

**CITY OF MANOR, TEXAS
ANNUAL FINANCIAL REPORT
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2016**

CITY OF MANOR, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 to 9, budgetary comparison information on page 43, schedule of changes in the City's net pension asset/liability and related ratios - last ten years on page 45, and Texas Municipal Retirement System schedule of funding progress on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 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 the City's internal control over financial reporting and compliance.

Atehly & Associates, LLP

Austin, Texas
May 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MANOR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2016

This section of the City of Manor's (the City) annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2016. This discussion and analysis should be read in conjunction with the City's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. The basic financial statements include two types of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- Governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The financial statements also include notes to the financial statements explaining some of the information in the financial statements and provide more detailed data.
- The report also contains required supplementary information in addition to the basic financial statements themselves. This contains additional information about the City's General Fund budget and information about the City's pension plan.

FIGURE A-1
REQUIRED COMPONENTS OF THE
CITY'S ANNUAL FINANCIAL REPORT

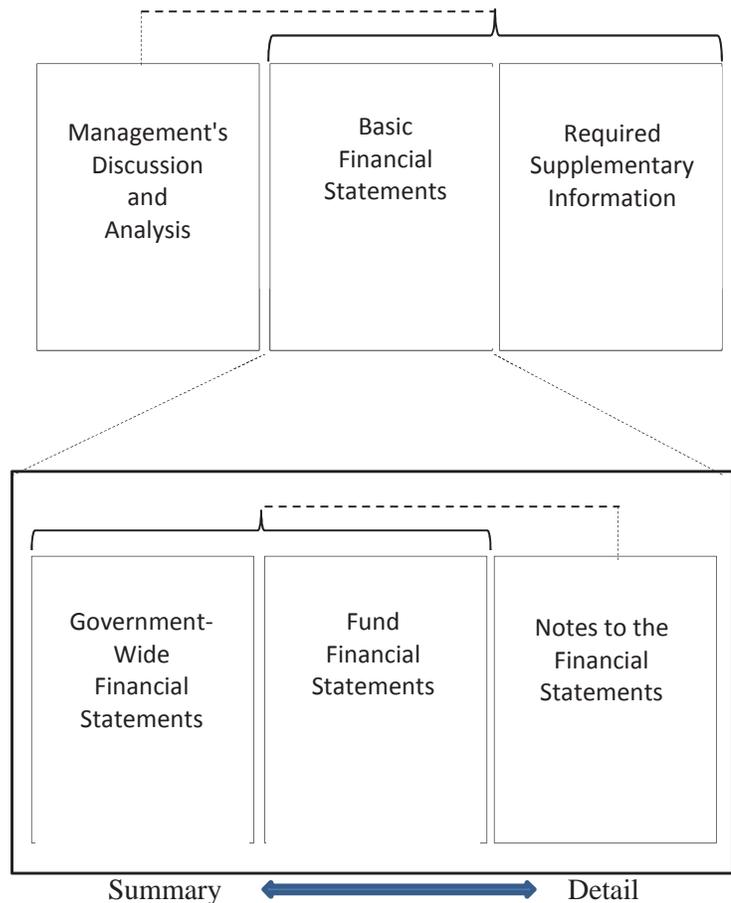


Figure A-1 shows how the parts of this annual report are arranged and related to one another.

The remainder of this overview explains the structure and contents of each of the statements.

CITY OF MANOR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2016

Government-Wide Financial Statements

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector businesses. The statement of net position includes all of the government's assets and liabilities. In the statement of activities, all of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid, and all of the City's governmental activities and city services are combined and show how they are financed.

Both government-wide statements report the City's net position and how it has changed. Net position, the difference between the City's assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant (major) funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific revenue sources and spending for particular purposes.

All cities have at least one major fund:

- Governmental fund – The City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that 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. Because these funds do not encompass the additional long-term focus of the government-wide statements, additional information is provided following each fund statement that explains the relationship (or difference) between them.

Other common major funds:

- Some common funds are required by State law, such as the debt service fund, special revenues fund and capital projects fund.
- Management may establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenue resources, such as special revenue, capital project, and grant funds.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the city government they cover, and the types of information they contain.

CITY OF MANOR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2016

Figure A-2 - Major Features of the City's Government-Wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements		
	Government-Wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units.	The activities of the City that are not proprietary or fiduciary.	Activities the City operates similar to private business: utilities
<i>Required financial statements</i>	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures & Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expenses & Changes in Net Position Statement of Cash Flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after year end; expenditures when goods or services have been received and payment is made during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

THE CITY AS A WHOLE (GOVERNMENT-WIDE)

FINANCIAL HIGHLIGHTS

- The City's total combined net position was \$16,522,032 at September 30, 2016 (See Figure A-3).
- Current year activity resulted in an increase in the City's net position by \$1,728,226 (See Figure A-4).

CITY OF MANOR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2016

Figure A-3
City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets:						
Current and other assets	\$2,383,342	\$1,474,120	\$26,374,978	\$ 7,399,964	\$28,758,320	\$ 8,874,084
Noncurrent assets	6,788,511	7,262,595	9,845,975	10,063,225	16,634,486	17,325,820
Total assets	<u>9,171,853</u>	<u>8,736,715</u>	<u>36,220,953</u>	<u>17,463,189</u>	<u>45,392,806</u>	<u>26,199,904</u>
Deferred outflows	564,395	450,808	25,721	-	590,116	450,808
Liabilities:						
Current liabilities	1,224,014	948,165	1,235,894	449,531	2,459,908	1,397,696
Long-term liabilities	8,914,701	9,211,879	18,086,281	1,247,331	27,000,982	10,459,210
Total liabilities	<u>10,138,715</u>	<u>10,160,044</u>	<u>19,322,175</u>	<u>1,696,862</u>	<u>29,460,890</u>	<u>11,856,906</u>
Deferred inflows	-	-	-	-	-	-
Net position:						
Investment in capital assets	(2,814,175)	(2,731,877)	8,913,866	8,954,465	6,099,691	6,222,588
Restricted	709,316	796,775	21,551,698	2,926,650	22,261,014	3,723,425
Unrestricted	1,702,392	962,581	(13,541,065)	3,885,212	(11,838,673)	4,847,793
Total net position	<u>\$ (402,467)</u>	<u>\$ (972,521)</u>	<u>\$16,924,499</u>	<u>\$15,766,327</u>	<u>\$16,522,032</u>	<u>\$14,793,806</u>

CITY OF MANOR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2016

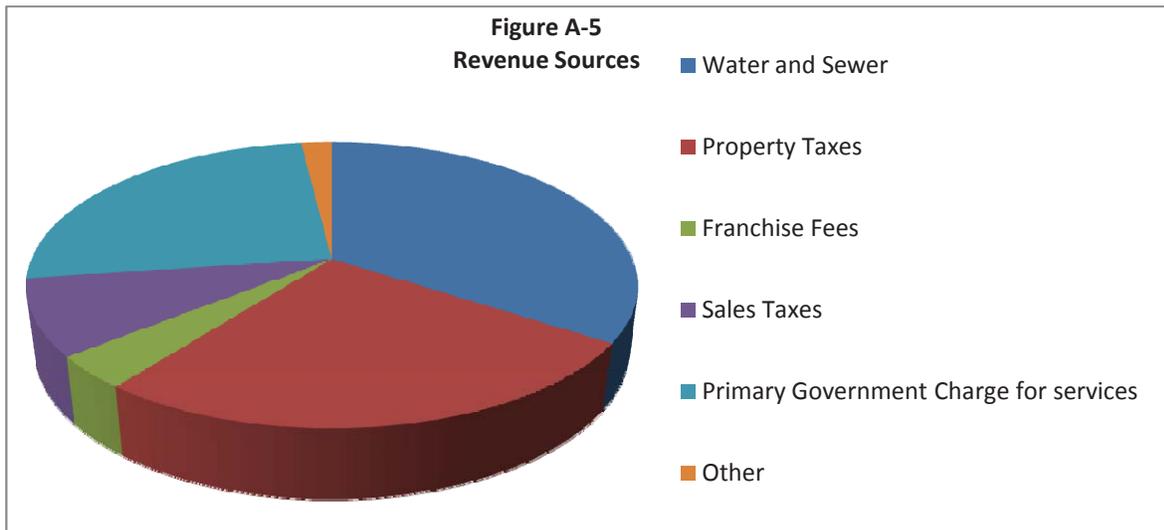
Figure A-4
Changes in City Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues						
Charges for services	\$2,852,780	\$2,376,669	\$ 3,878,002	\$ 3,652,657	\$ 6,730,782	\$ 6,029,326
General revenues:						
Taxes	4,418,079	3,734,807	-	-	4,418,079	3,734,807
Fines and penalties	-	-	-	-	-	-
Interest and penalties	6,249	3,214	2,779	1,496	9,028	4,710
Other	160,076	33,484	-	-	160,076	33,484
Total revenues	<u>7,437,184</u>	<u>6,148,174</u>	<u>3,880,781</u>	<u>3,654,153</u>	<u>11,317,965</u>	<u>9,802,327</u>
Expenses:						
General government	1,523,852	1,058,125	-	-	1,523,852	1,058,125
Public safety	2,250,690	2,035,132	-	-	2,250,690	2,035,132
Streets	966,548	806,536	-	-	966,548	806,536
Municipal court	479,248	377,537	-	-	479,248	377,537
Development services	296,886	267,616	-	-	296,886	267,616
Sanitation	611,347	556,638	-	-	611,347	556,638
Bond issue cost	1,601	56,820	-	-	1,601	56,820
Interest and fiscal charges	276,007	124,762	166,925	181,628	442,932	306,390
Water and sewer	-	-	3,016,635	2,709,512	3,016,635	2,709,512
Total expenses	<u>6,406,179</u>	<u>5,283,166</u>	<u>3,183,560</u>	<u>2,891,140</u>	<u>9,589,739</u>	<u>8,174,306</u>
Revenues over(under) expenses	1,031,005	865,008	697,221	763,013	1,728,226	1,628,021
Capital contributions	-	-	-	-	-	-
Transfers	(460,951)	(3,543,967)	460,951	3,543,967	-	-
Change in net position	570,054	(2,678,959)	1,158,172	4,306,980	1,728,226	1,628,021
Beginning net position	(972,521)	1,485,824	15,766,327	11,459,347	14,793,806	12,945,171
Restatement	-	220,614	-	-	-	220,614
Ending net position	<u>\$ (402,467)</u>	<u>\$ (972,521)</u>	<u>\$16,924,499</u>	<u>\$15,766,327</u>	<u>\$16,522,032</u>	<u>\$14,793,806</u>

CITY OF MANOR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2016

CITY REVENUES

The majority of the City's revenue is generated from charges for water and sewer services (34%), property taxes (26%), and primary government charges for services (25%). The remaining is obtained from the grants, contributions, sales taxes, franchise fees, court fees and other sources (See Figure A-5).



GROWTH TRENDS

Governmental Activities

The City's property tax rate for maintenance and operations (M&O) increased from \$0.3801 to \$0.4381 in the current fiscal year generating \$1,815,065 in M&O taxes, an increase of \$517,505 over the previous fiscal year. While the City's franchise fees decreased \$37,160, or 8%, and sales taxes increased by \$172,253, or 21%.

Business-Type Activities

Water sales increased by \$141,126 or 10%, while sewer sales increased by \$111,624, or 8%.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

General Fund expenditures exceeded revenues and transfers by \$558,523 which was \$1,298,108 more than budgeted. See details of budget and actual revenues on page 43.

Capital Assets

During the year ended September 30, 2016, the City invested \$481,414 in a broad range of capital assets, including infrastructure, equipment and buildings (See Figure A-6). These additions were funded from bond proceeds and notes payables.

CITY OF MANOR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2016

Figure A-6
City's Capital Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 470,607	\$ 470,607	\$ 406,816	\$ 406,816	\$ 877,423	\$ 877,423
Buildings and equipment	5,254,317	4,938,980	346,129	280,124	5,600,446	5,219,104
Sidewalks	244,164	244,164	-	-	244,164	244,164
Streets and improvements	5,383,195	5,283,124	12,992	12,992	5,396,187	5,296,116
Water system	-	-	7,465,930	7,465,930	7,465,930	7,465,930
Sewer system	-	-	5,692,383	5,692,383	5,692,383	5,692,383
Total at historical cost	11,352,283	10,936,875	13,924,250	13,858,245	25,276,533	24,795,120
Accumulated depreciation	(4,563,772)	(3,809,373)	(4,078,275)	(3,795,020)	(8,642,047)	(7,604,393)
Net capital assets	\$ 6,788,511	\$ 7,127,502	\$ 9,845,975	\$ 10,063,225	\$ 16,634,486	\$ 17,190,727

Debt Administration

The City's property tax rate for debt services increased from \$0.2737 to \$0.3357 in the current fiscal year generating \$1,136,765 in debt service taxes an increase of \$20,858 over the previous fiscal year. More detailed information about the City's debt is presented in the Notes to the Financial Statements.

Figure A-7
City's Long-Term Debt

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Notes payable	\$ 674,646	\$ 683,139	\$ -	\$ -	\$ 674,646	\$ 683,139
Bonds payable	8,928,040	9,176,240	18,556,960	1,108,760	27,485,000	10,285,000
Total	\$ 9,602,686	\$ 9,859,379	\$ 18,556,960	\$ 1,108,760	\$ 28,159,646	\$ 10,968,139

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Next year's proposed General Fund budget is projected to remain consistent with this year's actual revenues.

General fund proposed expenditures are expected to increase by \$880,486, resulting in an overall operating deficit of approximately \$801,105 to be offset with operating transfers from the City's business-type activities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Any questions about this report or need for additional financial information should be addressed to the City of Manor, Attn: City Manager, P.O. Box 387, Manor, TX 78653.

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BASIC FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,513,381	\$ 4,543,009	\$ 6,056,390
Receivables, net	160,645	280,271	440,916
Restricted assets:			
Cash and cash equivalents	67,417	21,107,470	21,174,887
Investments	641,899	444,228	1,086,127
Non-current assets:			
Capital assets:			
Non-depreciable	470,607	406,816	877,423
Depreciable, net	6,317,904	9,439,159	15,757,063
Total assets	<u>9,171,853</u>	<u>36,220,953</u>	<u>45,392,806</u>
Deferred outflows			
Deferred outflows related to refunding	326,461	-	326,461
Deferred outflows related to pensions	237,934	25,721	263,655
Total deferred outflows	<u>564,395</u>	<u>25,721</u>	<u>590,116</u>
LIABILITIES			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	327,116	209,228	536,344
Unearned revenue	55,337	-	55,337
Payable from restricted assets:			
Interest payable	28,858	59,981	88,839
Notes payable, due within one year	269,388	-	269,388
Bonds payable, due within one year	543,315	966,685	1,510,000
Non-current liabilities:			
Payable from unrestricted assets:			
Compensated absences	78,435	31,169	109,604
Payable from restricted assets:			
Customer deposits	-	431,930	431,930
Notes payable, due more than one year	405,258	-	405,258
Bonds payable, due more than one year	8,384,725	17,590,275	25,975,000
Net pension liability	46,283	32,907	79,190
Total liabilities	<u>10,138,715</u>	<u>19,322,175</u>	<u>29,460,890</u>
Deferred inflows	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	(2,814,175)	8,913,866	6,099,691
Restricted	709,316	21,551,698	22,261,014
Unrestricted	1,702,392	(13,541,065)	(11,838,673)
Total net position	<u>\$ (402,467)</u>	<u>\$ 16,924,499</u>	<u>\$ 16,522,032</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MANOR, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30,
2016

Function/program activities	Expenses	Charges for Services
Primary government:		
Government activities:		
General government	\$ 1,523,852	\$ 469
Public safety	2,250,690	126,510
Streets	966,548	1,204
Municipal court	479,248	622,264
Development services	296,886	1,406,722
Sanitation	611,347	695,611
Bond issuance costs	1,601	-
Interest on long-term debt	276,007	-
Total governmental activities	6,406,179	2,852,780
Business-type activities:		
Water	1,863,110	1,921,531
Sewer	1,048,376	1,956,471
Interest and amortization on long-term debt	166,925	-
Bond issuance costs	105,149	-
Total business-type activities	3,183,560	3,878,002
Total primary government	9,589,739	6,730,782

General revenues:

Taxes:

 Property

 Sales

 Franchise

 Other

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Changes in net assets

Net position - beginning of year

Net position - end of year

The accompanying notes are an integral part of this financial statement.

Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		
		Governmental Activities	Business-Type Activities	Total
\$ -	\$ -	\$ (1,523,383)	\$ -	\$ (1,523,383)
-	-	(2,124,180)	-	(2,124,180)
-	-	(965,344)	-	(965,344)
-	-	143,016	-	143,016
-	-	1,109,836	-	1,109,836
-	-	84,264	-	84,264
-	-	(1,601)	-	(1,601)
-	-	(276,007)	-	(276,007)
-	-	(3,553,399)	-	(3,553,399)
-	-	-	58,421	58,421
-	-	-	908,095	908,095
-	-	-	(166,925)	(166,925)
-	-	-	(105,149)	(105,149)
-	-	-	694,442	694,442
-	-	(3,553,399)	694,442	(2,858,957)
		2,970,413	-	2,970,413
		978,427	-	978,427
		419,246	-	419,246
		49,993	-	49,993
		6,249	2,779	9,028
		160,076	-	160,076
		(460,951)	460,951	-
		4,123,453	463,730	4,587,183
		570,054	1,158,172	1,728,226
		(972,521)	15,766,327	14,793,806
		\$ (402,467)	\$ 16,924,499	\$ 16,522,032

The accompanying notes are an integral part of this financial statement.

**CITY OF MANOR, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2016**

	General Fund	Special Revenues Fund
ASSETS		
Unrestricted		
Cash and cash equivalents	\$ 1,483,362	\$ -
Receivables, net	148,886	-
Intergovernmental receivables	-	-
Due from other funds	-	-
Restricted assets:		
Cash and cash equivalents	-	170,522
Investments	8,457	363,093
	<u>\$ 1,640,705</u>	<u>\$ 533,615</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 262,050	\$ -
Other liabilities	8,201	46,938
Due to other funds	-	-
Unearned revenue	62,161	-
	<u>332,412</u>	<u>46,938</u>
 FUND BALANCES		
Restricted	8,423	486,677
Committed	-	-
Unassigned	1,299,870	-
	<u>1,308,293</u>	<u>486,677</u>
Total liabilities and fund balances	<u>\$ 1,640,705</u>	<u>\$ 533,615</u>

The accompanying notes are an integral part of this financial statement.

Debt Service Fund	Capital Projects Fund	Total Governmental Funds
\$ -	\$ 30,019	\$ 1,513,381
11,759	-	160,645
-	-	-
-	-	-
(103,105)	-	67,417
270,349	-	641,899
<u>\$ 179,003</u>	<u>\$ 30,019</u>	<u>\$ 2,383,342</u>
\$ -	\$ -	\$ 262,050
-	9,927	65,066
-	-	-
11,759	-	73,920
<u>11,759</u>	<u>9,927</u>	<u>401,036</u>
167,244	-	662,344
-	20,092	20,092
-	-	1,299,870
<u>167,244</u>	<u>20,092</u>	<u>1,982,306</u>
<u>\$ 179,003</u>	<u>\$ 30,019</u>	<u>\$ 2,383,342</u>

The accompanying notes are an integral part of this financial statement.

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

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	1,982,306
<p>Amounts reported for governmental activities in the statement of net position are different due to the following:</p>		
Capital assets, net of accumulated depreciation are not financial resources and, therefore, are not reported in the funds.		6,788,511
Certain receivables are not available to pay current-period expenditures and, therefore, are deferred in the funds. This amount includes deferred property taxes.		18,583
Deferred outflows represent the consumption of net position that is applicable to a future reporting period and are not reported in the funds.		564,395
Certain liabilities related to long-term debt are not reported in the funds, such as accrued interest payable.		(28,858)
Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(9,727,404)</u>
NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u><u>(402,467)</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF MANOR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended September 30, 2016

	General Fund	Special Revenues Fund
REVENUES		
Property taxes	\$ 1,815,065	\$ -
Sales tax	978,427	-
Franchise taxes	419,246	-
Other taxes	6,241	43,752
Licenses and permits	1,406,722	-
Charge for services	695,611	-
Court and police	622,264	-
Public safety	126,510	-
Interest	3,133	1,078
Interest - restricted	9	-
Other	161,749	-
Total revenues	\$ 6,234,977	\$ 44,830
EXPENDITURES		
Current:		
General government	1,325,669	26,350
Public safety	2,114,995	-
Streets	576,648	-
Municipal court	479,248	-
Development services	290,626	-
Sanitation	611,347	-
Capital outlay	277,921	-
Debt service:		
Principal	-	-
Interest	-	-
Total expenditures	5,676,454	26,350
Excess (deficiency) of revenues		
Over expenditures	558,523	18,480
OTHER FINANCING SOURCES (USES)		
Bond proceeds	-	-
Bond issuance costs	-	-
Transfers in	-	-
Transfers out	-	-
Total other financing sources (uses)	-	-
Net change in fund balances	558,523	18,480
Fund balances - beginning of year	749,770	468,197
Fund balances - end of year	\$ 1,308,293	\$ 486,677

The accompanying notes are an integral part of this financial statement.

Debt Services Fund	Capital Projects Fund	Total Governmental Funds
\$ 1,136,765	\$ -	\$ 2,951,830
-	-	978,427
-	-	419,246
-	-	49,993
-	-	1,406,722
-	-	695,611
-	-	622,264
-	-	126,510
779	1,250	6,240
-	-	9
-	-	161,749
<u>\$ 1,137,544</u>	<u>\$ 1,250</u>	<u>\$ 7,418,601</u>
600	-	1,352,619
-	-	2,114,995
-	-	576,648
-	-	479,248
-	-	290,626
-	-	611,347
-	-	277,921
518,200	-	518,200
276,397	-	276,397
<u>795,197</u>	<u>-</u>	<u>6,498,001</u>
<u>342,347</u>	<u>1,250</u>	<u>920,600</u>
-	270,000	270,000
-	(1,601)	(1,601)
-	-	-
(460,951)	-	(460,951)
<u>(460,951)</u>	<u>268,399</u>	<u>(192,552)</u>
(118,604)	269,649	728,048
285,848	(249,557)	1,254,258
<u>\$ 167,244</u>	<u>\$ 20,092</u>	<u>\$ 1,982,306</u>

The accompanying notes are an integral part of this financial statement.

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 728,048

Amounts reported for *governmental activities* in the statement of activities are different due to the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expenses in the current period. (399,130)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include the recognition of unearned revenue. 18,583

The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the long-term liabilities in the statement of net assets. This is the amount by which debt payments exceeded proceeds and changes in accrued interest and amortization of deferred outflows from refunding. 537,641

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These expenditures include changes in accrued compensation and changes in pension benefits and related inflows and outflows. (315,088)

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 570,054

The accompanying notes are an integral part of this financial statement.

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

	<u>Water and Sewer System</u>	<u>Capital Impact Fees</u>	<u>Total</u>
ASSETS			
Current assets:			
Unrestricted assets:			
Cash and cash equivalents	\$ 4,543,009	\$ -	\$ 4,543,009
Accounts receivable, net	280,271	-	280,271
Restricted assets:			
Cash and cash equivalents	18,056,781	3,050,689	21,107,470
Investments	-	444,228	444,228
Total current assets	<u>22,880,061</u>	<u>3,494,917</u>	<u>26,374,978</u>
Non-current assets:			
Non-depreciable assets, net	406,816	-	406,816
Depreciable assets, net	9,439,159	-	9,439,159
Total non-current assets	<u>9,845,975</u>	<u>-</u>	<u>9,845,975</u>
Total assets	<u>32,726,036</u>	<u>3,494,917</u>	<u>36,220,953</u>
Deferred outflow related to pension	<u>25,721</u>	<u>-</u>	<u>25,721</u>
LIABILITIES			
Current liabilities:			
Accounts payable	209,228	-	209,228
Interest payable	59,981	-	59,981
Bonds payable, due within one year	966,685	-	966,685
Total current liabilities	<u>1,235,894</u>	<u>-</u>	<u>1,235,894</u>
Non-current liabilities:			
Compensated absences	31,169	-	31,169
Customer deposits	431,930	-	431,930
Bonds payable, due after one year	17,590,275	-	17,590,275
Net pension liability	32,907	-	32,907
Total non-current liabilities	<u>18,086,281</u>	<u>-</u>	<u>18,086,281</u>
Total liabilities	19,322,175	-	19,322,175
NET POSITION			
Investment in capital assets	8,913,866	-	8,913,866
Restricted	18,056,781	3,494,917	21,551,698
Unrestricted	(13,541,065)	-	(13,541,065)
Total net assets	<u>\$ 13,429,582</u>	<u>\$ 3,494,917</u>	<u>\$ 16,924,499</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MANOR, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended September 30, 2016

	<u>Water and Sewer System</u>	<u>Capital Impact Fees</u>	<u>Total</u>
OPERATING REVENUES			
Water service	\$ 1,598,534	\$ -	\$ 1,598,534
Sewer service	1,431,847	-	1,431,847
Penalties	60,636	-	60,636
Miscellaneous	790	-	790
Capital impact fees	-	786,195	786,195
Total revenues	<u>3,091,807</u>	<u>786,195</u>	<u>3,878,002</u>
OPERATING EXPENSES			
Personnel services	538,600	-	538,600
Operations	111,934	220,707	332,641
Utilities	141,079	-	141,079
Professional services	195	-	195
Insurance	26,700	-	26,700
Materials and supplies	80,458	-	80,458
Maintenance	105,809	-	105,809
Water fees	775,381	-	775,381
Wastewater fees	627,368	-	627,368
Depreciation	283,255	-	283,255
Bond issuance costs	105,149	-	105,149
Total operating expenses	<u>2,795,928</u>	<u>220,707</u>	<u>3,016,635</u>
OPERATING INCOME	<u>295,879</u>	<u>565,488</u>	<u>861,367</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	-	2,779	2,779
Interest expense	(166,925)	-	(166,925)
Total non-operating revenues (expenses)	<u>(166,925)</u>	<u>2,779</u>	<u>(164,146)</u>
INCOME (LOSS) BEFORE			
CONTRIBUTIONS & TRANSFERS	128,954	568,267	697,221
CONTRIBUTIONS AND TRANSFERS			
Transfers in (out)	460,951	-	460,951
Transfers from (to) primary government	-	-	-
CHANGE IN NET POSITION	589,905	568,267	1,158,172
NET POSITION - BEGINNING OF YEAR	<u>12,839,677</u>	<u>2,926,650</u>	<u>15,766,327</u>
NET POSITION - END OF YEAR	<u>\$ 13,429,582</u>	<u>\$ 3,494,917</u>	<u>\$ 16,924,499</u>

The accompanying notes are an integral part of this financial statement.

CITY OF MANOR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended September 30, 2016

	Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,871,294
Payments to suppliers	(2,148,031)
Payments to employees and contractors	(534,573)
Net cash flows from operating activities	<u>1,188,690</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Increase in customer deposits	40,391
Increase in restricted assets	(18,233,509)
Net cash flows from non-capital financing activities	<u>(18,193,118)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Transfers from primary government for payment of debt obligations	460,951
Additions to capital assets	(66,005)
Proceeds from new bonds issuances	17,730,000
Principal payments on debt	(281,800)
Interest payments on debt	(106,700)
Net cash flows from capital and related financing activities	<u>17,736,446</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	2,779
Net cash flows from investing activities	<u>2,779</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	734,797
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,808,212</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 4,543,009</u></u>

**RECONCILIATION OF OPERATING INCOME TO NET
CASH FROM OPERATING ACTIVITIES**

Operating income	\$ 861,367
Adjustments not affecting cash:	
Depreciation	283,255
(Increase) decrease in assets and increase (decrease) in liabilities:	
Accounts receivable	(6,708)
Accounts payable	46,749
Compensated absences	4,027
Net cash flows from operating activities	<u><u>\$ 1,188,690</u></u>

The accompanying notes are an integral part of this financial statement.

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City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Manor, Texas (City) is a Home Rule city in which citizens elect the mayor and six council members at large by place. The City operates under the Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting and reporting policies and practices used by the City are described below.

Reporting Entity

The City's basic financial statements include all activities, organizations, and functions for which the City is considered to be financially accountable. The criteria considered in determining activities to be reported within the City's basic financial statements include whether:

- the organization is legally separate (can sue and be sued in its own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization of the City

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. It was determined that the City has no component units or related organizations that should be reported within the City's basic financial statements.

Implementation of New Standards

GASB Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial statement purposes and how to apply fair value to certain investments and their related disclosures. Please see Note B for further information.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The portion of this statement applicable to fiscal year 2016 helped clarify certain issues related to GASB Statements No. 67 and 68. This statement had no impact on the financial statements of the City. In addition, there are portions of this statement that are applicable to fiscal year 2017.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* in fiscal year 2016. This statement establishes the criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial purposes. It also establishes additional note disclosure requirements for qualifying external investment pools that measure all their investments at amortized cost and for governments that participate in those pools. Certain provisions of this statement were implemented in fiscal year 2016. Additional provisions will be effective in fiscal year 2017. Please see Note B for further information.

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Government-wide financial statements do not provide information by individual fund or fund types, but distinguish between the City's governmental activities and business-type activities on the Statement of Net Position and Statement of Activities. The statements report information on all of the non-fiduciary activities of the primary government and its component units. The City's Statement of Net Position includes both non-current assets and non-current liabilities of the City. Accrual accounting reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Additionally, the government-wide financial Statement of Activities reflects depreciation expense on the City's capital assets, including infrastructure.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Statement of Net Position

The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). The City reports all capital assets, including infrastructure, in the government-wide Statement of Net Position and reports depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of the City is broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Long-term liabilities are reported in two categories: 1) the amount due within one year; and 2) the amount due in more than one year.

Statement of Activities

The government-wide Statement of Activities reports net revenue (expense) in a format that focuses on the cost of each of the City's governmental activities and for each of the City's business-type activities. The expense of individual functions is compared to revenues generated directly by the function (for instance, through user charges or intergovernmental grants). General revenues (including all taxes), investment earnings, special and extraordinary items, and transfers between governmental and business-type activities are reported separately after the total net expenses of the government's functions, ultimately arriving at the change in net position of the period. Program revenues are segregated into three categories: 1) charges for services; 2) program-specific operating grants and contributions; and 3) program-specific capital grants and contributions. Indirect costs are allocated amount functions based on use.

Fund Level Financial Statements

In addition to the government-wide financial statements, the City prepares fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The focus on the fund financial statements is on the major individual funds of the governmental and business-type activities, as well as any fiduciary funds (by category) and any component units. Fund financial accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The City reports the following major governmental funds:

General Fund

Reports as the primary fund of the City. This fund is used to account for all financial resources not reported in any other funds.

Special Revenue Fund

Established to account for revenues assessed and collected for specific purposes.

Debt Service Fund

Established to account for the accumulation of financial resources for the payment of principal and interest of the City's general obligation debt. The City annually levies *ad valorem* taxes restricted for the retirement of general obligation bonds and interest. This fund reports *ad valorem* taxes collected for debt purposes only.

Capital Projects Fund

Bond Management - Established to account for the capital expenditures of general obligation bond proceeds.

Grants Management - Established to account for the City's capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses.

The City reports the following major enterprise funds:

Water and Sewer Fund

Accounts for the operating activities of the City's water and sewer services.

Measurement Focus/Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within fund). Proprietary fund level financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year in which they are levied while grants are recognized when grantor eligibility requirements are met.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus/Basis of Accounting - Continued

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within sixty days of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for debt principal and interest which are reported expenditures in the year due.

Major revenue sources susceptible to accrual include sales and property taxes. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and included administrative expenses and depreciation of capital assets.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note D for information describing the City's restricted assets.

Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

The City's capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective funds. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more as purchases and outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. For information describing capital assets (See Note E).

Estimated useful lives, in years, for depreciable assets are as follows:

Vehicles	5
Software	5
Machinery and equipment	5-7
Buildings and improvements	10-20
Infrastructure	20-50

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows, found on the government-wide statement of net position, consist of deferred losses on refundings and deferred outflows related to pensions. A deferred loss on refunding occurs when there is a difference in the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Deferred outflows related to pensions consist of amounts paid into the retirement system after the prescribed measurement date plus the net difference between projected and actual earnings.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows, found on the government-wide statement of net position, consist of deferred inflows related to pensions and deferred professional prosecutor revenue. On the governmental funds balance sheet, deferred inflows consist of deferred property tax revenue, deferred special assessment revenue, and deferred professional prosecutor revenue. All amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-Term Debt

In the government-wide and proprietary fund level financial statements, outstanding debt is reported as liabilities. Outstanding debt is reported within governmental activities and business-type activities based on use of proceeds. Bond issue costs are expensed when incurred.

Fund Balance/Net Position

Fund balances/net position are divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable

The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Prior to the adoption of GASB No. 54, non-spendable fund balance/net assets were reported as "invested in capital assets, net of related debt," which consisted of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Restricted

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, the assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a City official delegated that authority by City Charter or ordinance.

Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenues and Expenditures/Expenses

Inter-Fund Activity

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund 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 revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers-in and transfers-out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, inter-fund receivables and payables, if applicable, are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

Compensated Absences

Compensated absences are reported as accrued in the government-wide financial statements. In the fund level financial statements, only matured compensated absences payable to currently terminating employees are reported.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Final amounts could differ from those estimates.

B. DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At September 30, 2016, carrying amounts of the City's cash deposits were \$27,231,277 and bank balances were \$27,354,644. The City's cash deposits at September 30, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (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.

Fair Value Hierarchy

The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant and use the best information available under the circumstances.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

B. DEPOSITS AND INVESTMENTS - CONTINUED

The City's investments at September 30, 2016, are shown below. These investments are not classified in a level hierarchy as they are recorded at net asset value.

Investment or Investment Type	Maturity	Fair Value
TexPool Investment	N/A	\$ 1,086,127

In fiscal year 2016, the County also implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). This statement establishes how certain state and local government external investment pools may measure and report their investments. An external investment pool may elect to measure, for reporting purposes, all of its investments at amortized cost if it meets certain criteria. In addition, this statement also establishes additional note disclosures for external investment pools and their participants.

TexPool operates in a manner consistent with the criteria set forth in GASB 79 and therefore uses amortized cost to report net assets to compute share prices. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool does not have any restrictions or limitations on withdrawals.

TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's for review. TexPool is also required to send portfolio information to the office of the State Comptroller of Public Accounts.

Analysis of Specific Deposit and Investment Risks

Professional standards require a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Credit Risk

Credit risk is the risk that an issuer or 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 year end, the City was not exposed to a significant amount of credit risk.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At September 30, 2016, the City's deposits were entirely covered by depository insurance or collateralized with securities held by the pledging financial institution in the City's name.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

C. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position:

The governmental fund balance sheet includes a reconciliation between the governmental fund balance on the fund financial statements and total net position of governmental activities on the government-wide financial statements.

Governmental fund balance	\$	1,982,306
<u>Difference due to capital assets</u>		
Capital assets		11,352,283
Accumulated depreciation		(4,563,772)
		6,788,511
<u>Difference due to unearned revenue</u>		
Unearned Revenues		18,583
<u>Difference due to deferred outflows</u>		
Deferred outflows related to pensions		237,934
Deferred loss on refunding		326,461
		564,395
<u>Difference due to current liabilities</u>		
Interest payable		(28,858)
<u>Difference due to non-current liabilities</u>		
Compensated absences		(78,435)
Net pension liability		(46,283)
Debt payable		(9,602,686)
		(9,727,404)
Government-wide net position	\$	(402,467)

B. Explanation of differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities:

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between the change in governmental fund balance on the fund financial statements and change in total net position of governmental activities on the government-wide financial statements.

Change in governmental fund balance	\$	728,048
<u>Amount by which depreciation exceeds capital outlay expense and other capital related transactions</u>		
Capital outlay		415,408
Capital outlay - current year capital lease additions		(60,139)
Depreciation expense		(754,399)
		(399,130)
<u>Revenues that do not provide current financial resources</u>		
Unearned revenue		18,583
<u>Long-term debt and related items</u>		
Debt payments		779,067
Proceeds from debt issuance		(270,000)
Accrued interest adjustment		390
Amortization of loss on refunding		28,184
		537,641
<u>Expenses that do not require the use of current financial resources or have not matured</u>		
Changes in pension expense and deferred inflows		(309,771)
Compensated absence adjustment		(5,317)
		(315,088)
Change in government-wide net position	\$	570,054

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

C. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE

Sales Tax Receivable

Sales taxes are collected and remitted to the City by the State Comptroller's Office. All sales taxes are collected within sixty days of year end. At fiscal year end, the receivables represent taxes collected but not yet received by the City and are recorded as revenue.

Property Taxes Receivable and Deferred Revenue

Property taxes are assessed and remitted to the City by the Travis County Tax Assessor's Office. Taxes, levied annually on October 1, are due by January 31. Major tax payments are received December through March. Lien dates for real property are July.

Allowances for uncollectible tax receivables reported in the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off when deemed uncollectible; however, state statutes prohibit writing off real property taxes without specific authority from the Texas Legislation.

In the governmental fund level financial statements, property taxes receivable are recorded in the General Fund when assessed (October 1). At fiscal year end, property taxes receivables represent delinquent taxes. If delinquent taxes are not paid within sixty days of fiscal year end, they are recorded as deferred revenue.

In the government-wide financial statements, property tax receivables and related revenues include all amounts due to the City regardless of when cash is received.

At September 30, 2016, receivables for governmental activities are summarized in the government-wide financial statements as follows:

	Receivables	Allowance for Uncollectible Accounts	Net Receivables
Sales tax receivable	\$ 77,610	\$ -	\$ 77,610
Property tax receivable	87,378	(57,036)	30,342
Employee receivable	1,961	-	1,961
Court fines receivable	1,186,536	(1,150,940)	35,596
Other	15,136	-	15,136
Total receivables	<u>\$ 1,368,621</u>	<u>\$ (1,207,976)</u>	<u>\$ 160,645</u>

Enterprise Receivables

Receivables represent amounts due from customers for water, wastewater, and sanitation services. These receivables are due within one month. Receivables are reported net of an allowance for uncollectible accounts and revenues net of what is estimated to be uncollectible. The allowance is estimated using accounts receivable past due more than ninety days.

At September 30, 2016, enterprise receivables are summarized in the financial statements as follows:

	Receivables	Allowance for Uncollectible Accounts	Net Receivables
Customer receivables	\$ 287,359	\$ (8,288)	\$ 279,071
NSF checks	1,200	-	1,200
Total receivables	<u>\$ 288,559</u>	<u>\$ (8,288)</u>	<u>\$ 280,271</u>

D. RESTRICTED ASSETS

At September 30, 2016, restricted assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents:			
Debt service	\$ -	\$ -	\$ -
Other	20,446	-	20,446
Rose Hill Public Improvement District	46,971	-	46,971
Customer deposits	-	431,930	431,930
Capital improvements - water system	-	19,014,813	19,014,813
Capital improvements - sewer system	-	1,660,727	1,660,727
Total cash and cash equivalents	<u>\$ 67,417</u>	<u>\$ 21,107,470</u>	<u>\$ 21,174,887</u>

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

D. RESTRICTED ASSETS - CONTINUED

Investments:	Governmental Activities	Business-Type Activities	Total
Parks	\$ 8,457	\$ -	\$ 8,457
Debt service	270,349	-	270,349
Tourism	363,093	-	363,093
Capital improvements - sewer system	-	444,228	444,228
Total investments	<u>\$ 641,899</u>	<u>\$ 444,228</u>	<u>\$ 1,086,127</u>

E. CAPITAL ASSETS

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

Governmental Activities:	Beginning Balance	Additions	Deletions/ Relcass	Ending Balance
Non-depreciable assets:				
Land	\$ 470,607	\$ -	\$ -	\$ 470,607
Total non-depreciable assets	<u>\$ 470,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 470,607</u>
Depreciable assets:				
Buildings	\$ 2,931,033	\$ -	\$ -	\$ 2,931,033
Equipment	2,007,947	315,337	-	2,323,284
Sidewalks	244,164	-	-	244,164
Streets and improvements	5,283,124	100,071	-	5,383,195
Total depreciable assets	10,466,268	415,408	-	10,881,676
Accumulated depreciation	(3,809,373)	(754,399)	-	(4,563,772)
Depreciable assets, net	<u>\$ 6,656,895</u>	<u>\$ (338,991)</u>	<u>\$ -</u>	<u>\$ 6,317,904</u>
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 406,816	\$ -	\$ -	\$ 406,816
Total non-depreciable assets	<u>\$ 406,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 406,816</u>
Depreciable assets:				
Machinery and equipment	\$ 280,124	\$ 66,005	\$ -	\$ 346,129
Culverts	12,992	-	-	12,992
Infrastructure - water system	7,465,930	-	-	7,465,930
Infrastructure - sewer system	5,692,383	-	-	5,692,383
Total depreciable assets	13,451,429	66,005	-	13,517,434
Accumulated depreciation	(3,795,020)	(283,255)	-	(4,078,275)
Depreciable assets, net	<u>\$ 9,656,409</u>	<u>\$ (217,250)</u>	<u>\$ -</u>	<u>\$ 9,439,159</u>

Depreciation expense was charged to the functions as follows:

Function:	Governmental Activities	Business-Type Activities	Total
General government	\$ 126,311	\$ -	\$ 126,311
Public safety	231,928	-	231,928
Streets	389,900	-	389,900
Development services	6,260	-	6,260
Water	-	179,227	179,227
Sewer	-	104,028	104,028
Total depreciation expense	<u>\$ 754,399</u>	<u>\$ 283,255</u>	<u>\$ 1,037,654</u>

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

F. INTER-FUND BALANCES AND ACTIVITY

Transfers (To)From Other Funds

Purpose	Debt Service Fund	Proprietary Fund
Property taxes collected for debt payments	\$ 460,951	\$ (460,951)

G. LONG-TERM DEBT

Long-Term Debt Activity

Changes in long-term debt obligations for the year ended September 30, 2016 are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Notes payable	\$ 683,139	\$ 252,374	\$ (260,867)	\$ 674,646	\$ 269,388
Bonds payable	9,176,240	270,000	(518,200)	8,928,040	543,315
Total governmental activities	<u>\$ 9,859,379</u>	<u>\$ 522,374</u>	<u>\$ (779,067)</u>	<u>\$ 9,602,686</u>	<u>\$ 812,703</u>
Business-Type Activities:					
Bonds payable	\$ 1,108,760	\$ 17,730,000	\$ (281,800)	\$ 18,556,960	\$ 966,685
Total business-type activities	<u>\$ 1,108,760</u>	<u>\$ 17,730,000</u>	<u>\$ (281,800)</u>	<u>\$ 18,556,960</u>	<u>\$ 966,685</u>

Debt Service Requirements

Notes Payable

On September 25, 2012, the City entered into financing agreements for vehicles totaling \$220,522 at 3.36% fixed interest rate with yearly payments of \$47,228 due in November. The City's balance remaining on the note payable at September 30, 2016, is \$45,693.

On February 5, 2013, the City entered into financing agreements for vehicles totaling \$31,688 at 5.03% fixed interest rate with yearly payments of \$7,133 due in February. The City's balance remaining on the note payable at September 30, 2016, is \$6,791.

On October 15, 2013, the City entered into financing agreements for vehicles totaling \$168,695 at 3.58% fixed interest rate with yearly payments of \$36,151 due in February. The City's balance remaining on the note payable at September 30, 2016, is \$68,687.

On May 23, 2014, the City entered into financing agreements for vehicles totaling \$33,116 at 5.35% fixed interest rate with yearly payments of \$7,469 due in February. The City's balance remaining on the note payable at September 30, 2016, is \$20,218.

On March 24, 2014, the City entered into financing agreements for radios totaling \$59,941 at 4.74% fixed interest rate with yearly payments of \$13,427 due in April. The City's balance remaining on the note payable at September 30, 2016, is \$24,995.

On April 1, 2015, the City entered into financing agreements for vehicles totaling \$525,764 at 4.67% fixed interest rate with yearly payments of \$111,203 due in May. The City's balance remaining on the note payable at September 30, 2016, is \$316,028.

On October 22, 2015, the City entered into financing agreements for vehicles totaling \$252,374 at 3.21% fixed interest rate with yearly payments of \$68,231 due in November. The City's balance remaining on the note payable at September 30, 2016, is \$192,234.

Debt service requirements on long-term notes payable at September 30, 2016, were as follows:

For the year ending September 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 269,388	\$ 21,753	\$ 291,141
2018	223,836	12,644	236,480
2019	181,422	5,480	186,902
	<u>\$ 674,646</u>	<u>\$ 39,877</u>	<u>\$ 714,523</u>

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

G. LONG-TERM DEBT - CONTINUED

Bonds Payable

Certificates of Obligation, Series 2007

On September 20, 2007, the City issued \$3,525,000 of certificates of obligation bonds, proceeds to be used for improvements to the City's water and wastewater systems, certain street and drainage improvements, and costs of issuance. Bond interest rates are 4.26% with semi-annual payments due on February 15 and August 15 of each year until maturity in 2027 or prior redemption.

Certificates of Obligation, Series 2007

On September 20, 2007, the City issued \$2,975,000 of certificates of obligation bonds, proceeds to be used for improvements to the City's water and wastewater systems, certain street and drainage improvements, and costs of issuance. Bond interest rates are 4.27% with semi-annual payments due on February 15 and August 15 of each year until maturity in 2027 or prior redemption. This bond is split between the governmental and business-type activities on a 63% and 37%, respectively.

General Obligation Refunding Bonds, Series 2010

On May 15, 2011, the City issued \$935,000 in general obligation bonds, proceeds to be used to refund Series 2009 revenue bonds. Bond interest rates range from 2.83% to 4.70% with semi-annual payments due on March 1 and September 1 of each year until maturity in 2024 or prior redemption.

General Obligation Refunding Bonds, Series 2012

On April 1, 2012, the City issued \$3,510,000 in general obligation bonds, proceeds to be used to refund Series 2001 and 2004 revenue bonds. The bond interest rate of 2.55% with semi-annual payments due on February 15 and August 15 of each year until maturity in 2026 or prior redemption.

Certificate of Obligation Bonds, Series 2012

On September 1, 2012, the City issued \$1,835,000 in certificate of obligation, proceeds to be used for City construction. Bond interest rate of 2.49% with semi-annual payments due on February 15 and August 15 of each year until maturity in 2027 or prior redemption.

General Obligation Refunding Bonds, Series 2015

On February 15, 2015, the City issued \$4,750,000 in general obligation bonds, proceeds to be used to partially refund Series 2007 revenue bonds. Bond interest rate of 2.29% with semi-annual payments due on February 15 and August 15 of each year until maturity in 2026 or prior redemption.

Combination Tax and Revenue Certificate of Obligation Bonds, Series 2016

On August 18, 2016, the City issued \$18,000,000 in certificate of obligation, proceeds to be used for City street and drainage improvements (\$270,000) and water and waste water improvements (\$17,730,000). Bond interest rate of 2.29% with semi-annual payments due on February 15 and August 15 of each year until maturity in 2031 or prior redemption.

Debt service requirements on long-term bond debt at September 30, 2016, were as follows:

		Series 2007 - \$3,525,000		
		Principal	Interest	Total
For the year ending September 30,	2017	\$ 175,000	\$ 7,455	\$ 182,455
	<u>Total</u>	<u>\$ 175,000</u>	<u>\$ 7,455</u>	<u>\$ 182,455</u>
		Series 2007 - \$2,975,000		
		Principal	Interest	Total
For the year ending September 30,	2017	\$ 145,000	\$ 6,192	\$ 151,192
	<u>Total</u>	<u>\$ 145,000</u>	<u>\$ 6,192</u>	<u>\$ 151,192</u>
		Series 2010 - \$935,000		
		Principal	Interest	Total
For the year ending September 30,	2017	\$ 65,000	\$ 28,200	\$ 93,200
	2018	65,000	25,145	90,145
	2019	70,000	22,090	92,090
	2020	70,000	18,800	88,800
	2021	-	-	-
	2022-2024	330,000	15,510	345,510
	<u>Total</u>	<u>\$ 600,000</u>	<u>\$ 109,745</u>	<u>\$ 709,745</u>

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

G. LONG-TERM DEBT - CONTINUED

Bonds Payable

		Series 2012 - \$3,510,000		
		Principal	Interest	Total
For the year ending September 30,				
	2017	\$ 270,000	\$ 63,496	\$ 333,496
	2018	280,000	56,610	336,610
	2019	285,000	49,470	334,470
	2020	290,000	42,203	332,203
	2021	300,000	34,808	334,808
	2022-2026	1,065,000	62,535	1,127,535
	Total	\$ 2,490,000	\$ 309,122	\$ 2,799,122
		Series 2012 - \$1,835,000		
		Principal	Interest	Total
For the year ending September 30,				
	2017	\$ 110,000	\$ 35,109	\$ 145,109
	2018	115,000	32,370	147,370
	2019	120,000	29,507	149,507
	2020	120,000	26,519	146,519
	2021	125,000	23,531	148,531
	2022-2026	675,000	69,223	744,223
	2027	145,000	3,611	148,611
	Total	\$ 1,410,000	\$ 219,870	\$ 1,629,870
		Series 2015 - \$4,750,000		
		Principal	Interest	Total
For the year ending September 30,				
	2017	\$ 60,000	\$ 106,809	\$ 166,809
	2018	400,000	105,455	505,455
	2019	405,000	96,295	501,295
	2020	420,000	87,020	507,020
	2021	435,000	77,402	512,402
	2022-2026	2,415,000	230,374	2,645,374
	2027-2030	530,000	12,137	542,137
	Total	\$ 4,665,000	\$ 715,492	\$ 5,380,492
		Series 2016 - \$18,000,000		
		Principal	Interest	Total
For the year ending September 30,				
	2017	\$ 685,000	\$ 416,780	\$ 1,101,780
	2018	700,000	396,514	1,096,514
	2019	725,000	380,483	1,105,483
	2020	745,000	363,881	1,108,881
	2021	755,000	346,821	1,101,821
	2022-2026	4,710,000	1,461,020	6,171,020
	2027-2031	9,680,000	708,297	10,388,297
	Total	\$ 18,000,000	\$ 4,073,796	\$ 22,073,796

Deferred Outflow on Refunding

The City has deferred outflow of \$373,180 related to the Series 2015 refunding. This outflow represents the amount of the new bond principal, less issuance costs, that was greater than the current principal balance of the bonds refunded and will be amortized, straight-line, over the life of the Series 2015 Bond. The deferred outflow remaining balance at September 30, 2016 was \$326,461.

Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Disclosure Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operation of the City.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

H. RESTRICTED NET ASSETS

At September 30, 2016, net assets restricted by enabling legislation consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Rose Hill Public Improvement District	\$ 46,971	\$ -	\$ 46,971
Tourism	363,093	-	363,093
Debt service	270,349	-	270,349
Other	28,903	-	28,903
Capital improvements	-	21,551,698	21,551,698
Total restricted net assets	<u>\$ 709,316</u>	<u>\$ 21,551,698</u>	<u>\$ 22,261,014</u>

I. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

J. PENSION PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. This report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153, or by calling 800-924-8677; in addition, the report is available on TMRS's website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City are as follows:

	Plan Year 2014	Plan Year 2015
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, -/25	60/5, -/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Plan Description

At December 31, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	36
Active employees	49
	<u>89</u>

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

J. PENSION PLAN - CONTINUED

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The actuarially determined required employer contribution rates for calendar years 2016, 2015, and 2014 were 4.36%, 3.41% and 2.21%, respectively. The required contribution rate payable by the employee members for calendar year 2016, 2015, and 2014 was 5%.

Net Pension Asset

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

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Actuarial valuation date	December 31, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	25 years
Asset valuation method	10 Year smoothed market; 15.00% soft corridor
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information:	
Notes	No benefit changes during the year.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014.

Discount Rate

The discount rate used to measure the total pension asset was 7.00%. System-wide Investment Return Assumption: 7.00% per year, compounded annually, composed of an assumed 3.00% inflation rate and a 4.00% net real rate of return. This rate represents the assumed return, net of all investment expenses.

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

J. PENSION PLAN - CONTINUED

	<u>Change in Net Pension Asset</u>		
	Increase (Decrease)		
	Total Pension Liability / (Asset) (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a-b)
Balances as of December 31, 2014	\$ 1,652,428	\$ 1,787,521	\$ (135,093)
Changes for the year:			
Service cost	217,127	-	217,127
Interest on total pension liability	122,699	-	122,699
Difference between expected and actual experience	14,209	-	14,209
Effect of assumptions changes or inputs	68,829	-	68,829
Benefit payments	(16,304)	-	(16,304)
Administrative expenses	-	(1,607)	1,607
Contributions - employer	-	81,392	(81,392)
Contributions - employee	-	126,237	(126,237)
Net investment income	-	2,638	(2,638)
Benefit payments	-	(16,304)	16,304
Other	-	(79)	79
Net changes	406,560	192,277	214,283
Balances as of December 31, 2015	\$ 2,058,988	\$ 1,979,798	\$ 79,190

Sensitivity of the Net Pension Liability (Asset) 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 asset would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability / (asset)	\$ 408,246	\$ 79,190	\$ (186,468)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TMRS's comprehensive annual financial report.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$58,734. At September 30, 2016, deferred outflows and inflows of resources related to pensions were reported from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual earnings	\$ -	\$ 137,755
Difference in actuarial assumption changes	-	56,383
Contributions made subsequent to measurement date	-	69,517
	\$ -	\$ 263,655

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

J. PENSION PLAN - CONTINUED

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

The \$69,517 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as pension expense as follows:

Year Ended September 30,	
2017	\$ 48,792
2018	48,792
2019	48,794
2020	39,797
2021	7,963
	<u>\$ 194,138</u>

Funded Status and Funding Process

The fund status as of December 31, 2015 is presented as follows:

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (a)/(b)	Unfunded AAL (UAAL) (b) - (a)	Covered Payroll	UAAL as of % of Covered Payroll (d)/(e)
12/31/2013	\$ 1,596,396	\$ 1,407,531	113.4%	\$ (188,865)	\$ 1,575,984	-12.0%
12/31/2014	1,787,521	1,652,428	108.2%	(135,093)	2,007,847	-6.7%
12/31/2015	1,979,798	2,058,988	96.2%	79,190	2,524,736	3.1%

Funded Status and Funding Process

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual amounts are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility actuarial in accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

K. SUPPLEMENTAL DEATH BENEFITS FUND (SDBF)

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

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

City of Manor, Texas
Notes to the Financial Statements
Year Ended September 30, 2016

L. HEALTH CARE COVERAGE

During the year ended September 30, 2016, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$278,937 to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, and terms of coverage and premium costs and included in the contractual provisions.

M. COMMITMENTS AND CONTINGENCIES

Grant Contingencies

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.

Litigation

The City is subject to certain legal proceedings in the normal course of operations. In the opinion of management, the aggregate liability, if any, with respect to potential legal actions will not materially adversely affect the City's financial position, results of operations, or cash flows.

Arbitrage Rebates

The City invests portions of bond proceeds during construction of related projects and as reserves for debt retirement after construction is complete. Any interest earned on invested bond proceeds over interest paid on bonds must be paid back to the Federal government every five years. As of September 30, 2016, the City's arbitrage liability was \$0.

N. SUBSEQUENT EVENTS

There were no subsequent events identified by management as of the issuance date of these financial statements that require disclosure.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MANOR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016

	<u>Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Property Taxes	\$ 1,787,242	\$ 1,789,242	\$ 1,815,065	\$ 25,823
Sales taxes	737,497	737,497	978,427	240,930
Franchise taxes	502,000	432,000	419,246	(12,754)
Other taxes	2,800	2,800	6,241	3,441
Licenses and permits	950,686	1,071,501	1,406,722	335,221
Charge for services	672,500	672,500	695,611	23,111
Court and police	343,390	408,678	622,264	213,586
Public safety	32,950	64,366	126,510	62,144
Interest	400	1,500	3,142	1,642
Other	56,443	60,833	161,749	100,916
Total revenues	<u>5,085,908</u>	<u>5,240,917</u>	<u>6,234,977</u>	<u>994,060</u>
EXPENDITURES				
General government	1,234,160	1,314,713	1,325,669	(10,956)
Public safety	2,250,883	2,364,578	2,114,995	249,583
Streets	714,446	737,244	576,648	160,596
Municipal court	388,238	388,673	479,248	(90,575)
Development services	250,602	255,232	290,626	(35,394)
Sanitation	610,000	623,000	611,347	11,653
Capital outlay	169,000	297,062	277,921	19,141
Debt payments	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>5,617,329</u>	<u>5,980,502</u>	<u>5,676,454</u>	<u>304,048</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(531,421)</u>	<u>(739,585)</u>	<u>558,523</u>	<u>1,298,108</u>
OTHER FINANCING SOURCES (USES)				
Capital grants and contributions	-	-	-	-
Transfers (to) from other funds:				
Water and sewer fund	-	-	-	-
Capital projects fund	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(531,421)</u>	<u>(739,585)</u>	<u>558,523</u>	<u>1,298,108</u>
FUND BALANCE - BEGINNING OF YEAR	<u>749,770</u>	<u>749,770</u>	<u>749,770</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 218,349</u>	<u>\$ 10,185</u>	<u>\$ 1,308,293</u>	<u>\$ 1,298,108</u>

CITY OF MANOR, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2016

A. GENERAL FUND BUDGETARY ANALYSIS

Budgetary Information

The City Council adopts an annual budget prepared on a non-GAAP cash basis. City management may transfer part or all of any unencumbered appropriation balance within specific categories (i.e., personnel, operations, supplies, or capital outlay) within programs; however, any revisions that alter the total expenditures of the categories must be approved by the City Council. The City, for management purposes, adopts budgets for all funds. Legal budgets are also adopted for all funds, and the legal level of control is the fund level.

Capital projects are funded through capital grants or general obligation debt authorized for specific purposes.

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made is accomplished or abandoned. No supplemental budgetary appropriations occurred in the debt service fund or in the general fund. Revised budgets, if any, are used for budget versus actual comparisons.

B. BUDGET VERSUS ACTUAL RESULTS

Operating revenues in the general fund were more than budgeted by \$994,060, and operating expenditures were more than budgeted by \$304,048, resulting in an overall operating variance favorable of \$1,298,108. Due to favorable operating results, there was an overall increase in fund balance of \$558,523 for the City's general fund.

CITY OF MANOR, TEXAS
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION ASSET/LIABILITY
AND RELATED RATIOS
LAST TEN YEARS*
(Unaudited)

	<u>2016</u>	<u>2015</u>
Total Pension Liability (Asset)		
Service cost	\$ 217,127	\$ 131,462
Interest on total pension liability	122,699	103,455
Effect of plan changes	-	25,647
Difference between expected and actual experience	14,209	26,291
Effect of assumptions changes or inputs	68,829	-
Benefit payments, including refunds of employee contributions	<u>(16,304)</u>	<u>(41,958)</u>
Net change in total pension liability (asset)	406,560	244,897
Total pension liability (asset), beginning	<u>1,652,428</u>	<u>1,407,531</u>
Total pension liability (asset), ending (a)	<u><u>\$ 2,058,988</u></u>	<u><u>\$ 1,652,428</u></u>
Fiduciary Net Position		
Employer contributions	\$ 81,392	\$ 42,366
Employee contributions	126,237	100,392
Net investment income	2,638	91,356
Benefit payments, including refunds of employee contributions	(16,304)	(41,958)
Administrative expenses	(1,607)	(953)
Other	<u>(79)</u>	<u>(78)</u>
Net change in fiduciary net position	192,277	191,125
Fiduciary net position, beginning	<u>1,787,521</u>	<u>1,596,396</u>
Fiduciary net position, ending (b)	<u><u>\$ 1,979,798</u></u>	<u><u>\$ 1,787,521</u></u>
Net pension liability (asset), ending = (a) - (b)	<u><u>\$ 79,190</u></u>	<u><u>\$ (135,093)</u></u>
Fiduciary net position as a % of total pension liability (asset)	96.15%	108.18%
Pensionable covered payroll	2,524,736	2,007,847
Net pension liability (asset) as a % of covered payroll	3.14%	-6.73%

* Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

**CITY OF MANOR, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Unaudited)**

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (a)/(b)	Unfunded AAL (UAAL) (b) - (a)	Covered Payroll	UAAL as a Percentage of Covered Payroll (d)/(e)
12/31/2013	\$ 1,596,396	\$ 1,407,531	113.4%	\$ (188,865)	\$ 1,575,984	-12.0%
12/31/2014	1,787,521	1,652,428	108.2%	(135,093)	2,007,847	-6.7%
12/31/2015	1,979,798	2,058,988	96.2%	79,190	2,524,736	3.1%



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

To the Honorable Mayor and
Members of the City Council
City of Manor, 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, each major fund, and the aggregate remaining fund information of the City of Manor, Texas (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 10, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Atehly & Associates, LLP

Austin, Texas
May 10, 2017

**CITY OF MANOR, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2016**

Financial Statement Findings

None

**CITY OF MANOR, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2016**

Prior Audit Findings

None