVIEW

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

The deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred outflows related to differences between projected and actual plan earnings will be amortized to pension expense over a total of five years, including the current fiscal year. The deferred outflows related to differences in expected and actual pension experience will be amortized over 5.36 to 8.21 years, including the current year and the deferred outflows related to assumption changes will be amortized over 5.36 years, including the current year.

No deferred outflows of resources affect the governmental funds financial statements in the current year.

#### **6. Deferred Inflows of resources:**

The City reports increases in net assets that relate to future periods as deferred inflows of revenues. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources reported in this year's financial statements include (1) a deferred inflow of resources for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected no later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet as deferred inflows of resources.

#### **7. Equity Classifications:**

##### *Government-wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Any outstanding debt is reduced by any unspent debt proceeds at the end of the fiscal year before the reduction discussed above.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the criteria of "restricted" or "invested in capital assets, net of related debt."

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable (prepaid expenses), restricted (by parties outside of the government or by enabling legislation), committed (by City Council ordinance or resolution) and unassigned.

**F: BUDGETS AND BUDGETARY ACCOUNTING:**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1: Prior to September 1, the City Secretary submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2: Public hearings are conducted to obtain taxpayer comments.
- 3: Prior to October 1, the budget is legally enacted through the passage of an ordinance.
- 4: Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- 5: Unused appropriations for all of the above budgeted funds lapse at the end of the fiscal year.

For the fiscal year ending September 30, 2016 the following departments had expenditures that exceeded appropriations:

|                | <u>Amount</u> |
|----------------|---------------|
| Administration | \$ 5,036      |
| Public Works   | \$ 18,224     |
| Capital Outlay | \$ 4,667      |



**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

**NOTE 2: DEPOSITS:**

At September 30, 2016, the carrying amount of the City's cash accounts were \$60,127, made up of petty cash of \$100 and \$60,027 held in checking accounts at two local financial institution. The City did not own any investments at September 30, 2016.

Deposit and Investment Risk Disclosures:

(1) Custodial credit risk - Custodial credit risk for deposits is the risk that, in the event of the failure of depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of outside parties.

At September 30, 2016, the City's bank balances (per bank) totaled \$61,527. All of the bank balances were covered by federal depository insurance. The City was not exposed to any custodial credit risk at September 30, 2016.

(2) Credit Risk - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. The City does not currently own any investments and, therefore, is not exposed to credit risk.

(3) Concentration of credit risk - This is the risk of loss attributable to the magnitude of the City's investment in a single issuer. The City does not currently own any investments and, therefore, is not exposed to concentration of credit risk.

(4) Interest rate risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not currently own any investments and, therefore, is not exposed to interest rate risk.

**NOTE 3: PROPERTY TAX:**

Property tax is levied each October 1 on the assessed (appraised) value as of the prior January 1 for all real and personal property located in the City. Taxes are due October 1, the levy date, and are delinquent after the following January 31. Property taxes at the fund level are recorded as receivables and deferred revenues at the time taxes are assessed. Revenues are recognized as the related taxes are collected.

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

**NOTE 4: CAPITAL ASSETS:**

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

|   | BEGINNING           | ADDITIONS          | TRANSFERS<br>&<br>DELETIONS | ENDING              |
|---|---------------------|--------------------|-----------------------------|---------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>            |                     |                    |                             |                     |
| Capital Assets Not Being Depreciation:    |                     |                    |                             |                     |
| Land                                      | \$ 256,193          | \$ 0               | \$ 0                        | \$ 256,193          |
| Construction in Progress                  | <u>0</u>            | <u>0</u>           | <u>0</u>                    | <u>0</u>            |
| Total Cap't Assets Not Being Depreciation | <u>256,193</u>      | <u>0</u>           | <u>0</u>                    | <u>256,193</u>      |
| Building & Improvements                   | 909,806             | 4,667              | 0                           | 914,473             |
| Equipment                                 | 108,548             | 0                  | 0                           | 108,548             |
| Infrastructure-Roads                      | <u>350,754</u>      | <u>0</u>           | <u>0</u>                    | <u>350,754</u>      |
| Total Cap't Assets Being Depreciated      | <u>1,369,108</u>    | <u>4,667</u>       | <u>0</u>                    | <u>1,373,775</u>    |
| <b>LESS ACCUMULATED DEPRECIATION</b>      |                     |                    |                             |                     |
| Building & Improvements                   | 32,696              | 21,000             | 0                           | 53,696              |
| Equipment                                 | 97,016              | 5,884              | 0                           | 102,900             |
| Infrastructure                            | <u>104,084</u>      | <u>23,384</u>      | <u>0</u>                    | <u>127,468</u>      |
| Total Accumulated Depreciation            | <u>233,796</u>      | <u>50,268</u>      | <u>0</u>                    | <u>284,064</u>      |
| Net Capital Assets Being Depreciated      | <u>1,135,312</u>    | <u>(45,601)</u>    | <u>0</u>                    | <u>1,089,711</u>    |
| Net Capital Assets                        | \$ <u>1,391,505</u> | \$ <u>(45,601)</u> | \$ <u>0</u>                 | \$ <u>1,345,904</u> |

DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL ACTIVITIES AS FOLLOWS:

|                                   |                  |
|-----------------------------------|------------------|
| General Government                | \$ 26,884        |
| Public Works                      | 23,384           |
| <b>TOTAL DEPRECIATION EXPENSE</b> | \$ <u>50,268</u> |

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

**NOTE 5: LONG-TERM DEBT:**

During fiscal year 2015 the City borrowed \$60,000 from a local financial institution to provide funds for parking lot improvements at City Hall. The original loan matured and was refinanced in October 2015. The loan requires monthly interest payments at 5.75% and the loan matures November 4, 2016. The loan is unsecured. The balance outstanding at September 30, 2016 was \$40,000.

General long-term debt activity for the fiscal year is as follows:

| GOVERNMENTAL ACTIVITIES: | BEGINNING | ADDITIONS | PAYMENTS    | ENDING    | CURRENT<br>PORTION |
|--------------------------|-----------|-----------|-------------|-----------|--------------------|
| Notes Payable            | \$ 60,000 | \$ 0      | \$ (20,000) | \$ 40,000 | \$ 40,000          |

Future debt maturities are as follows:

| YEAR ENDING<br>SEPTEMBER 30,<br>2016 | PRINCIPAL | INTEREST | TOTAL     |
|--------------------------------------|-----------|----------|-----------|
|                                      | \$ 40,000 | \$ 2,300 | \$ 42,300 |

**NOTE 6: RETIREMENT PLAN:**

A. Plan Description

The City participates as one of 866 plans in the non-traditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas 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) can be obtained at [www.TMRS.com](http://www.TMRS.com).

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

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

**B. Benefits provided**

TMRS provides retirement, disability, and death benefits. Benefits 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 choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

The City has adopted the following plan provisions:

|   | Plan Year<br>2015 | Plan Year<br>2016 |
|---|-------------------|-------------------|
| Employee deposit rate   | 7.00%             | 7.00%             |
| Matching ratio (City to employee)                                     | 1 to 1            | 1 to 1            |
| Years required for vesting  | 5                 | 5                 |
| Service retirement eligibility<br>(expressed as age/years of service) | 60/5 or 0/20      | 60/5 or 0/20      |

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

|  |          |
|--|----------|
| Inactive employees or beneficiaries currently receiving benefits | 1        |
| Inactive employees entitled to but not yet receiving benefits    | 0        |
| Active employees   | <u>1</u> |
|  | 2        |

**C. Contributions**

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

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.77% and 5.46% for the calendar years 2016 and 2015, respectively. The City’s contributions to TMRS for the fiscal year ended September 30, 2016 were \$3,401 and were equal to the required contributions.

CITY OF NEW FAIRVIEW

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

D. Net Pension Liability or Assets

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 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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. For additional conservatism lower termination rates are used, with maximum multipliers of 75%, and the life expectancy is loaded by decreasing the mortality rates by 1% for every active member less than 15. These 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 multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, 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 to account for future mortality improvements subject to the 3% floor.

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

# CITY OF NEW FAIRVIEW

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2016

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class           | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| Domestic Equity       | 17.5%             | 4.55%   |
| International Equity  | 17.5%             | 6.10%   |
| Core Fixed Income     | 10.0%             | 1.00%   |
| Non-Core Fixed Income | 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%              | 8.00%   |
| Total                 | 100.0%            |   |

### ***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.

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

***Changes in Net Pension Liability:***

|  | Total Pension<br>Liability<br>(a) | Plan<br>Fiduciary<br>Net Position<br>(b) | Net Pension<br>Liability<br>(a) - (b) |
|--|-----------------------------------|--|---------------------------------------|
| Balance at December 31, 2014                                     | \$ 101,215                        | \$ 55,199                                | \$ 46,016                             |
| Service Cost   | 5,372                             |  | 5,372                                 |
| Interest   | 7,181                             |  | 7,181                                 |
| Differences between expected<br>and actual results               | 1,955                             |  | 1,955                                 |
| Change in Assumptions  | 5,525                             |  | 5,525                                 |
| Contributions - employer   |                                   | 3,548                                    | (3,548)                               |
| Contributions - employee   |                                   | 4,922                                    | (4,922)                               |
| Net investment income  |                                   | 81                                       | (81)                                  |
| Benefit Payments, including<br>refunds of employee contributions | (2,633)                           | (2,633)                                  | 0                                     |
| Administrative expense   |                                   | (50)                                     | 50                                    |
| Other  |                                   | (2)                                      | 2                                     |
| Net Changes  | <u>17,400</u>                     | <u>5,866</u>                             | <u>11,534</u>                         |
| Balance at December 31, 2015                                     | \$ <u>118,615</u>                 | \$ <u>61,065</u>                         | \$ <u>57,550</u>                      |

***Sensitivity of the net pension liability to changes in the discount rate:***

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

|                              | 1% Decrease<br>in Discount<br>Rate (5.75%) | Discount<br>Rate<br>(6.75%) | 1% Increase<br>in Discount<br>Rate<br>(7.75%) |
|------------------------------|--|-----------------------------|---|
| Town's Net Pension Liability | \$ <u>86,493</u>                           | \$ <u>57,550</u>            | \$ <u>34,963</u>                              |

***Pension Plan Fiduciary Net Position:***

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

**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

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 \$6,338.

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

|  | Deferred<br>Outflows of<br>Resources |    | Deferred<br>Inflows of<br>Resources | Net             |
|--|--------------------------------------|----|-------------------------------------|-----------------|
| Differences between expected and actual economic experience  | \$ 1,785                             | \$ | 0                                   | \$ 1,785        |
| Differences between projected and actual investment earnings | 3,399                                |    |                                     | 3,399           |
| Assumption Changes   | <u>4,494</u>                         |    | <u>0</u>                            | <u>4,494</u>    |
| To be recognized in the future                               | 9,678                                |    | 0                                   | <u>\$ 9,678</u> |
|  |                                      |    |                                     |                 |
| Contributions subsequent to the measurement date             | 2,547                                |    | 0                                   |                 |
|  |                                      |    |                                     |                 |
| Total  | <u>\$ 12,225</u>                     | \$ | <u>0</u>                            |                 |

The \$2,547 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

|                          |  |    |              |  |
|--------------------------|--|----|--------------|--|
| Year Ending December 31, |  |    |              |  |
| 2016                     |  | \$ | 2,303        |  |
| 2017                     |  |    | 2,303        |  |
| 2018                     |  |    | 2,304        |  |
| 2019                     |  |    | 2,181        |  |
| 2020                     |  |    | 527          |  |
| Thereafter               |  |    | <u>60</u>    |  |
|                          |  | \$ | <u>9,678</u> |  |



**CITY OF NEW FAIRVIEW**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2016**

**NOTE 7: RISK MANAGEMENT**

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (“TMLIRP”) which is a public entity insurance risk pool. Annual contributions to TML are reported in the general fund. Management believes coverage presently purchased from TMLIRP is sufficient to preclude significant uninsured losses to the City.

**NOTE 8: SUBSEQUENT EVENTS:**

The City has evaluated all events and transactions that occurred after September 30, 2019 through the date the financial statement were available to be issued. During this period there were no subsequent events requiring disclosure.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF NEW FAIRVIEW, TX**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

For the Year Ended September 30, 2016

|   | ORIGINAL<br>BUDGET | ACTUAL<br>AMOUNTS | VARIANCE<br>WITH FINAL<br>BUDGET |
|---|--------------------|-------------------|----------------------------------|
| <b>RESOURCES (INFLOWS)</b>                  |                    |                   |                                  |
| Sales Taxes                                 | \$ 193,380         | \$ 154,775        | \$ (38,605)                      |
| Franchise Fees                              | 33,831             | 32,349            | (1,482)                          |
| Municipal Court Revenues                    | 7,426              | 9,687             | 2,261                            |
| Permits & Fees                              | 41,801             | 25,450            | (16,351)                         |
| Other Revenues                              | 0                  | 1,948             | 1,948                            |
| Interest Income                             | 4                  | 130               | 126                              |
| <b>TOTAL RESOURCES (INFLOWS)</b>            | <b>276,442</b>     | <b>224,339</b>    | <b>(52,103)</b>                  |
| <b>CHARGES TO APPROPRIATIONS (OUTFLOWS)</b> |                    |                   |                                  |
| <b>General Government:</b>                  |                    |                   |                                  |
| Wages                                       | 70,000             | 72,320            | (2,320)                          |
| Payroll Taxes                               | 8,000              | 5,425             | 2,575                            |
| Health Insurance                            | 6,000              | 6,000             | 0                                |
| Retirement                                  | 2,600              | 3,401             | (801)                            |
| Animal Control                              | 1,500              | 1,335             | 165                              |
| Contract Labor-Code Enforcement             | 5,000              | 4,355             | 645                              |
| Dues, Memberships & Training                | 2,000              | 4,519             | (2,519)                          |
| Engineer Services                           | 5,000              | 2,885             | 2,115                            |
| Inspections                                 | 25,000             | 22,280            | 2,720                            |
| Insurance                                   | 6,600              | 6,948             | (348)                            |
| Legal Services                              | 10,000             | 11,999            | (1,999)                          |
| Miscellaneous Expenses                      | 1,520              | 2,355             | (835)                            |
| Office & Computer Supplies                  | 2,700              | 3,103             | (403)                            |
| Planning Services                           | 10,000             | 14,410            | (4,410)                          |
| Public Notices                              | 800                | 703               | 97                               |
| Repair & Maintenance-Bldg. & Equip.         | 1,000              | 967               | 33                               |
| Street Lights                               | 2,600              | 2,243             | 357                              |
| Telephone & Internet                        | 6,000              | 6,746             | (746)                            |
| Utilities                                   | 6,000              | 5,362             | 638                              |
| <b>Total General Government</b>             | <b>172,320</b>     | <b>177,356</b>    | <b>(5,036)</b>                   |
| <b>Municipal Court:</b>                     |                    |                   |                                  |
| Cleanup Days                                | 1,000              | 0                 | 1,000                            |
| Dues, Memberships & Training                | 180                | 150               | 30                               |
| Judge                                       | 2,500              | 2,882             | (382)                            |
| Postage                                     | -                  | 617               | (617)                            |
| Software                                    | 1,290              | 1,329             | (39)                             |
| <b>Total Municipal Court</b>                | <b>4,970</b>       | <b>4,978</b>      | <b>(8)</b>                       |
| <b>Police:</b>                              |                    |                   |                                  |
| Contract Labor                              | 40,000             | 23,251            | 16,749                           |
| <b>TOTAL Police</b>                         | <b>40,000</b>      | <b>23,251</b>     | <b>16,749</b>                    |

**CITY OF NEW FAIRVIEW, TX**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

For the Year Ended September 30, 2016

|  | ORIGINAL<br>BUDGET       | ACTUAL<br>AMOUNTS       | VARIANCE<br>WITH FINAL<br>BUDGET |
|--|--------------------------|-------------------------|----------------------------------|
| <b>Public Works</b>                                      |                          |                         |                                  |
| Contract Labor   | 5,000                    | 18,159                  | (13,159)                         |
| Equipment Repair   | 0                        | 1,243                   | (1,243)                          |
| Fuel   | 500                      | 1,002                   | (502)                            |
| Street Repairs   | 2,500                    | 5,820                   | (3,320)                          |
| <b>TOTAL Public Works</b>                                | <b>8,000</b>             | <b>26,224</b>           | <b>(18,224)</b>                  |
| <b>Debt Service:</b>                                     |                          |                         |                                  |
| Interest Paid  | 1,152                    | 2,866                   | (1,714)                          |
| Principal Paid   | 50,000                   | 20,000                  | 30,000                           |
| <b>Total Debt Service</b>                                | <b>51,152</b>            | <b>22,866</b>           | <b>28,286</b>                    |
| <b>Capital Outlay:</b>                                   |                          |                         |                                  |
| Building Improvements                                    | 0                        | 4,667                   | (4,667)                          |
| <b>TOTAL CAPITAL OUTLAY</b>                              | <b>0</b>                 | <b>4,667</b>            | <b>(4,667)</b>                   |
| <b>TOTAL APPROPRIATIONS (OUTFLOWS)</b>                   | <b>276,442</b>           | <b>259,342</b>          | <b>17,100</b>                    |
| <b>EXCESS OF RESOURCES OVER<br/>UNDER APPROPRIATIONS</b> | 0                        | (35,003)                | \$ <u><u>(35,003)</u></u>        |
| <b>BEGINNING BUDGETARY FUND BALANCE</b>                  | 103,064                  | 103,064                 |                                  |
| <b>ENDING BUDGETARY FUND BALANCE</b>                     | \$ <u><u>103,064</u></u> | \$ <u><u>68,061</u></u> | \$                               |

CITY OF NEW FAIRVIEW, TX

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

September 30, 2016

| Plan Year  | <u>2015</u>       | <u>2014</u>    |
|--|-------------------|----------------|
| <b>TOTAL PENSION LIABILITY</b>   |                   |                |
| Service Cost   | \$ 5,372          | 7,487          |
| Interest (on the Total Pension Liability)                              | 7,181             | 6,568          |
| Changes in benefit terms   | 0                 | 0              |
| Difference between expected and actual experience                      | 1,955             | 249            |
| Change of assumptions  | 5,525             | 0              |
| Benefit payments, including refunds of employee contributions          | (2,633)           | (6,348)        |
| <b>NET CHANGE IN TOTAL PENSION LIABILITY</b>                           | <u>17,400</u>     | <u>7,956</u>   |
| <b>TOTAL PENSION LIABILITY - BEGINNING</b>                             | <u>101,215</u>    | <u>93,259</u>  |
| <b>TOTAL PENSION LIABILITY - ENDING (a)</b>                            | <u>\$ 118,615</u> | <u>101,215</u> |
| <b>PLAN FIDUCIARY NET POSITION</b>                                     |                   |                |
| Contributions - Employer   | \$ 3,548          | 3,750          |
| Contributions - Employee   | 4,922             | 6,265          |
| Net investment income  | 81                | 2,793          |
| Benefit payments, including refunds of employee contributions          | (2,633)           | (6,348)        |
| Administrative expense   | (50)              | (29)           |
| Other  | (2)               | (2)            |
| <b>NET CHANGE IN PLAN FIDUCIARY NET POSITION</b>                       | <u>5,866</u>      | <u>6,429</u>   |
| <b>PLAN NET FIDUCIARY POSITION - BEGINNING</b>                         | <u>55,199</u>     | <u>48,770</u>  |
| <b>PLAN NET FIDUCIARY POSITION - ENDING (b)</b>                        | <u>\$ 61,065</u>  | <u>55,199</u>  |
| <b>NET PENSION LIABILITY (a) - (b)</b>                                 | <u>\$ 57,550</u>  | <u>46,016</u>  |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | 51.48%            | 54.54%         |
| Covered employee payroll   | \$ 70,312         | 89,497         |
| Net Pension Liability as a percentage of covered payroll               | 81.85%            | 51.42%         |

**CITY OF NEW FAIRVIEW, TX**

**SCHEDULE OF PENSION CONTRIBUTIONS**

**September 30, 2016**

|  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Actuarially Determined Contribution                                  | \$ 3,477    | 3,719       |
| Contributions in relation to the actuarially determined contribution | 3,477       | 3,719       |
| Contribution deficiency (excess)                                     | <u>0</u>    | <u>0</u>    |
| Covered employee payroll   | 70,429      | 71,035      |
| Contributions as a percentage of covered employee payroll            | 4.94%       | 5.24%       |

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

|                               |  |
|-------------------------------|--|
| Actuarial Cost Method         | Entry Age Normal   |
| Amortization Method           | Level Percentage of Payroll, Closed  |
| Remaining Amortization Period | 24 Years   |
| Asset Valuation Method        | 10 Year smoothed market; 15% soft corridor   |
| Inflation                     | 2.50%  |
| Salary Increases              | 3.5% to 10.5%, including inflation   |
| Investment Rate of Return     | 6.75%  |
| Retirement Age                | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014  |
| Mortality                     | RP2000 Combined Mortality Table with Blue Collar Adjustment with male multiplied by 109% and female multiplied by 103% and projected on a fully generational basis with scale BB |

**Other Information:**

Notes There were no benefit changes during the year

**WILLIAM C. SPORE, P.C.**  
**Certified Public Accountants**  
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**Keller, TX 76248**  
**817-421-6619**

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To the City Council  
City of New Fairview, Tx.

In planning and performing my audit of the financial statements of the governmental activities and major fund of the City of New Fairview, Tx. as of and for the year ending September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, I considered the City of New Fairview' internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the governmental unit's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A materiel weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

My consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness.

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

*William C. Spore, PC*  
Certified Public Accountants

September 14, 2020