

CITY OF LEVELLAND, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF LEVELLAND, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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Independent Auditor's Report

To the Mayor and City Council
City of Levelland, Texas

Report on the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flow 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 schedule of changes in the plan's net pension liability and related ratios, and schedule of contributions for the retirement plan, and budgetary comparison information on pages 35 through 39 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relates 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 statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report March 24, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the City's internal control over financial reporting and compliance.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 24, 2017

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

The City of Levelland, Texas' (the City) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

1. Reporting Entity

Primary Government

The City has a council-manager form of government with a mayor and four council members. The Mayor is elected at large for a three-year term and council members are elected to represent residents in four election districts for two-year terms. The terms are staggered so that two council members are elected each year. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs when deemed appropriate by the City. The City Council is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the GASB in its Statement No. 61, *The Financial Reporting Entity*.

Component Units

As defined by GASB No. 61, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The City has two component units that are reflected as discretely presented on the government-wide financial statements.

The Levelland Economic Development Corporation (LEDC), a nonprofit corporation, was incorporated in the State of Texas on March 12, 1992. The purpose of LEDC is to promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for and on behalf of the City of Levelland, Texas.

The Levelland Community Development Corporation (LCDC), a nonprofit corporation, was incorporated in the State of Texas on September 17, 2010. The purpose of the LCDC is to engage in projects primarily for amateur sports, including children's sports, including ballparks, soccer fields and sports and recreational complexes; for public park facilities and open space improvements; for related concession and parking facilities; and for maintenance and operation expenses for any of the above described projects.

Complete stand-alone financial statements for LEDC and LCDC may be obtained from:

City of Levelland
1709 Avenue H
Levelland, Texas 79336

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation – Government-Wide Financial 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 general fund and other funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, highways and streets, recreation and parks, economic development, cemetery and airport services are classified as governmental activities. The City's enterprise services are classified as business-type activities.

In the government-wide Statement of Net Position, the governmental activities, business-type activities, and component unit (a) are presented by column, (b) 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 position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (public safety, highways and streets, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). 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 (public safety, highways and streets, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or franchise taxes, intergovernmental revenues, interest income, etc.).

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 position resulting from the current year's activities. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

b. Basis of Presentation – 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 comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

Major Funds:

General Fund – This governmental fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Fund - This governmental fund is established to account for improvements related to the 2015 Tax Bonds issued.

Non-Major Funds:

Debt Service Fund - This governmental fund is established to account for the payment of bond principal and interest payments.

Capital Project Funds - This governmental fund is established to account for expansion and improvements.

Special Revenue Funds – The special revenue funds are used to account for the receipt of taxes and other revenues dedicated for various purposes.

2. Proprietary Fund – Enterprise Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Enterprise Fund – This fund accounts for the revenues and expenses associated with providing water and sewer, sanitation and other business-type services to the citizens of the City.

A proprietary fund is required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, to be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Fund Balances

The City applies GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Non-spendable fund balance—includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain intact such as the principal of an endowment.

Restricted fund balance—includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

Committed fund balance—includes the portion of net resources upon which the City Commission has imposed limitations on use and those amounts can only be used for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned fund balance—includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance—includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

Fund Balance Policy

Committed Fund Balance—The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council at the City's regular or special meetings. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period (i.e. the City Council may approve the calculation or formula for determining the amount to be committed).

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Assigned Fund Balance—The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

c. Measurement Focus, Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Governmental activities, business-type activities and discretely presented component units in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on 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. "Available" means collectible within the current period or within 45 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 principal and interest on general obligation long-term debt, if any, is recognized when due.

d. Financial Statement Amounts

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investment pools.

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, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-----------------------|-------------------------------|
| Infrastructure | 30 years |
| Buildings | 50 years |
| Building Improvements | 20 years |
| Vehicles | 2-15 years |
| Office Equipment | 3-15 years |
| Computer Equipment | 3-15 years |

3. Revenues:

Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue. The City also recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements related to grants, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as cash paid in advance by the provider and deferred inflows of resources by the City.

4. Expenditures:

Expenditures are recognized when the related fund liability is incurred. In accordance with GASB 63 and 65, any loss on bond refunding is recognized as a deferred outflow of resources on the statement of net position and amortized over the life of the refunding bonds. In addition, bond issue costs are immediately expensed. The City expenses immediately any refunding changes with respect to the debt issued by Canadian River Municipal Water Association (CRMWA) in the City's name.

5. Compensated Absences:

Compensated absences (general leave) for the City includes both vacation and sick pay. General leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid for any accrued general leave earned as set forth by personnel policy.

Vested or accumulated general leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated general leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represents a reconciling item between the fund and government-wide presentations. Vested or accumulated general leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

6. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenue and expenditures or expenses. Reimbursements occur when one fund incurs cost, charges the appropriate benefiting fund and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line item on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line item on the government-wide statement of net position.

7. Encumbrances

The City does not utilize an encumbrance accounting system. At year-end, the City reviews commitments to determine amounts encumbered. At September 30, 2016, there were no material commitments to be indicated by a reserve in the general fund balance.

8. Inventory

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in the governmental activities and governmental funds. The first in first out method is used in the Enterprise Fund.

9. Deferred Inflows of Resources

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

B. Cash and Cash Equivalents

At September 30, 2016, the carrying amount of the City's cash and cash equivalents was \$14,163,007, with a bank balance of \$14,404,325. The City's cash and cash equivalents at September 30, 2016, and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

C. Disaggregation of Accounts Receivable

Estimated uncollectible receivables are charged to current operations under the allowance method of accounting. The allowance for uncollectible balances at September 30, 2016, for the various accounts included in the financial statements is as follows:

| | <u>Total Receivables</u> | <u>Estimated Uncollectible Accounts</u> | <u>Net Receivables</u> |
|-------------------------------|------------------------------|---|----------------------------|
| Governmental Activities: | | | |
| General Fund | | | |
| Ad Valorem Taxes | \$ 280,807 | \$ 160,833 | \$ 119,974 |
| Sales Taxes | 402,632 | | 402,632 |
| Franchise Taxes | 228,849 | | 228,849 |
| Other | 105,563 | | 105,563 |
| Capital Projects Fund | | | |
| Other | 10,927 | | 10,927 |
| Special Revenue Funds | | | |
| Hotel Occupancy Tax | 33,880 | | 33,880 |
| Other | 3,433 | | 3,433 |
| Debt Service | | | |
| Ad Valorem Taxes | 31,459 | 19,163 | 12,296 |
| Other | 653 | | 653 |
| Cemetery Fund | | | |
| Ad Valorem Taxes | 12,410 | 7,755 | 4,655 |
| Other | 982 | | 982 |
| Total Governmental Activities | <u>\$ 1,111,595</u> | <u>\$ 187,751</u> | <u>\$ 923,844</u> |
| Business-Type Activities: | | | |
| Enterprise Fund | | | |
| Customer Accounts | 1,636,560 | 879,002 | 757,558 |
| Primary Government | <u>\$ 2,748,155</u> | <u>\$ 1,066,753</u> | <u>\$ 1,681,402</u> |

D. Investments Policies and Risk

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy.

That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does not address the following risks:

- a. Custodial Credit Risk – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The City's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The City is not exposed to custodial credit risk, for its deposits are all covered by depository insurance and pledged securities held by a third party in the City's name.
- b. Concentration of Credit Risk – The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2016, all of the City's investments are with various financial institutions which are covered by FDIC insurance and pledged securities, and as such the City has no risk.
- c. Credit Risk – The risk that an issuer of other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2016, the City was not significantly exposed to credit risk.
- d. Interest Rate Risk – Not applicable
- e. Foreign Currency Risk – Not applicable

E. Property Taxes

The City is permitted by the State of Texas Constitution to levy taxes up to \$.80 per \$100 of assessed valuation. Taxes are collected by Hockley County from the citizens of Levelland and remitted to the City on a regular basis.

On October 1, 2015, property taxes of \$4,189,786 were levied for the governmental funds. Individual tax levies from the tax roll on October 1, 2015, were delinquent if unpaid at January 31, 2016.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Allowances for uncollectible tax receivables within the General, Cemetery and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property without specific authority from the Texas Legislature.

F. Component Unit Receivable

The City had \$14,221 due from LEDC at September 30, 2016 for their share of administration costs.

G. Capital Assets

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

| | Balance 10/1/2015 | Increases | Transfers/ Decreases | Balance 9/30/2016 |
|---|----------------------|-----------------------|-------------------------|----------------------|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 1,607,657 | \$ | \$ | \$ 1,607,657 |
| Construction Work in Progress | <u>5,797,456</u> | <u>(5,444,582)</u> | <u></u> | <u>352,874</u> |
| Total Capital Assets Not Being Depreciated | <u>\$ 7,405,113</u> | <u>\$ (5,444,582)</u> | <u>\$ 0</u> | <u>\$ 1,960,531</u> |
| Depreciable Assets: | | | | |
| Buildings and Systems | \$ 1,919,998 | \$ 5,909,499 | \$ | \$ 7,829,497 |
| Improvements Other Than Buildings | 23,378,943 | 1,269,478 | | 24,648,421 |
| Machinery and Equipment | <u>6,300,684</u> | <u>641,798</u> | <u>188,028</u> | <u>6,754,454</u> |
| Total Depreciable Assets | <u>\$ 31,599,625</u> | <u>\$ 7,820,775</u> | <u>\$ 188,028</u> | <u>\$ 39,232,372</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Systems | \$ 424,650 | \$ 163,550 | \$ | \$ 588,200 |
| Improvements Other Than Buildings | 7,716,944 | 511,808 | | 8,228,752 |
| Machinery and Equipment | <u>3,696,936</u> | <u>494,693</u> | <u>135,775</u> | <u>4,055,854</u> |
| Total Accumulated Depreciation | <u>\$ 11,838,530</u> | <u>\$ 1,170,051</u> | <u>\$ 135,775</u> | <u>\$ 12,872,806</u> |
| Total Depreciable Assets, Net | <u>\$ 19,761,095</u> | <u>\$ 6,650,724</u> | <u>\$ 52,253</u> | <u>\$ 26,359,566</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 27,166,208</u> | <u>\$ 1,206,142</u> | <u>\$ 52,253</u> | <u>\$ 28,320,097</u> |

Depreciation was charged to governmental activities as follows:

| | |
|----------------------|---------------------|
| General Government | \$ 41,660 |
| Public Safety | 339,366 |
| Highways and Streets | 438,308 |
| Recreation and Parks | 201,794 |
| Cemetery | 32,157 |
| Airport | 116,766 |
| | <u>\$ 1,170,051</u> |

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

| | Balance 10/1/2015 | Increases | Transfers In | Balance 9/30/2016 |
|---|----------------------|---------------------|-------------------|----------------------|
| Business-Type Activities: | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 523,424 | \$ | \$ | \$ 523,424 |
| Construction Work in Progress | 23,553 | | | 23,553 |
| Total Capital Assets Not Being Depreciated | <u>\$ 546,977</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 546,977</u> |
| Depreciable Assets: | | | | |
| Buildings and Systems | \$ 996,148 | \$ | \$ | \$ 996,148 |
| Improvements Other Than Buildings | 20,802,787 | 535,507 | | 21,338,294 |
| Machinery and Equipment | 2,882,628 | 460,174 | 121,725 | 3,464,527 |
| Total Depreciable Assets | <u>\$ 24,681,563</u> | <u>\$ 995,681</u> | <u>\$ 121,725</u> | <u>\$ 25,798,969</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Systems | \$ 259,139 | \$ 19,814 | \$ | \$ 278,953 |
| Improvements Other Than Buildings | 7,560,263 | 508,477 | | 8,068,740 |
| Machinery and Equipment | 1,303,084 | 266,288 | 85,211 | 1,654,583 |
| Total Accumulated Depreciation | <u>\$ 9,122,486</u> | <u>\$ 794,579</u> | <u>\$ 85,211</u> | <u>\$ 10,002,276</u> |
| Total Depreciable Assets, Net | <u>\$ 15,559,077</u> | <u>\$ 201,102</u> | <u>\$ 36,514</u> | <u>\$ 15,796,693</u> |
| Investment in Water Facilities | \$ 12,886,184 | \$ | \$ | \$ 12,886,184 |
| Accumulated Amortization Investment in Water Facilities | (5,561,541) | (341,979) | | (5,903,520) |
| Net Investment in Water Facilities | <u>\$ 7,324,643</u> | <u>\$ (341,979)</u> | <u>\$ 0</u> | <u>\$ 6,982,664</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 23,430,697</u> | <u>\$ (140,877)</u> | <u>\$ 36,514</u> | <u>\$ 23,326,334</u> |

H. Investment in Water Facilities and Related Debt

The City, along with several West Texas municipalities, entered into various contracts with the Canadian River Municipal Water Authority (CRMWA), to participate in the construction and maintenance of water gathering, holding, treatment, and transmission facilities. Under the agreements, CRMWA agreed to issue revenue bonds to finance construction and maintenance of the facilities and the City agreed to pay back their share of the total annual debt service requirements. Additionally, the City entered into a similar agreement with the City of Lubbock, Texas, for the acquisition and maintenance of a water treatment facility. The total investment made by the City to obtain its total water rights was \$12,886,184, including other amounts invested.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following schedules comprise the debt outstanding related to the CRMWA contracts as September 30, 2016:

| Water Facilities Debt | Balance 10/1/2015 | Addition | Principal Payments | Principal Refunded | Refunding Changes | Balance 9/30/2016 |
|-------------------------------|----------------------|-------------|-----------------------|-----------------------|----------------------|----------------------|
| Series 2010, Refunding, CUP | \$ 106,550 | \$ | \$ 18,102 | \$ | \$ | \$ 88,448 |
| Series 2010, Refunding, BUREC | 379,901 | | 96,097 | | | 283,804 |
| Series 2012, Refunding, BUREC | 1,209,896 | | 32,280 | | | 1,177,616 |
| Series 2006, CUP | 20,798 | | 20,798 | | | - |
| Series 2009, CUP | 462,721 | | 24,726 | | | 437,995 |
| Series 2011, Refunding, CUP | 1,191,505 | | 55,036 | | | 1,136,469 |
| Series 2014, Refunding, CUP | 1,288,556 | | 137,289 | | | 1,151,267 |
| | <u>\$ 4,659,927</u> | <u>\$ 0</u> | <u>\$ 384,328</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 4,275,599</u> |

| Water Facilities Debt | Maturity | Interest Rates |
|--|----------|----------------|
| Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2005 | 2020 | 2.0%-5.0% |
| Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2009 | 2029 | 4.2% |
| Revenue Refunding Bonds, Bureau of Reclamation Project, Series 2010 | 2018 | 3.0%-5.0% |
| Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2010 | 2021 | 3.0%-3.5% |
| Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2011 | 2031 | 3.0%-5.0% |
| Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2012 | 2025 | 2.6% |
| Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2014 | 2027 | 2.0%-5.0% |

The City paid \$213,791 in interest related to this debt for the year ended September 30, 2016.

Debt service requirements on all long-term debt outstanding at September 30, 2016, are as follows:

| Year Ending September 30, | CRMWA | | |
|---------------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ 404,212 | \$ 199,842 | \$ 604,054 |
| 2018 | 488,493 | 184,183 | 672,676 |
| 2019 | 341,826 | 163,236 | 505,062 |
| 2020 | 357,821 | 147,228 | 505,049 |
| 2021 | 371,392 | 129,719 | 501,111 |
| 2022-2026 | 1,735,343 | 363,929 | 2,099,272 |
| 2027-2031 | 576,512 | 63,252 | 639,764 |
| Totals | <u>\$ 4,275,599</u> | <u>\$ 1,251,389</u> | <u>\$ 5,526,988</u> |

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Investment in Water Facilities at cost as of September 30, 2016 is as follows:

| | Beginning | Additions | Deletions/ Other | Ending |
|--|----------------|--------------|-----------------------------------|---------------|
| Cost: | | | | |
| CRMWA | \$ 12,316,077 | \$ | \$ | \$ 12,316,077 |
| City of Lubbock | 370,107 | | | 370,107 |
| Other | 200,000 | | | 200,000 |
| Total Cost of Water Facilities | \$ 12,886,184 | \$ 0 | \$ 0 | \$ 12,886,184 |
| Accumulated Amortization: | | | | |
| CRMWA | \$ 5,195,223 | \$ 335,663 | \$ | \$ 5,530,886 |
| City of Lubbock | 342,318 | 2,316 | | 344,634 |
| Other | 24,000 | 4,000 | | 28,000 |
| Total Accumulated Amortization | \$ 5,561,541 | \$ 341,979 | \$ 0 | \$ 5,903,520 |
| Total Investment in Water Facilities | \$ 7,324,643 | \$ (341,979) | \$ 0 | \$ 6,982,664 |
| Investments in Water Facilities, Net of Related Debt: | Net Investment | Debt | Investment Net of Related Debt | |
| CRMWA | \$ 6,785,191 | \$ 4,275,599 | \$ 2,509,592 | |
| City of Lubbock | 25,473 | | 25,473 | |
| Other | 172,000 | | 172,000 | |
| Totals | \$ 6,982,664 | \$ 4,275,599 | \$ 2,707,065 | |

I. Long-Term Debt

The City's long-term debt is made up of bonds, unamortized premiums on bonds, notes, and compensated absences, the activity from the year is summarized below. These liabilities have been grouped by primary government activities in which the debts are recorded and serviced and show the amounts payable at September 30, 2016:

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year | Interest and Fees |
|-------------------------------|----------------------|--------------|------------|-------------------|-----------------------------------|----------------------|
| Governmental Activities: | | | | | | |
| Series 2012, GO Bonds | \$ 2,215,000 | \$ | \$ 195,000 | \$ 2,020,000 | \$ 200,000 | \$ 48,400 |
| Series 2007, CO Bonds | 375,000 | | 375,000 | 0 | | 7,500 |
| Series 2009, CO Bonds | 3,450,000 | | 185,000 | 3,265,000 | 195,000 | 136,410 |
| Series 2013, CO Bonds | 4,185,000 | | 180,000 | 4,005,000 | 180,000 | 101,431 |
| Series 2015, Tax Notes | | 3,550,000 | | 3,550,000 | 570,000 | 42,756 |
| Compensated Absences | 0 | 496,387 | | 496,387 | 124,097 | |
| Unamortized Bond Premiums | 287,973 | | 22,188 | 265,785 | | |
| Total Governmental Activities | \$ 10,512,973 | \$ 4,046,387 | \$ 957,188 | \$ 13,602,172 | \$ 1,269,097 | \$ 336,497 |

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

| | Beginning Balance | Increases | Decreases | Ending Balance | Amounts Due Within One Year | Interest and Fees |
|---------------------------------------|----------------------|------------------|-------------------|---------------------|-----------------------------------|----------------------|
| Business-Type Activities: | | | | | | |
| CRMWA - Debt | \$ 4,659,927 | \$ | \$ 384,328 | \$ 4,275,599 | \$ 404,212 | \$ 213,791 |
| Note Payable | 861,133 | | 182,960 | 678,173 | 190,835 | 33,682 |
| Compensated Absences | 0 | 70,511 | | 70,511 | 17,628 | |
| Unamortized Net Bond Premium | 140,294 | 150 | | 140,444 | | |
| Total Business-Type Activities | \$ 5,661,354 | \$ 70,661 | \$ 567,288 | \$ 5,164,727 | \$ 612,675 | \$ 247,473 |

Detail on the maturity dates and interest rates of the outstanding Long-Term Debt of the City as of September 30, 2016 are as follows:

Governmental Activities:

| <u>Debt</u> | <u>Year of Maturity</u> | <u>Interest Rate</u> |
|------------------------|-------------------------|----------------------|
| Series 2012, GO Bonds | 2025 | 2.00% - 2.75% |
| Series 2007, CO Bonds | Paid Off in 2016 | 4.00% |
| Series 2009, CO Bonds | 2029 | 4.00% - 4.13% |
| Series 2013, CO Bonds | 2033 | 2.00% - 3.13% |
| Series 2015, Tax Notes | 2022 | 1.63% |

Business-Type Activities:

| <u>Debt</u> | <u>Year of Maturity</u> | <u>Interest Rate</u> |
|--------------|-------------------------|----------------------|
| CRMWA - Debt | See Note H | See Note H |
| Note Payable | 2020 | 4.25% |

Debt service requirements on all long-term debt outstanding at September 30, 2016, are as follows:

| Year Ending September 30, | Governmental Activities | | |
|---------------------------|-------------------------|---------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2017 | \$ 1,145,000 | \$ 328,956 | \$ 1,473,956 |
| 2018 | 1,175,000 | 304,015 | 1,479,015 |
| 2019 | 1,200,000 | 277,836 | 1,477,836 |
| 2020 | 1,230,000 | 250,976 | 1,480,976 |
| 2021 | 1,265,000 | 223,687 | 1,488,687 |
| 2022-2026 | 4,025,000 | 726,321 | 4,751,321 |
| 2027-2031 | 2,220,000 | 246,619 | 2,466,619 |
| 2032-2033 | 580,000 | 18,281 | 598,281 |
| Unamortized Bond Premiums | 265,785 | | 265,785 |
| Totals | \$ 13,105,785 | \$ 2,376,691 | \$ 15,482,476 |

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

| Year Ending September 30, | Business-Type Activities | | |
|---------------------------|--------------------------|--------------|--------------|
| | Principal | Interest | Total |
| 2017 | \$ 595,047 | \$ 225,650 | \$ 820,697 |
| 2018 | 687,569 | 201,750 | 889,319 |
| 2019 | 549,498 | 172,207 | 721,705 |
| 2020 | 438,411 | 148,390 | 586,801 |
| 2021 | 371,392 | 129,719 | 501,111 |
| 2022-2026 | 1,735,343 | 363,929 | 2,099,272 |
| 2027-2031 | 576,512 | 63,252 | 639,764 |
| Unamortized Bond Premiums | 140,444 | | 140,444 |
| Totals | \$ 5,094,216 | \$ 1,304,897 | \$ 6,399,113 |

LCDC is obligated to the City to make all debt payments on the Series 2013 Certificate of Obligation Bonds. LEDC is obligated to the City to make all debt payments, in excess of TIF #2 property tax payments received, on the Series 2009 Certificate of Obligation Bonds. These amounts are shown as Operating Grants and Contributions to offset Interest and Fees Related to Debt under the governmental activities.

J. Pension Plan

Plan Description

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

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

Benefits Provided

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

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

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Currently the City has adopted the following provisions related to the pension plan:

| | <u>December 31, 2015</u> |
|--|---------------------------|
| Employee Deposit Rate | 6% |
| Matching Ratio (City to Employee) | 2 to 1 |
| Years Required for Vesting | 5 |
| Service Requirement Eligibility (Expressed as Age / Years of Service) | 60/5,0/20 |
| Updated Service Credit | 100% Repeating, Transfers |
| Annuity Increase (to Retirees) | 70% of CPI |

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 | 49 |
| Inactive Employees Entitled to but not Yet Receiving Benefits | 26 |
| Active Employees | <u>96</u> |
| Total Plan Employees | <u><u>171</u></u> |

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 were required to contribute 6.00% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 12.55% and 12.13% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$608,954, and were equal to the required contributions.

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 NPL was determined by an actuarial valuation as of that date.

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 |
| Amortization Period | 30 years |

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Actuarial assumptions used in the December 31, 2015 valuation were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Assumptions are reviewed annually and a result of the review TMRS changed the inflation rate from 3.00% to 2.50% and the investment return assumption from 7.00% to 6.75%.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|-----------------------|--------------------------|--|
| Domestic Equity | 17.5% | 4.5% |
| International Equity | 17.5% | 6.1% |
| Core Fixed Income | 10.0% | 1.0% |
| Non-Core Fixed Income | 20.0% | 3.7% |
| Real Return | 10.0% | 4.0% |
| Real Estate | 10.0% | 5.0% |
| Absolute Return | 10.0% | 4.0% |
| Private Equity | 5.0% | 8.0% |

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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 Net Pension Asset (Liability)

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Asset (Liability) |
|---|-------------------------|-----------------------------|-------------------------------|
| Balance 12/31/2014 | \$ 23,634,428 | \$ 22,139,011 | \$ (1,495,417) |
| Service Cost | 675,914 | | (675,914) |
| Interest (on the Total Pension Liability) | 1,627,583 | | (1,627,583) |
| Difference Between Expected and Actual Expenses | (53,434) | | 53,434 |
| Changes of Assumptions | 144,698 | | (144,698) |
| Contributions - Employee | | 291,133 | 291,133 |
| Contributions - Employer | | 600,220 | 600,220 |
| Net Investment Income | | 32,287 | 32,287 |
| Benefit Payments | (891,337) | (891,337) | |
| Administrative Expense | | (19,666) | (19,666) |
| Other | (17,433) | (972) | 16,461 |
| Balance 12/31/2015 | \$ 25,120,419 | \$ 22,150,676 | \$ (2,969,743) |

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

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

| 1% Decrease | Current Rate Assumption | 1% Increase |
|--------------|-------------------------|-------------|
| \$ 6,503,580 | \$ 2,969,743 | \$ 70,395 |

Pension Plan Fiduciary Net Position

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

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Pension Expense, Deferred Outflows, and Deferred Inflows Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$861,807 and calculated as shown below:

| | | |
|---|----|-----------------------|
| Total Service Cost | \$ | 675,914 |
| Interest on the Total Pension Liability | | 1,627,583 |
| Employee Contributions (Reduction of Expense) | | (291,133) |
| Projected Earnings on Plan Investments (Reduction of Expense) | | (1,531,665) |
| Administrative Expense | | 19,666 |
| Other Changes in Fiduciary Net Position | | 972 |
| Recognition of Current Year Outflow (Inflow) of Resources-Liabilities | | 7,064 |
| Recognition of Current Year Outflow (Inflow) of Resources-Assets | | <u>353,406</u> |
| Total Pension Expense | \$ | <u><u>861,807</u></u> |

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

| <u>Deferred Outflows/(Inflows) of Resources - Pension Plan</u> | <u>Plan Year</u> | <u>Amount</u> | <u>Remaining Amortization Period</u> |
|--|------------------|----------------------------|--|
| Employer Contribution Deferrals | 2015 | \$ 459,123 | 1.000 |
| Differences Between Projected and Actual Investment Earnings | 2014 | 160,588 | 3.000 |
| Differences Between Projected and Actual Investment Earnings | 2015 | 1,199,502 | 4.000 |
| Differences Between Expected and Actual Economic Experience | 2014 | (33,500) | 3.260 |
| Differences Between Expected and Actual Economic Experience | 2015 | (43,276) | 4.260 |
| Difference in Assumptions | 2015 | 117,189 | 4.260 |
| Total Deferred Outflows/(Inflows) of Resources | | <u><u>\$ 1,859,626</u></u> | |

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Plan Year</u> | <u>Amortization of Deferred Outflows</u> |
|------------------|--|
| 2016 | \$ 819,590 |
| 2017 | 360,467 |
| 2018 | 360,467 |
| 2019 | 319,102 |
| 2020 | |
| | <u><u>\$ 1,859,626</u></u> |

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

K. Commitments, Contingencies, and Subsequent Events

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

The City has no litigation pending which would have a material impact on the financial statements.

The City has evaluated subsequent events through March 24, 2017, the date which the financial statements were available to be issued.

At September 30, 2016, the City is committed to paying \$3,882,979 for the construction of the Levelland Fire Station.

L. Closure and Post Closure Care Costs

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City will start reporting a portion of these closure and post closure care costs in 2017 and thereafter, as an operating expense in each period based on landfill capacity used as of each balance sheet date. No amounts were recorded in 2016, since the percentage used was only 0.74% of the total capacity. The City will recognize the estimated cost of closure and post closure care of \$764,336 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care at September 30, 2016. Actual costs in the future may be higher due to inflation, changes in technology, or changes in regulations.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

M. Prior Period Adjustments and Restated Fund Balance/Net Position

The following are prior period adjustments made to the governmental funds and primary government fund balances and net position.

Governmental Funds:

| | Nonmajor Governmental Funds | Enterprise Fund |
|--|-----------------------------------|--------------------|
| Beginning Fund Balance/Net Position | \$ 2,479,076 | \$ 20,825,148 |
| <hr/> | | |
| Prior Period Adjustment Description | | |
| Move Waste Water Capital Projects Fund to Enterprise Fund | (939,780) | 939,780 |
| Beginning Balance Adjustment for NPL and Deferred Outflows and Inflows | | (148,924) |
| Beginning Balance Adjustment for Bond Discount | | 29,419 |
| | <hr/> | <hr/> |
| Restated Fund Balance/Net Position | \$ 1,539,296 | \$ 21,645,423 |

Primary Government:

| | Governmental Activities | Business- Type Activities |
|---|----------------------------|---------------------------------|
| Beginning Net Position - September 30, 2015 | \$ 26,334,963 | \$ 20,676,228 |
| <hr/> | | |
| Prior Period Adjustment Description | | |
| Move Waste Water Capital Projects Fund to Enterprise Fund | (939,780) | 939,780 |
| Unamortized Bond Premium | (287,973) | |
| Beginning Balance Adjustment for Bond Discount | | 29,419 |
| Beginning Balance Adjustment - Other | (205) | (4) |
| | <hr/> | <hr/> |
| Restated Net Position - September 30, 2015 | \$ 25,107,005 | \$ 21,645,423 |

CITY OF LEVELLAND, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN
SEPTEMBER 30, 2016

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 | Ten 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:

Changes in Assumptions:

TMRS changes the Long Term Rate of Return and Discount Rate from 7.00% to 6.75% and the Inflation Rate from 3.00% to 2.50% as result of updated experience studies during the year ended December 31, 2015.

Benefits Changes:

There were no benefit changes during the year.

CITY OF LEVELLAND, TEXAS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SEPTEMBER 30, 2016**

BUDGETARY DATA

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

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Commission is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. The legal level of control is at the function level. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

REQUIRED SUPPLEMENTARY INFORMATION

OVERALL INTERNAL CONTROL AND COMPLIANCE SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the City Commission
City of Levelland, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Levelland, Texas' basic financial statements and have issued our report thereon dated March 24, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 24, 2017

SUPPLEMENTARY INFORMATION