

ANNUAL FINANCIAL REPORT
OF THE
CITY OF LAVON, TEXAS

Fiscal Year Ended September 30, 2016

Mayor
Charles Teske, Jr.



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

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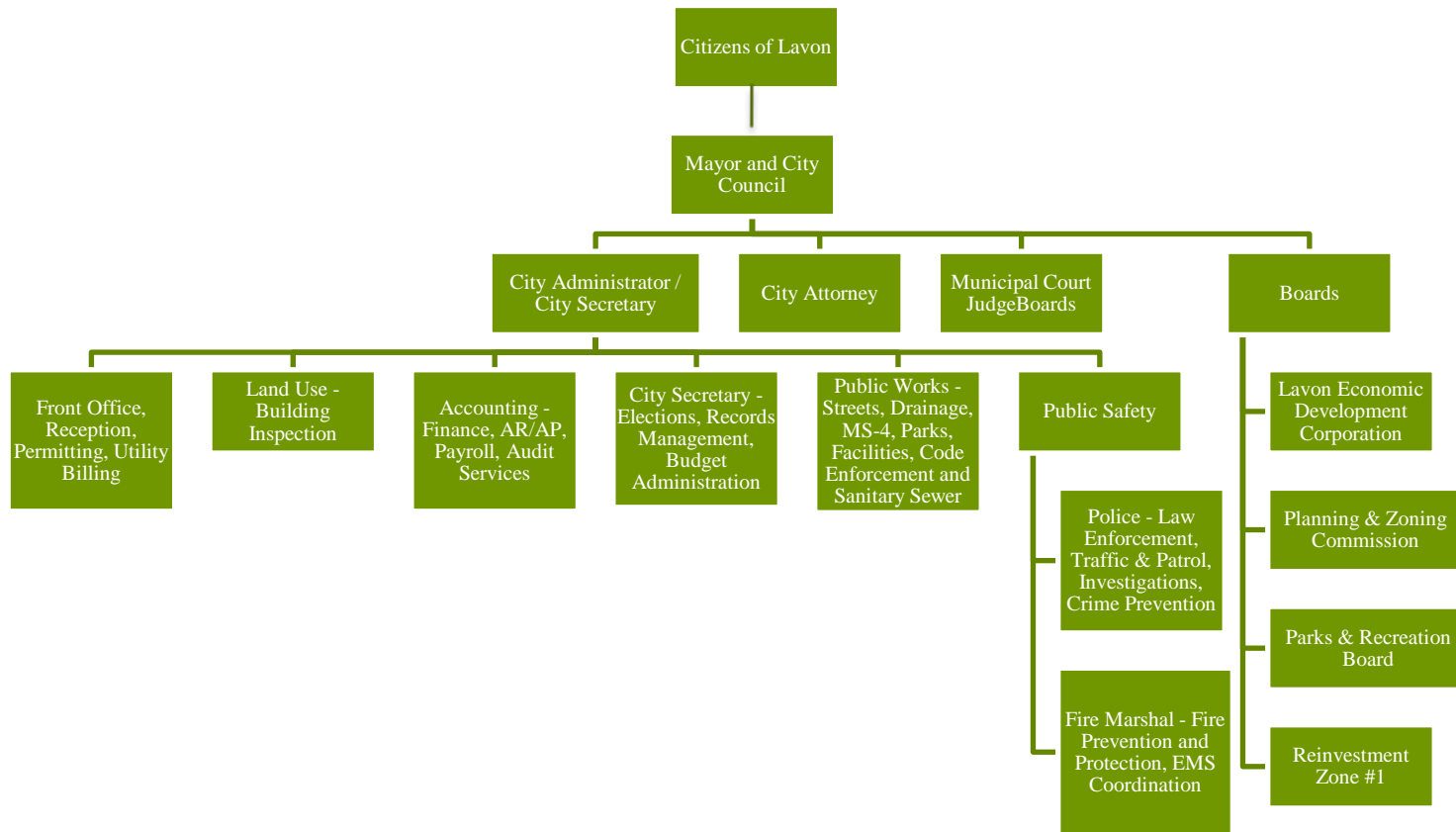
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INTRODUCTORY SECTION



City of Lavon Organization Chart



**City of Lavon, Texas
Principal Officials
September 30, 2016**

City Council

Charles Teske, Jr.	Mayor
Vicki Sanson	Place 1
Donnie Spradlin	Place 2
Kay Wright	Place 3
Matt Childers	Place 4
Mindi Serkland	Place 5

FINANCIAL SECTION





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Neil Conway, CPA

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Independent Auditor's Report

Mayor and City Council
City of Lavon
PO Box 340
Lavon, Texas 75166

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavon, Texas ("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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison information on pages 5 - 15 and 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lavon, Texas' basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2017, on our consideration of the City of Lavon, Texas' 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 of Lavon, Texas' internal control over financial reporting and compliance.

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

June 15, 2017

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CITY OF LAVON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2016

As management of the City of Lavon ("City"), we offer the readers of the City of Lavon's financial statements this narrative overview and analysis of the financial activities of the City of Lavon for the fiscal year ended September 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Lavon exceeded its liabilities and deferred inflows/outflows at the close of the fiscal year by \$8,507,681 (net position). Of this amount, \$7,503,858, or 88% is investment in capital assets, \$119,714 or 1% is restricted for court, police, and public works use and \$79,823 or 1% is restricted for capital improvements. The remaining unrestricted net position of \$804,286, or 9%, may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with the City's fund designation and policies.
- The City's total net position increased \$97,853, excluding prior period adjustments. This is due to a significant increase in revenues in governmental and business-type activities.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$673,359. This represents an increase of \$117,643 in net fund balance.
- As of the close of the current fiscal year, the unassigned fund balance for the General Fund was \$469,725 which was 26% of total General Fund expenditures.
- The City added two capital lease payables of \$120,916 for the purchase of a three vehicles for the utility and police department. With these two lease payables and the payments applied to current long-term debt obligations, total long-term debt decreased (\$32,123), or (9%).

Overview of the Financial Statements

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

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Basic Financial Statements

The first two statements (pages 19-21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 22-29) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the Governmental Fund financial statements, 2) the Proprietary Fund financial statements, and 3) the Fiduciary Fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 55-56) is provided to show details about the City's pension plan. **Supplemental information** (pages 59-69) is also included to provide combining nonmajor fund financial statements for other major governmental funds and component unit information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

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

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

Both the government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component unit activity. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The final category is the component unit. The City includes one separate legal entity in its report – City of Lavon Economic Development Corporation. Although legally separate, this "component unit" is important because the City is financial accountable for them.

The government-wide financial statements are on pages 19 - 21 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories as previously described.

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps to determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Other Governmental Funds. Data from the other governmental funds is provided in the form of combining statements in the supplementary information. Governmental Fund financial statements can be found on pages 22 – 25 of this report.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, such as cash flows. The City has only two proprietary funds, the Wastewater Utility Fund and the Solid Waste Utility Fund.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Fiduciary Funds – Fiduciary Funds are used to account for amounts held on behalf of others by the City as a trustee, or fiduciary. The City is the trustee, or fiduciary, for certain amounts held on behalf of Collin County. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The activities of this fund are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

The fiduciary fund financial statement can be found on page 29.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 30-50 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund statements can be found on pages 59-69 of this report.

New GASB pronouncements

GASB Statement No. 72, "Fair Value Measurement and Application", addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and, also, provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this Statement does not result in any changes to the City's financial statements.

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68". The implementation of this Statement does not result in any changes to the City's financial statements.

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" is to address the hierarchy of generally accepted accounting principles (GAAP). This statement reduces the GAAP hierarchy to two categories of authoritative GAAP. This statement supersedes Statement No. 55 and amends Statement No. 62. The implementation of this Statement does not result in any changes to the City's financial statements.

GASB issued the following statements which will be effective in future years as described below:

GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans other than Pension Plans", that replaces Statement No. 43 and amends Statement No. 57 will be implemented as required by GASB during the fiscal year September 30, 2017.

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions", that replaces Statement No. 45 and amends Statement No. 57 and 74 will be implemented in fiscal year ending September 30, 2018 as required.

GASB Statement No. 77, "Tax Abatement Disclosures" is to assist in assessing whether a government's current-year revenues were sufficient to pay for current-year services, whether a government complied with finance related legal and contractual obligations, where a government's financial resources come from and how it uses them, and a government's financial position and economic condition and how they have change over time. The City is in the process of evaluating the potential changes to the financial statements as a result of the implementation of this statement in fiscal year ending September 30, 2017.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 836,102	\$ 1,127,716	\$ 326,225	\$ 446,704	\$ 1,162,327	\$ 1,574,420
Capital assets	5,620,124	5,653,032	2,269,493	2,272,871	7,889,617	7,925,903
Total assets	6,456,226	6,780,748	2,595,718	2,719,575	9,051,944	9,500,323
Deferred outflows-pension	73,998	40,764	-	-	73,998	40,764
Current liabilities	156,124	112,203	(19,461)	124,960	136,663	237,163
Long-term liabilities	325,637	321,773	79,539	73,000	405,176	394,773
Total liabilities	481,761	433,976	60,078	197,960	541,839	631,936
Deferred inflows of resources						
Pension	6,720	7,637	-	-	6,720	7,637
Advance lease receipts	-	-	69,702	82,948	69,702	82,948
Total deferred inflows	6,720	7,637	69,702	82,948	76,422	82,948
Net position:						
Net investment in capital assets	5,313,904	5,350,676	2,189,954	2,199,871	7,503,858	7,550,547
Restricted	199,537	531,822	-	-	199,537	531,822
Unrestricted	528,302	88,663	275,984	238,796	804,286	327,459
Total net position	\$ 6,041,743	\$ 5,971,161	\$ 2,465,938	\$ 2,438,667	\$ 8,507,681	\$ 8,409,828

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The net position of the City exceeded liabilities by \$8,507,681 as of September 30, 2016. The City's net position increased by \$97,853, excluding prior period adjustments, for the fiscal year ended September 30, 2016.

Net investment in capital assets:

The City's net position of net investment in capital assets of, \$7,503,858, or 88%, reflects the City's investment in capital assets (e.g. land, buildings, infrastructure, and equipment) less any related debt still outstanding that was issued to acquire those items. The City began residential development of the Public Improvement District. Phase I of this development has been completed. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

Restricted net position:

The restricted net position of \$199,537, or 2%, of total net position represents resources that are subject to external restrictions on their use, or by enabling legislation. Restricted net position is comprised of state imposed restrictions for court use, \$38,839, or 19.5%; \$1,300, or .7%, for police use, \$79,823, or 40.%, for capital improvements, and \$79,575, or 39.9%, for street improvements and maintenance.

Unrestricted net position:

Unrestricted net position of \$804,286 or, 9%, is available to fund the City programs and obligations to its citizens and creditors.

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 354,445	\$ 435,114	\$ 814,681	\$ 940,388	\$ 1,169,126	\$ 1,375,502
Capital grants and contributions	23,239	181,791	13,249	121,516	36,488	303,307
Operating grants and contributions	22,839	1,121	-	-	22,839	1,121
General revenues:						
Property tax	1,003,856	884,551	-	-	1,003,856	884,551
Sales tax	187,872	156,629	-	-	187,872	156,629
Franchise tax	108,486	101,271	-	-	108,486	101,271
Investment income	1,089	1,660	172	-	1,261	1,660
Miscellaneous	2,838	5,122	32	-	2,870	5,122
Total revenues	<u>1,704,664</u>	<u>1,767,259</u>	<u>828,134</u>	<u>1,061,904</u>	<u>2,532,798</u>	<u>2,829,163</u>
Expenses:						
Program expenses						
General government	527,557	445,676	-	-	527,557	445,676
Public services	121,182	94,904	-	-	121,182	94,904
Public safety	930,265	664,938	-	-	930,265	664,938
Public works	292,181	373,855	-	-	292,181	373,855
Parks and recreation	1,307	199	-	-	1,307	199
Interest on long-term debt	11,632	14,412	-	-	11,632	14,412
Sewer and garbage	-	-	550,821	634,612	550,821	634,612
Total expenses	<u>1,884,124</u>	<u>1,593,984</u>	<u>550,821</u>	<u>634,612</u>	<u>2,434,945</u>	<u>2,228,596</u>
Change in net assets before other						
Financing Sources (Uses)	(179,460)	173,275	277,313	427,292	97,853	600,567
Other financing sources (uses):						
Transfers	250,042	257,015	(250,042)	(257,015)	-	-
Total other financing sources (uses)	<u>250,042</u>	<u>257,015</u>	<u>(250,042)</u>	<u>(257,015)</u>	<u>-</u>	<u>-</u>
Total change in net position	70,582	430,290	27,271	170,277	97,853	600,567
Net position - October 1	5,971,161	5,477,226	2,438,667	2,268,390	8,409,828	7,745,616
Prior period adjustments	-	63,645	-	-	-	63,645
Net position - September 30	<u>\$ 6,041,743</u>	<u>\$ 5,971,161</u>	<u>\$ 2,465,938</u>	<u>\$ 2,438,667</u>	<u>\$ 8,507,681</u>	<u>\$ 8,409,828</u>

Governmental activities increased net position, excluding prior period adjustments, by \$70,582. This is due, in large part, to an increase in total tax revenues of \$157,763, or 14%.

Business-type activities increased net position by \$27,271. Revenues decreased (\$233,770), or (22%).

Property Tax revenues were significantly restricted by the TIF fund which drew \$78,039 from current year property taxes and contain \$484,838 of property tax resources dedicated to the region in Lavon allocated to the TIF.

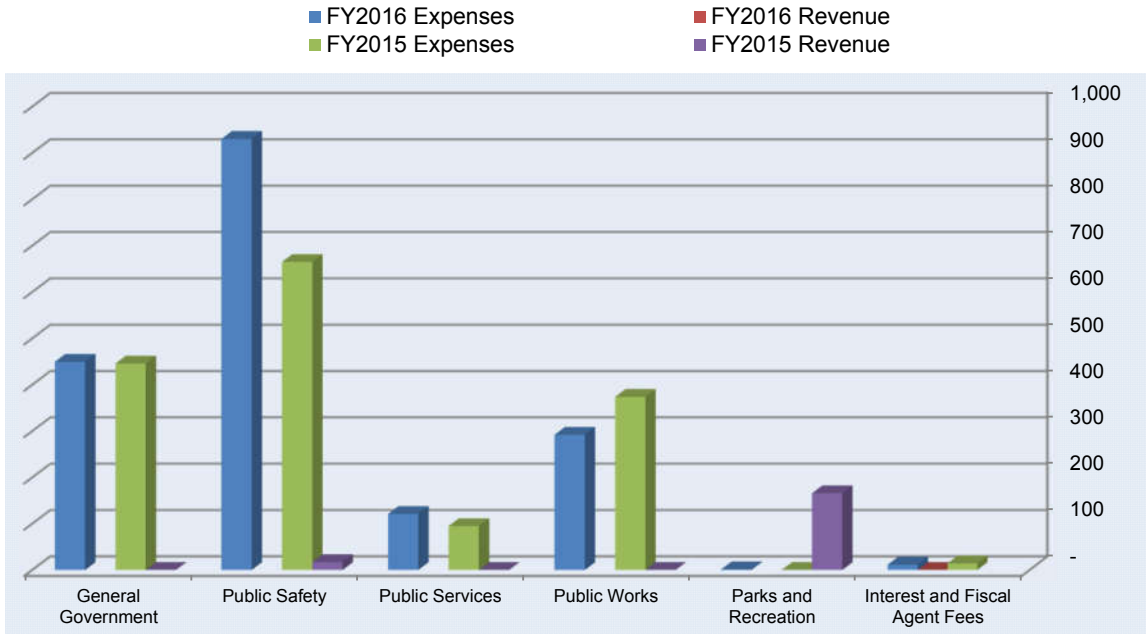
**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Governmental-type activities - Governmental-type activities increased the City's net position by \$70,582, excluding prior period adjustments. Key elements of this increase are as follows:

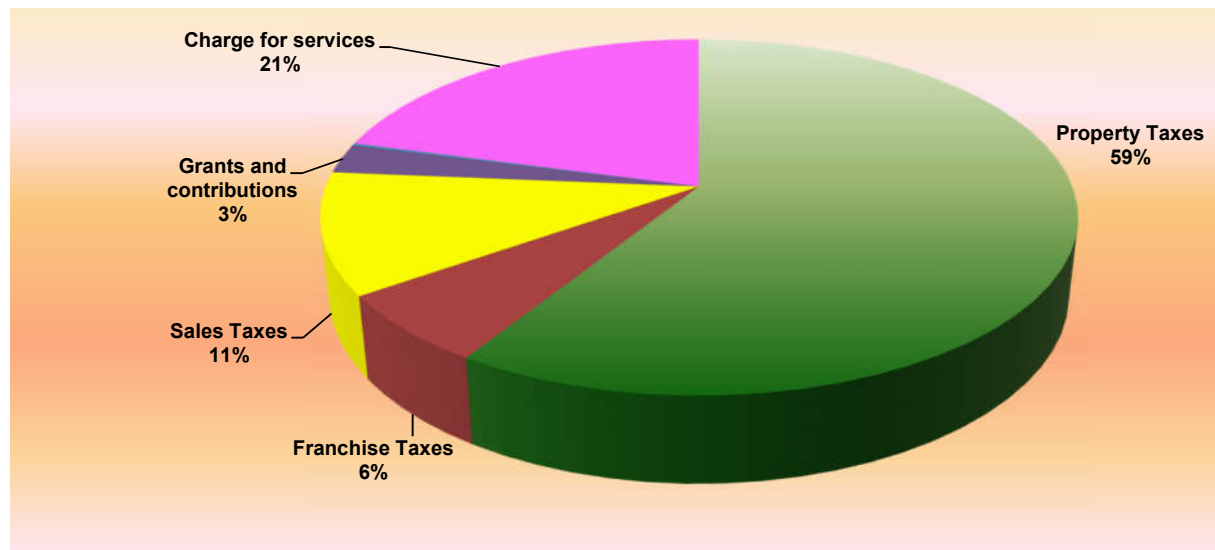
Taxes collected for property, sales, and franchise increased \$157,763, or \$14%.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



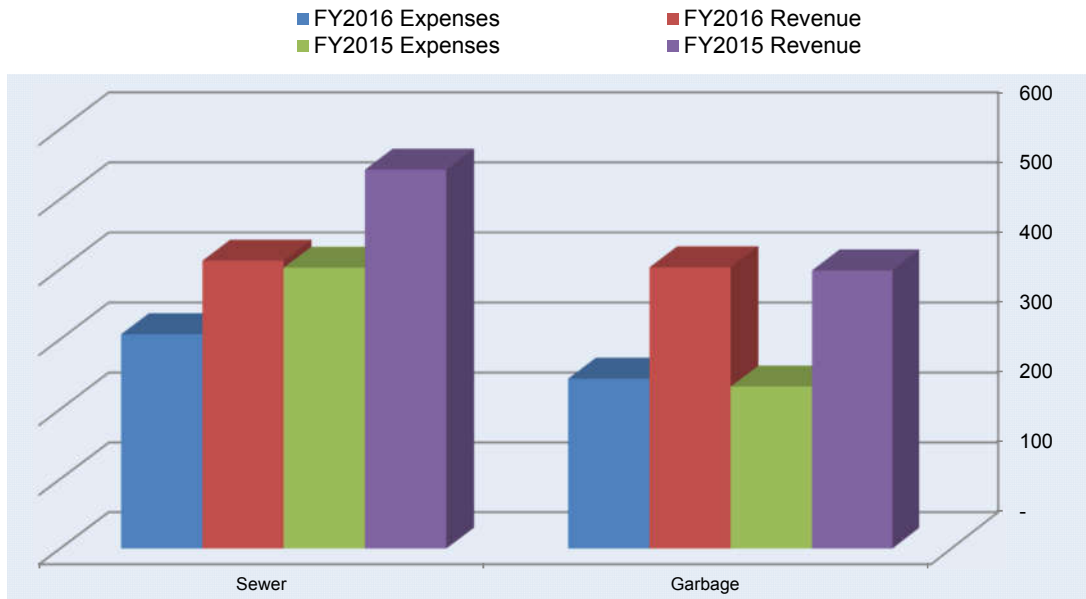
**CITY OF LAVON, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 SEPTEMBER 30, 2016**

Business-type activities - Business-type activities increased the City's net position by \$27,271. Key elements of this increase are as follows:

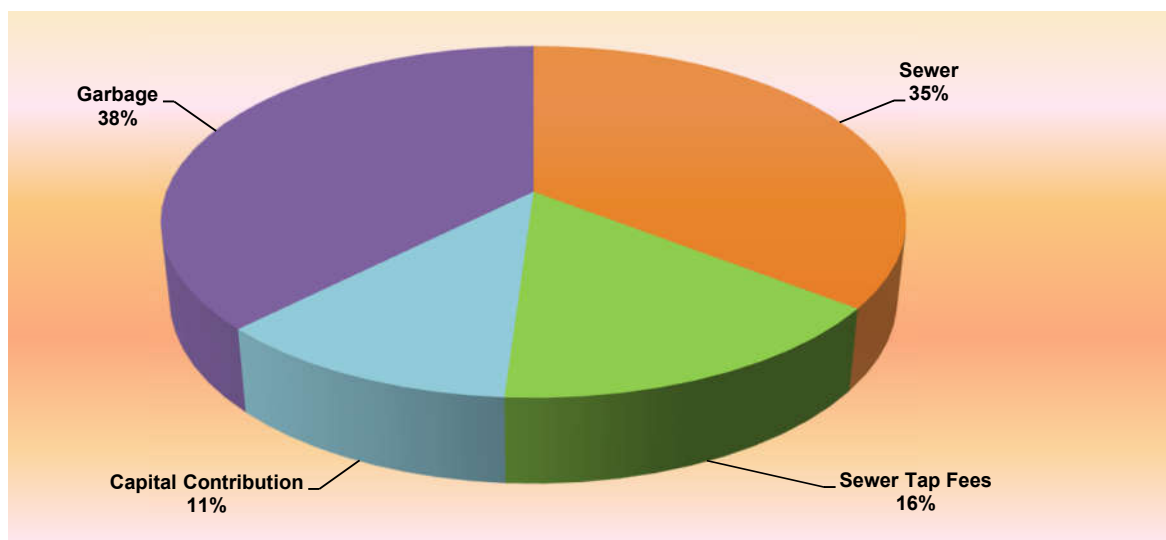
Overall revenues decreased \$233,770, or 22%.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Financial Analysis of the City's Funds

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

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

At September 30, 2016, the City's governmental funds reported total fund balances of \$673,359, a 21% increase in comparison with the prior year's total ending fund balance. The components of total fund balance are as follows:

- Restricted fund balances of \$199,086, or 29.6%, of total fund balance consists of amounts restricted by external laws or contractual obligations. These are as follows:
 - \$79,823, or 40.1% for capital improvements;
 - \$38,839, or 19.5% for court use;
 - \$1,300, or .7% for police; and
 - \$79,124, or 39.7% for public works.
- Assigned fund balance of \$4,548, or 0.7% of total fund balance, is for public safety.
- Unassigned fund balance of \$469,725, or 69.8%, of total fund balance, represents residual available fund balances that have not been restricted, committed, or assigned by management, City Council, or otherwise.

General Fund - The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$469,725, compared to \$428,464 at the end of the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents % of total General Fund expenditures.

General Fund Budgetary Highlights: During the fiscal year, the City made revisions to the original adopted budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Overall, revenues were more than the budgeted amounts and expenditures were less than budget.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$275,984.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2016**

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, totals \$7,889,617 (net of accumulated depreciation). These assets include land, buildings and improvements, infrastructure, vehicles and equipment. The total increase in capital assets for the current fiscal year was approximately .6%.

Major capital asset transactions during the year include the following additions:

- Purchase of three vehicles
- Purchase of tornado sirens

**Capital Assets
September 30, 2016
(net of accumulated depreciation)**

	Governmental		Business-type		Total	
	2016	2015	2016	2015	2016	2015
Land	\$1,748,756	\$1,748,756	\$ -	\$ -	\$1,748,756	\$1,748,756
Buildings & Improvements	583,053	627,220	-	-	583,053	627,220
Infrastructure	2,894,236	2,992,741	2,200,663	2,272,871	5,094,899	5,265,612
Machinery & Equipment	385,879	276,115	68,830	-	454,709	276,115
Construction in Progress	8,200	8,200	-	-	8,200	8,200
Total	\$5,620,124	\$5,653,032	\$2,269,493	\$2,272,871	\$7,889,617	\$7,925,903

More detailed information about the City's capital assets is presented in Note G to the financial statements.

Long-Term Debt - As of September 30, 2016, the City had outstanding long-term debt in the amount of \$343,233, an decrease of (\$32,123), or (9%).

**Outstanding Debt
As of September 30, 2016**

	Governmental		Business-type		Total	
	2016	2015	2016	2015	2016	2015
Capital Leases Payable	\$ 180,690	\$ 201,792	\$ 17,539	\$ -	\$ 180,690	\$ 201,792
Notes Payable	100,543	100,564	62,000	73,000	162,543	173,564
	\$ 281,233	\$ 302,356	\$ 79,539	\$ 73,000	\$ 343,233	\$ 375,356

More detailed information about the City's long-term debt is presented in Note I to the financial statements.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2016**

Economic Factors and Next Year's Budgets and Rates

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration set the direction of the City, allocate its resources, and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2015, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2016-2017 will remain the same as the current year, a tax rate of \$0.4557 per \$100 valuation. Tax revenue is expected to increase due to new property being added to the tax roll.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Lavon, PO Box 340, Lavon, Texas 75166.



BASIC FINANCIAL STATEMENTS



**CITY OF LAVON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	EDC	TIF
ASSETS					
Cash and cash equivalents	\$ 650,390	\$ 209,970	\$ 860,360	\$ 118,588	\$ -
Receivables (net of allowance for uncollectibles)	65,750	46,553	112,303	13,787	-
Note receivable	-	69,702	69,702	-	-
Prepaid item	-	-	-	10,000	-
Restricted assets:					
Cash and cash equivalents	119,962	-	119,962	-	486,821
Capital assets not being depreciated:					
Land	1,748,756	-	1,748,756	-	-
Construction in process	8,200	-	8,200	-	-
Capital assets net of accumulated depreciation:					
Building & improvements	583,053	-	583,053	-	-
Infrastructure & improvements	2,894,236	2,200,663	5,094,899	-	-
Machinery & equipment	385,879	68,830	454,709	-	-
Total assets	6,456,226	2,595,718	9,051,944	142,375	486,821
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources-pension	73,998	-	73,998	-	-
LIABILITIES					
Accounts payable	139,188	(19,461)	119,727	-	-
Payroll liabilities	6,936	-	6,936	-	-
Unearned revenues	10,000	-	10,000	-	-
Non-current liabilities:					
Due within one year:					
Compensated absences	2,600	-	2,600	-	-
Capital lease payable	51,377	5,610	56,987	-	-
Note payable	33,331	11,000	44,331	13,731	-
Due in more than one year:					
Compensated absences	16,817	-	16,817	-	-
Capital lease payable	129,313	11,929	141,242	-	-
Net pension liability	24,987	-	24,987	-	-
Note payable	67,212	51,000	118,212	57,002	-
Total liabilities	481,761	60,078	541,839	70,733	-
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources-pension	6,720	-	6,720	-	-
Unavailable revenue-note receivable	-	69,702	69,702	-	-
Total deferred inflows of resources	6,720	69,702	76,422	-	-
NET POSITION					
Net investment in capital assets	5,313,904	2,189,954	7,503,858	-	-
Restricted for:					
Capital improvements	79,823	-	79,823	-	-
Court uses	38,839	-	38,839	-	-
Police	1,300	-	1,300	-	-
Public works	79,575	-	79,575	-	-
Unrestricted	528,302	275,984	804,286	71,642	486,821
Total net position	\$ 6,041,743	\$ 2,465,938	\$ 8,507,681	\$ 71,642	\$ 486,821

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

**CITY OF LAVON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 527,555	\$ 21,451	\$ -	\$ -
Public service	121,182	170,192	-	-
Public safety	930,264	12,038	23,239	22,839
Public works	292,183	141,687	-	-
Parks and recreation	1,307	9,077	-	-
Interest on long-term debt	11,632	-	-	-
Total governmental activities	1,884,123	354,445	23,239	22,839
Business-type Activities:				
Wastewater	307,110	412,060	13,249	-
Solid waste	243,711	402,621	-	-
Total business-type activities	550,821	814,681	13,249	-
Total primary government	\$ 2,434,944	\$ 1,169,126	\$ 36,488	\$ 22,839
Component units:				
Economic Development Corporation	\$ 82,774	\$ -	\$ 2,144	\$ -
Tax Increment Fund	-	78,039	-	-
Total component unit:	\$ 82,774	\$ -	\$ 2,144	\$ -

General revenues:
Property tax
Sales & mixed beverage tax
Franchise tax
Investment income
Miscellaneous
Transfers
Total general revenues
Change in net position
Net position - beginning
Prior period adjustments
Net position - ending

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business Activities	Total	EDC	TIF
\$ (506,104)	\$ -	\$ (506,104)	\$ -	\$ -
49,010	-	49,010	-	-
(872,148)	-	(872,148)	-	-
(150,496)	-	(150,496)	-	-
7,770	-	7,770	-	-
(11,632)	-	(11,632)	-	-
<u>(1,483,600)</u>	<u>-</u>	<u>(1,483,600)</u>	<u>-</u>	<u>-</u>
-	118,199	118,199	-	-
-	158,910	158,910	-	-
<u>-</u>	<u>277,109</u>	<u>277,109</u>	<u>-</u>	<u>-</u>
<u>\$ (1,483,600)</u>	<u>\$ 277,109</u>	<u>\$ (1,206,491)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (80,630)	\$ -
-	-	-	-	78,039
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (80,630)</u>	<u>\$ 78,039</u>
\$ 1,003,856	\$ -	\$ 1,003,856	\$ -	\$ -
187,872	-	187,872	75,492	-
108,486	-	108,486	-	-
1,089	172	1,261	-	555
2,837	32	2,869	-	-
250,042	(250,042)	-	-	-
<u>1,554,182</u>	<u>(249,838)</u>	<u>1,304,344</u>	<u>75,492</u>	<u>555</u>
70,582	27,271	97,853	(5,138)	78,594
5,971,161	2,438,667	8,409,828	76,780	408,227
-	-	-	-	-
<u>\$ 6,041,743</u>	<u>\$ 2,465,938</u>	<u>\$ 8,507,681</u>	<u>\$ 71,642</u>	<u>\$ 486,821</u>

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

**CITY OF LAVON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 645,842	\$ 4,548	\$ 650,390
Receivables (net of allowance for uncollectibles)	65,750	-	65,750
Cash and cash equivalents - restricted	79,823	40,139	119,962
Total assets	791,415	44,687	836,102
LIABILITIES			
Accounts payable	139,188	-	139,188
Payroll accrual	6,936	-	6,936
Unearned revenues	10,000	-	10,000
Total liabilities	156,124	-	156,124
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property tax revenue	6,619	-	6,619
Total deferred inflows of resources	6,619	-	6,619
FUND BALANCES			
Restricted for:			
Capital improvements	79,823	-	79,823
Court use	-	38,839	38,839
Police	-	1,300	1,300
Public Works	79,124	-	79,124
Assigned for:			
Police	-	4,548	4,548
Unassigned	469,725	-	469,725
Total fund balances	628,672	44,687	673,359
Total liabilities, deferred inflows of resources and fund balances	\$ 791,415	\$ 44,687	\$ 836,102

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

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

Total fund balances - governmental funds balance sheet	\$ 673,359
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,176,471
Accumulated depreciation has not been included in the governmental fund financial statements.	(1,556,347)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(19,417)
Revenue reported as deferred inflow of resources in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	6,619
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements.	(24,987)
Deferred inflows/outflows of resources for pension are not reported in the fund financial statements.	67,278
Long-term liabilities, including notes payable and capital leases, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(281,233)</u>
Net position of governmental activities - statement of net position	<u><u>\$ 6,041,743</u></u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property	\$ 1,003,856	\$ -	\$ 1,003,856
Sales	187,872	-	187,872
Franchise	108,486	-	108,486
Charge for services	30,348	-	30,348
Intergovernmental revenue - state and local	22,225	1,013	23,238
Licenses and permits	141,688	-	141,688
Fines and fees	162,624	7,568	170,192
Donations	22,839	-	22,839
Miscellaneous	2,837	-	2,837
Investment income	1,089	-	1,089
Total revenues	1,683,864	8,581	1,692,445
EXPENDITURES			
Current operating:			
General government	492,098	-	492,098
Public services	114,406	6,776	121,182
Public safety	716,311	-	716,311
Public works	292,181	-	292,181
Parks and recreation	1,307	-	1,307
Debt service:			
Principal retirement	118,401	-	118,401
Interest	11,632	-	11,632
Capital outlays			
General government	5,000	-	5,000
Public services	5,000	-	5,000
Public safety	68,770	-	68,770
Public works	5,000	-	5,000
Total expenditures	1,830,106	6,776	1,836,882
Excess (deficiency) of revenues over (under) expenditures	(146,242)	1,805	(144,437)
Other revenues and financing sources (uses)			
Transfers	255,619	(5,577)	250,042
Sale of assets	12,038	-	12,038
Total other financing sources (uses)	267,657	(5,577)	262,080
Net change in fund balances	121,415	(3,772)	117,643
Fund balances, October 1	507,257	48,459	555,716
Fund balances, September 30	\$ 628,672	\$ 44,687	\$ 673,359

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

**CITY OF LAVON, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 117,643
Amounts reported for governmental activities in the statement of activities are different because:	
Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2016 capital outlays is to increase net position.	83,770
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.	(213,954)
Current year long-term debt principal payments on contractual obligations, are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	118,401
Sale of asset reported in fund financial statements are not shown in the statement of activities.	(12,038)
Current year changes in pension expense do not require the use of current resources; therefore, this is not reported as expenditures in governmental funds.	<u>(23,240)</u>
Change in net position - statement of activities	<u><u>\$ 70,582</u></u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016**

	Wastewater Fund	Solid Waste Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 209,970	\$ -	\$ 209,970
Receivables (net of allowance for uncollectibles)	27,702	18,851	46,553
Note receivable	69,702	-	69,702
Cash and cash equivalents - restricted	-	-	-
Total current assets	307,374	18,851	326,225
Noncurrent assets:			
Capital assets:			
Infrastructure	2,699,905	-	2,699,905
Machinery and equipment	68,830	-	68,830
Less: accumulated depreciation	(499,242)	-	(499,242)
Total capital assets (net of accumulated depreciation)	2,269,493	-	2,269,493
Total assets	2,576,867	18,851	2,595,718
LIABILITIES			
Current liabilities:			
Accounts payable	(19,461)	-	(19,461)
Payables from restricted funds:			
Note payable	11,000	-	11,000
Capital lease	5,610	-	5,610
Total current liabilities	(2,851)	-	(2,851)
Noncurrent liabilities:			
Note payable	51,000	-	51,000
Capital lease	11,929	-	11,929
Total noncurrent liabilities	62,929	-	62,929
Total liabilities	60,078	-	60,078
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-note receivable	69,702	-	69,702
Total deferred inflows of resources	69,702	-	69,702
NET POSITION			
Net investment in capital assets	2,189,954	-	2,189,954
Unrestricted	257,133	18,851	275,984
Total net position	\$ 2,447,087	\$ 18,851	\$ 2,465,938

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Wastewater Utility	Solid Waste Utility	Total
OPERATING REVENUES:			
Charges for services	\$ 412,060	\$ 402,621	\$ 814,681
Investment Income	172	-	172
Miscellaneous income	32	-	32
Total operating revenues	412,264	402,621	814,885
OPERATING EXPENSES:			
Supplies and materials	-	12,125	12,125
Contractual services	-	231,586	231,586
Repairs and maintenance	198,406	-	198,406
Utilities	34,013	-	34,013
Depreciation	72,208	-	72,208
Total operating expenses	304,627	243,711	548,338
Operating income (loss)	107,637	158,910	266,547
NON-OPERATING REVENUES (EXPENSES):			
Interest expense	(2,483)	-	(2,483)
Total non-operating revenues (expenses)	(2,483)	-	(2,483)
Capital contribution	13,249	-	13,249
Transfers	(94,428)	(155,614)	(250,042)
Change in net position	23,975	3,296	27,271
Net position, October 1	2,423,112	15,555	2,438,667
Net position, September 30	\$ 2,447,087	\$ 18,851	\$ 2,465,938

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

**CITY OF LAVON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Wastewater Utility	Solid Waste Utility	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 419,438	\$ 415,840	\$ 835,278
Cash paid to suppliers for goods and services	(360,323)	(260,226)	(620,549)
Cash paid to employees	-	-	-
Net cash provided by (used for) operating activities	<u>59,115</u>	<u>155,614</u>	<u>214,729</u>
Cash Flows from Noncapital Financing Activities			
Transfers to Other Funds	(94,428)	(155,614)	(250,042)
Due from LEDC	13,246	-	13,246
Intergovernmental expenses	-	-	-
Net cash provided by (used for) noncapital financial activities	<u>(81,182)</u>	<u>(155,614)</u>	<u>(236,796)</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	6,572	-	6,572
Interest paid on long-term debt	(2,483)	-	(2,483)
Acquisition of capital assets	(68,830)	-	(68,830)
Net cash provided by (used for) capital and related financing activities	<u>(64,741)</u>	<u>-</u>	<u>(64,741)</u>
Cash Flows from Investing Activities			
Interest income	172	-	172
Net cash provided by (used for) investing activities	<u>172</u>	<u>-</u>	<u>172</u>
Net increase (decrease) in cash and cash equivalents	(86,636)	-	(86,636)
Cash and cash equivalents at beginning of year	296,606	-	296,606
Cash and cash equivalents at end of year	<u>\$ 209,970</u>	<u>\$ -</u>	<u>\$ 209,970</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 107,637	\$ 158,910	\$ 266,547
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation	72,208	-	72,208
Changes in assets and liabilities:			
(Decrease) increase in:			
Receivables	7,175	13,219	20,394
Increase (decrease) in:			
Accounts payable	(127,905)	(16,515)	(144,420)
Other liabilities	-	-	-
Total adjustments	<u>(48,522)</u>	<u>(3,296)</u>	<u>(51,818)</u>
Net cash provided by operating activities	<u>\$ 59,115</u>	<u>\$ 155,614</u>	<u>\$ 214,729</u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2016**

	<u>Collin County TIF Fund</u>
ASSETS	
Cash and cash equivalents	\$ 281,819
Total assets	<u>281,819</u>
LIABILITIES	
Other liabilities	281,819
Total liabilities	<u>\$ 281,819</u>

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lavon, Texas ("City") was incorporated in 1972 and is currently governed by an elected mayor and five-member council and provides the following services to its citizens: Public Safety (Police and Fire), Public Works, Waste Water Utilities, Solid Waste Utilities and General Administrative Services.

The accounting reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards when applicable. The more significant accounting policies of the City are described below:

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39 "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component unit, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component unit, is entitled to, or has the ability to otherwise access, are significant to the primary government.

The financial statement of the following component units has been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component units provides services entirely or almost entirely to the citizenry and not the City.

The Lavon Economic Development Corporation ("EDC") and the Tax Increment Fund ("TIF") are a discretely presented component units of the City. The EDC is governed by a board of seven directors, all of whom are appointed by the City Council of the City and whom can be removed from office by the City Council at its will. The EDC was incorporated in the State of Texas in 2004. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financial statements to be misleading and incomplete. The EDC is legally separate, but due to the City appointing the voting majority of the EDC board, it is classified as a discretely presented component unit. The funding for the EDC occurs by the City transferring 29% of City sales tax collections to the EDC. The TIF is governed by a board of seven directors, five of which are appointed by the City Council of the City and whom can be removed by from office by the City Council at is will. The TIF was incorporated in the the State of Texas in 2006. The nature and significance of the relationship between the primary government and the TIF is such that exclusion would cause the City's financial statements to be misleading. The TIF is legally separate, but due to the City appointing the the voting majority of the TIF board, it is classified as a discretely presented component unit. The funding for the TIF occurs by the TIF collectiing property taxes collected in the City of Lavon.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit If management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Basis of Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented in the required supplementary section that compares the budget with actual results.

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City and its component unit, entities for which the City is considered to be financially accountable. The discretely presented component unit has been reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Fire, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the capital requirements of a particular function or program, and c) grants and contributions that are restricted to meeting the operational requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenue. Internally dedicated resources are also reported as general revenues rather than as program revenues.

The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise fees, and interest income).

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the funds financial statements. The major governmental fund is the general fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Basis of Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the wastewater and solid waste funds are charges to customers for sales and services. The wastewater utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for business-type funds include the cost of sales and service and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The City's Fiduciary Fund is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and proprietary categories, as well as the fiduciary fund. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

3. Measurement Focus, Basis of Accounting

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements and fiduciary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized as the liability is incurred.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available when they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable shortly after year end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to inter-governmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Measurement Focus, Basis of Accounting (continued)

The City reports the following major governmental fund:

The *General Fund* is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contracted agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or purposes. The following are descriptions of the proprietary funds of the City.

The *Wastewater Utility Fund* accounts for the operation of the City's wastewater utility system, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in and outside of Lavon.

The *Solid Waste Fund* accounts for the operation of the City's solid waste collection activity. The City collects monthly user charges from subscribers and contracts with a third party for the collection of solid waste.

Agency funds account for amounts held on behalf of others by the City as a trustee, or fiduciary. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The activities of these funds are excluded from the City's other financial statements because the City cannot use them to finance its operations. The City is responsible for ensuring that the assets reported are used for their intended purpose. The following is a description of the fiduciary fund of the City:

The *Collin County TIF* is used to account for assets held by the City in an agency capacity for Collin County. This fiduciary fund records only assets and liabilities and therefore has no measurement focus.

4. Financial Statement Amounts

a. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

b. Prepaid Items

Prepaid balances are for payments made by the City for which benefits extend beyond the fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures. Prepaid items are recorded using the consumption method.

c. Receivable and Payable

Trade and property tax receivables are shown net of an allowance for uncollectible.

The City believes that sufficient detail of receivable and payable balances are provided in the financial statements to avoid the obscuring of significant components by aggregation.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

e. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles and infrastructure, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund type financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings, structures and improvements	5-40 years
Equipment, including vehicles	5-10 years
Infrastructure	20-40 years

f. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and overtime not paid (comp time). All vacation and comp time is accrued at the close of the fiscal year end in the government-wide and proprietary fund financial statements.

g. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed during the year they are incurred.

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts (continued)

h. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify in this category. The City's pension plan contributions made from the measurement date of the pension plan to the current fiscal year-end are deferred and will be recognized in the subsequent fiscal year-end. The other deferred outflow is the difference between projected and actual investment earnings that will be amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of a net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has three items that qualify in this category. Two of these items arise only under a modified accrual basis of accounting. Accordingly, unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental fund report unavailable revenues from property tax and proprietary funds report a note receivable. The remaining items recorded as a deferred inflow of resources is recorded in the government-wide Statement of Net Position and fund level financial statements for the Wastewater Utility Fund's Statement of Net Position for the difference in projected and actual experience in the actuarial measurement of the total pension liability not recognized in the current year. The amount is deferred and will be amortized over a period of years determined by the Plan actuary. The differences will be amortized over the average remaining service life of all participants in the respective pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

i. Net Position Flow Assumption

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

j. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by laws through constitutional provisions or enabling legislation that stipulates amounts can only be spent for specific purposes.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by a resolution of the City Council and remains binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* - amounts that are constrained by the City's intent to be used for specific purposes. Assignment of fund balance is much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum intended to be used.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts

j. Fund Balance Policies (continued)

- *Unassigned fund balance* - the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unassigned resources are available for use, it is the City's policy to use restricted resources first, followed by the committed, assigned and unassigned resources as they are needed.

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City considers an unassigned fund balance of 10% of expenditures should be maintained. The City considers an unassigned fund balance of less than 5% of expenditures to be cause for concern and a plan to adjust budget resources in subsequent fiscal years will be done to restore the balance.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Compliance with the provisions of the policy shall be reviewed as part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures. The City is in compliance with the policy at the end of the current fiscal period.

k. Fund Balance Flow Assumption

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

l. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at the fund level.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. Financial Statement Amounts

l. Property Taxes (continued)

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 in population limits the ad valorem tax rate to \$2.50 per \$100 assessed value. The City's property tax rate for the current fiscal year is \$0.455700 per \$100 assessed value.

m. Comparative Data/Reclassification

Comparative total data for the current year to budget for the General Fund have been presented in the basic financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

n. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as 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 interfund 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, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

o. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

p. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

q. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

B. COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	N/A

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None	N/A

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the fifteenth day of each August, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- The budget for the General Fund is legally adopted on a basis consistent with modified accrual basis. The majority of the City's capital projects are budgeted on an annual basis.
- According to the City Charter, total estimated expenditures of the General Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Council is the only body that can change the budgeted amounts from one line account to another.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

C. CASH 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").

Cash Deposits

At September 30, 2016, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$1,467,142 and the bank balance was \$1,297,898. The City's cash deposits at September 30, 2016 and during the year ended September 30, 2016, not covered by FDIC or by pledged collateral held by the City's agent bank in the City's name. Cash and cash equivalents as of September 30, 2016 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:

Primary Government	
Cash and cash equivalents	\$ 860,360
Restricted assets-cash and cash equivalents	<u>119,962</u>
Total cash and cash equivalents	<u>\$ 980,322</u>
Governmental - Restricted Cash	
TIF	\$ 79,823
Court use	38,839
Police Use	<u>1,300</u>
Total Restricted Cash	<u>\$ 119,962</u>

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 national recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities.

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 changes in 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 LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

D. TAX INCREMENT FINANCING

The City established a Tax Increment Financing No. 1 ("TIF") in December, 2006 by Ordinance 2006-12-01 along with Collin County for project improvements within the City. Collin County signed the agreement to participate. Currently, the City collects all property tax revenues for the TIF.

Tax Increment Financing is a tool that local governments can use to publicly finance needed structural improvements and enhanced infrastructure within a defined area. These improvements are associated with economic development and are governed by the statutes in Chapter 311 of the Texas Tax Code. TIF is based upon the pledge of future real property taxes generated by new development within that defined geographic area. The public improvements make development of the area possible, which in turn enhances the value of the property. The taxes generated as a result of the enhanced property values are used to fund the public improvements within the area and other incidental costs. In areas designated as TIF districts, tax-base increases are removed from the general tax rolls and the revenue from the 'captured' tax base is used to finance site improvements or other economic development costs.

E. RECEIVABLES

Receivables as of year end for the government's individual major funds and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>
Receivables:			
Taxes	\$ 42,117	\$ -	\$ 42,117
Fees and Charges	123,407	64,849	188,256
Other	-	-	-
Gross Receivables	<u>165,524</u>	<u>64,849</u>	<u>230,373</u>
Less: allowance for uncollectibles	<u>(99,774)</u>	<u>(18,296)</u>	<u>(118,070)</u>
Net Total Receivables	<u>\$ 65,750</u>	<u>\$ 46,553</u>	<u>\$ 112,303</u>

F. NOTE RECEIVABLE

In June 2014, the Lavon Economic Development Corporation agreed to pay the costs of construction of sewer infrastructure for the Lavon Business Park that was financed from the proceeds of the City of Lavon's 2014 Tax Note by remitting to the City from the receipts of local sales and use taxes received by the Corporation to pay the principal and interest.

	<u>Beginning Balances</u>	<u>Issued</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Receive in one year</u>
Note receivable-EDC	<u>\$ 82,948</u>	<u>\$ -</u>	<u>\$ (13,246)</u>	<u>\$ 69,702</u>	<u>\$ 14,284</u>

Note receivable requirements are as follows:

Year ending September 30	Payment
2017	14,284
2018	13,815
2019	13,860
2020	13,909
2021	13,834
Total	<u>\$ 69,702</u>

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

G. CAPITAL ASSETS

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

	Beginning Balances	Transfers	Additions	Decreases	Ending Balances
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 1,748,756	\$ -	\$ -	\$ -	\$ 1,748,756
Construction in progress	8,200	-	-	-	8,200
Total capital assets, not being depreciated	<u>1,756,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,756,956</u>
Capital assets, being depreciated:					
Buildings & Improvements	896,112	-	-	-	896,112
Infrastructure	3,739,234	-	-	-	3,739,234
Machinery & Equipment	658,462	-	181,046	-	839,508
Total capital assets being depreciated	<u>5,293,808</u>	<u>-</u>	<u>181,046</u>	<u>-</u>	<u>5,474,854</u>
Less accumulated depreciation for:					
Buildings & Improvements	(268,892)	-	(44,167)	-	(313,059)
Infrastructure	(746,493)	-	(98,505)	-	(844,998)
Machinery & Equipment	(382,347)	-	(71,282)	-	(453,629)
Total accumulated depreciation	<u>(1,397,732)</u>	<u>-</u>	<u>(213,954)</u>	<u>-</u>	<u>(1,611,686)</u>
Total capital assets, being depreciated, net	<u>3,896,076</u>	<u>-</u>	<u>(32,908)</u>	<u>-</u>	<u>3,863,168</u>
Governmental activities capital assets, net	<u>\$ 5,653,032</u>	<u>\$ -</u>	<u>\$ (32,908)</u>	<u>\$ -</u>	<u>\$ 5,620,124</u>
Business-type Activities					
Capital assets, not being depreciated					
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets, not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, being depreciated:					
Infrastructure	2,699,905	-	-	-	2,699,905
Machinery & Equipment	-	-	68,830	-	68,830
Total capital assets being depreciated	<u>2,699,905</u>	<u>-</u>	<u>68,830</u>	<u>-</u>	<u>2,768,735</u>
Less accumulated depreciation for:					
Infrastructure	(427,034)	-	(67,498)	-	(494,532)
Machinery & Equipment	-	-	(4,711)	-	(4,711)
Total accumulated depreciation	<u>(427,034)</u>	<u>-</u>	<u>(72,208)</u>	<u>-</u>	<u>(499,243)</u>
Total capital assets, being depreciated, net	<u>2,272,871</u>	<u>-</u>	<u>(3,378)</u>	<u>-</u>	<u>2,269,492</u>
Business-type activities capital assets, net	<u>\$ 2,272,871</u>	<u>\$ -</u>	<u>\$ (3,378)</u>	<u>\$ -</u>	<u>\$ 2,269,492</u>

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

Governmental activities:	
General government	\$ 18,820
Public safety	77,161
Public works	115,867
Parks and recreation	1,729
Total depreciation expense - governmental activities	<u>\$ 213,577</u>
Business-type activities:	
Wastewater services	<u>\$ 72,208</u>

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

H. CONSTRUCTION COMMITMENTS

No construction commitments exist at the end of the current fiscal year.

I. LONG-TERM OBLIGATIONS

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2016, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Capital Leases Payable	\$ 201,792	\$ 97,276	\$ (85,068)	\$ 214,000	\$ 52,883
Notes Payable	100,564	-	(33,331)	67,233	34,516
Compensated Absences	26,004	42,445	(49,032)	19,417	2,600
Governmental activity					
Total long-term liabilities	<u>\$ 328,360</u>	<u>\$ 139,721</u>	<u>\$ (167,431)</u>	<u>\$ 300,650</u>	<u>\$ 89,999</u>
Business-type Activities					
Capital Leases Payable	\$ -	\$ 23,640	\$ (6,101)	\$ 17,539	\$ 5,610
Notes Payable	73,000	-	(11,000)	62,000	-
Business-type activity					
Total long-term liabilities	<u>\$ 73,000</u>	<u>\$ 23,640</u>	<u>\$ (17,101)</u>	<u>\$ 79,539</u>	<u>\$ 5,610</u>

Changes in Governmental Long-term Debt

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30,		Amounts Outstanding September 30, 2016	Due Within One Year	
			2015	Issued			Retired
Interlocal Agreement	3.50%	\$ 166,372	\$ 100,564	\$ -	\$ (33,331)	\$ 67,233	\$ 34,516
Total Bonds & Notes		166,372	100,564	-	(33,331)	67,233	34,516
CNH Capital	7.00%	21,773	16,873	-	(3,786)	13,087	4,051
Ford Motor Company	5.50%	50,310	-	50,310	(17,000)	33,310	16,209
Ford Motor Company	6.50%	45,980	15,307	-	(15,307)	-	-
Ford Motor Company	6.50%	45,850	15,262	-	(15,262)	-	-
Community FNB	3.56%	199,000	154,350	-	(17,021)	137,329	17,626
Ford Motor Company	5.50%	46,966	-	46,966	(16,692)	30,274	14,997
Total Long Term Obligations		<u>\$ 576,251</u>	<u>\$ 302,356</u>	<u>\$ 97,276</u>	<u>\$ (118,399)</u>	<u>\$ 281,233</u>	<u>\$ 87,399</u>

Debt service requirements are as follows:

Year Ending September 30:	Total Requirements		
	Principal	Interest	
2017	34,516	1,803	36,319
2018	32,717	575	33,292
Totals	<u>\$ 67,233</u>	<u>\$ 2,378</u>	<u>\$ 69,611</u>

Notes Payable

The City incurred a note payable with Collin County in the amount of \$166,372 for road improvements in the City of Lavon on February 19, 2013. This note is to be repaid over a period of five years with an interest rate of 3.50%.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

I. LONG-TERM OBLIGATIONS (continued)

Capital Leases

The City has the following lease agreements:

The City incurred a capital lease payable with CNH Capital in the amount of \$84,000 for the purchase of a tractor. The lease was paid in full in the current fiscal year.

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$50,310 for the purchase of a vehicle for the police department. This lease will be paid in full in FY2018.

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$46,966 for the purchase of a vehicle for the police department. This lease will be paid in full in FY2018.

The City incurred a capital lease payable with Community First National Bank in the amount of \$199,000 for the purchase of a pumper truck for the fire department.

The City incurred a capital lease payable with CNH Capital in the amount of \$21,773 for the purchase of two mowers for public works.

Capital lease requirements are as follows:

Year Ending September 30	Principal	Interest	Total Requirements
2017	52,883	9,314	62,197
2018	55,509	6,688	62,197
2019	23,538	3,926	27,464
2020	19,571	2,931	22,502
2021	20,266	2,236	22,502
2022-2023	42,233	2,288	44,521
Totals	\$ 214,000	\$ 27,383	\$ 241,383

Changes in Business-type Long-term Debt

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30 2015	Issued	Retired	Amounts Outstanding September 30, 2016	Due Within One Year
2014 Tax Note	4.00%	\$ 84,000	\$ 73,000	\$ -	\$ (11,000)	\$ 62,000	\$ 12,000
Total Bonds & Notes		84,000	73,000	-	(11,000)	62,000	12,000
First National Bank	3.33%	23,460	-	23,640	(6,101)	17,539	5,610
Total Long Term Obligations		\$ 107,460	\$ 73,000	\$ 23,640	\$ (17,101)	\$ 79,539	\$ 17,610

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2017	12,000	2,284	14,284
2018	12,000	1,815	13,815
2019	12,000	1,360	13,360
2020	13,000	909	13,909
2021	13,000	447	13,447
Totals	\$ 62,000	\$ 6,815	\$ 68,815

The City incurred a 2014 Tax Note in the amount of \$84,000 for the sewer infrastructure improvements in the Lavon Business Park.

Capital Leases

The City has the following lease agreements:

The City incurred a capital lease payable with First National Bank in the amount of \$23,460 for the purchase of a 2016 Dodge truck. This lease will be paid in full in FY2019

Capital lease requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2017	5,610	728	6,338
2018	5,843	495	6,338
2019	6,086	253	6,339
Totals	\$ 17,539	\$ 1,476	\$ 19,015

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

J. PUBLIC IMPROVEMENTS DISTRICT

In September 2004, the City created a Public Improvement District ("PID") as authorized under Chapter 372 of the Texas Local Government Code. This PID was created for the benefit of Heritage Residential Development to be known as Heritage Public Improvement District No. 1. This PID was created for the acquisition, construction, and development of public improvements to include roads, drainage and storm water control system, sanitary sewage collection system, water supply and distribution system, other improvements and costs associated with the development and financing of these improvements. Utility Tax Services, Inc. is responsible for the billing and collection of the assessment property tax.

Utility Tax Services, Inc. collects the special assessment taxes for the debt issued and transfers money to Bank of New York Mellon who acts as the paying agent for the debt. The City does not have any direct or contingent liability or moral obligation for the payment of this debt. The outstanding balance for the special assessment bond at September 30, 2016 is:

Heritage Public Improvement District #1 Special Assessment Revenue Bonds, Series 2013: \$ 7,845,000

K. OPERATING LEASES

The City rents property at 112 Forder for use by the Public Works department that began in June 2014. This lease is an annual lease. Total cost for the end of the current fiscal year was \$2,600. The City also leases storage space for records retention. The cost for the current fiscal year was \$1,401. The future minimum lease payments for these lease payments are as follows:

Year End:	General	Public Works	Total
Sept 30			
2017	1,284	7,800	9,084
2018	1,284	7,800	9,084
2019	1,284	7,800	9,084
	<u>\$ 3,852</u>	<u>\$ 23,400</u>	<u>\$ 27,252</u>

L. PENSION PLAN

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

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

2. Benefits Provided

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

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

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

L. PENSION PLAN

2. Benefits Provided (continued)

Employees covered by benefit terms:

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

Number of:	Plan Year	
	2015	2014
Inactive employees or beneficiaries currently receiving benefits	1	1
Inactive employees entitled to but not yet receiving benefits	14	13
Active employees	16	15
Total	31	29

3. Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.50% and 4.87% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year September 30, 2016 were \$33,313 and were equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.50%
Overall payroll growth	3.00%
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by a factor of 96%. The rates are projected on a fully generational basis of scale BB to account for future mortality improvement. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

L. PENSION PLAN

4. Net Pension Liability (continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
	<u>100.0%</u>	

Discount Rate

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

	Increases (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$ 655,026	\$ 699,640	\$ (44,614)
Changes for the year:			
Service cost	63,790		63,790
Interest	48,000		48,000
Change of benefit terms	-		-
Difference between expected and actual experience	(6,720)		(6,720)
Changes of assumptions	26,056		26,056
Contributions - employer		28,976	(28,976)
Contributions - employee		32,185	(32,185)
Net investment income		1,033	(1,033)
Benefit payments, including refunds of employee contributions	(2,425)	(2,425)	-
Administrative expense		(629)	629
Other changes		(31)	31
Net changes	<u>128,701</u>	<u>59,109</u>	<u>69,592</u>
Balance at 12/31/2015	<u>\$ 783,727</u>	<u>\$ 758,749</u>	<u>\$ 24,978</u>

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

L. PENSION PLAN

4. Net Pension Liability (continued)

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

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

1% Decrease 5.75%	Current Single Rate Assumption	1% Increase 7.75%
\$ 157,849	\$ 24,987	\$ (81,902)

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

For the year ended September 30, 2016, the City recognized pension expense of \$46,175.

At September 30, 2016, the City reported deferred outflow of resources and deferred inflow of resources related to pension from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual economic experience	\$ -	\$ 6,720
Changes in actuarial assumptions	26,056	-
Difference between projected and actual investment earnings	47,941	-
Contributions subsequent to the measurement date of December 31, 2015	25,627	-
Total	<u>\$ 99,624</u>	<u>\$ 6,720</u>

\$67,277 reported as deferred outflow of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the current fiscal year. Other amounts reported as deferred outflow and inflow of resources related to pension will be recognized in pension expense as follows:

Net deferred outflows (inflows) of resources:

December 31

2016	\$ 14,885
2017	14,885
2018	15,454
2019	10,426
2020	-
Thereafter	-
Total	<u>\$ 55,650</u>

6. Group-term Life Insurance

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

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

L. PENSION PLAN

6. Group-term Life Insurance (continued)

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

The City's contribution to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$966, \$868 and \$1,835, respectively.

M. HEALTH CARE COVERAGE

During the year ended September 30, 2016, employees of the City were covered by a health insurance plan with TML Intergovernmental Employee Benefits Pool-United Health Care Choice Plan Plus ("Plan"). The City contributed \$541 per month per employee and \$0 of the cost for dependent's. Employees, at their option, authorized payroll withholdings to pay contributions for dependents coverage. All contributions were paid to TML-IEBP. The Plan was authorized by article 3.51-2, Texas Insurance Code and is documented by contractual agreement.

N. INSURANCE COVERAGE

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League Intergovernmental Risk Pool, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregated loss. According to the latest actuarial opinion dated October 1, 2015, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

O. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had 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 an excess of acceptable risk levels; however, each category 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 fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

P. WASTEWATER DISPOSAL

The City secures its sewer services from the North Texas Municipal Water District ("District"), a district authorized by the Texas Constitution, Article XVI, Section 59; created by the Texas Legislature, Article 8280-141; and authorized to act by the confirming vote of the majority of the qualified voters in each of the cities comprising the District. The City provides for the payment of its contractual obligations with the District from revenues generated by the Wastewater Utility Fund.

Q. LITIGATION

The City is subject to certain legal proceedings in the normal course of operations. It is 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.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

R. TRANSFERS

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 261,298	\$ (661,766)
Wastewater Utility Fund	307,207	(45,190)
Solid Waste Utility Fund	154,966	(16,515)
Total Funds Transfers	<u>\$ 723,471</u>	<u>\$ (723,471)</u>

Transfer from the business-type funds to the General Fund are made to pay for administrative costs.

S. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2016 up through June 15, 2017, the date the financial statements were available to be issued. During this period, management was unaware of subsequent events requiring disclosures.

T. LAVON ECONOMIC DEVELOPMENT CORPORATION

The Lavon Economic Development Corporation ("LEDC") was incorporated December 20, 2004. The LEDC is a non-profit industrial development corporation formed under the Texas Revised Civil Statutes Development Corporation Act of 1979. The LEDC is financed with a voter approved 1/2 cent sales tax to aid, promote, and further the economic development within the City.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2016 consist of and are classified in the accompanying financial statements as follows:

Unrestricted Cash and Cash Equivalents	<u>\$ 118,588</u>
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Credit Risk

State law restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further required full insurance of collateralization from these depositories (banks only).

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The Public Funds Investment Act requires that a financial instruction secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

2. Receivables

Receivables at the year end for the LEDC were \$13,787. This is sales tax receivable due from the City. There is no allowance for uncollectible accounts.

3. Prepaid Items

Prepaid balances are for payments made by the LEDC for which benefits extend beyond September 30, 2016, and the related nonspendable fund balance amount has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. The cost of governmental fund type prepaid balances are recorded as an expenditure when consumed rather than when purchased.

**CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

T. LAVON ECONOMIC DEVELOPMENT CORPORATION (continued)

4. Note Payable

Description	Amounts	Amounts	Additions	Decreases	Amounts	Due within one year
	Issue	Outstanding September 30 2015			Outstanding September 30 2016	
Note Payable to City	<u>\$ 96,781</u>	<u>\$ 82,948</u>	<u>\$ -</u>	<u>\$ (13,246)</u>	<u>\$ 69,702</u>	<u>\$ 13,731</u>

Debt service requirements are as follows:

Year ending September 30	Total Requirements
2017	14,284
2018	13,815
2019	13,360
2020	13,909
2021	14,334
Total	<u>\$ 69,702</u>

LEDC signed an agreement in June 2014 to use sales tax funds to fund improvements for the City of Lavon's sewer infrastructure in the Lavon Business Park. The City issued a tax note in the amount of \$84,000 and LEDC will pay \$96,781 (including interest) over a period of 7 years.

5. Operating Lease

The LEDC has an operating lease with the City of Lavon to rent office space for \$5,000 annually beginning March 1, 2012 and ending in FY2019.

6. Litigation

Currently, management is unaware of significant pending litigation against the EDC.

7. Related Party

Pam Mundo, Executive Director for the LEDC, is also the president of Mundo & Associates, Inc. This firm is a consultant for LEDC for ongoing projects. Pam Mundo acts in an advisory capacity without any voting privileges nor does she have access to the bank account or signature authority.

One of the EDC's board members is contracted with EDC to provide IT services. The Board approved these services through bidding procedures. Management has determined that this does not pose any conflict of interest for either party.

8. Subsequent Events

The LEDC has evaluated all events or transactions that occurred after September 30, 2016 up through June 15, 2017, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.

U. LAVON TAX INCREMENT FUND

The Lavon Tax Increment Fund ("TIF") was incorporated December 12, 2006. The reinvestment zone receives a portion of the property property taxes collected in the City of Lavon. The city chose in fiscal year 2016 to separate the TIF into its own entity.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2016 consist of and are classified in the accompanying financial statements as follows:

Restricted Cash and Cash Equivalents	<u>\$ 486,821</u>
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2. Subsequent Events

The TIF has evaluated all events or transactions that occurred after September 30, 2016 up through June 15, 2017, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF LAVON, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**SCHEDULE OF CONTRIBUTIONS
 LAST TWO FISCAL YEARS (UNAUDITED)**

	12/31/2015	12/31/2014	12/31/2013
Actuarially determined contributions	\$ 31,348	\$ 26,916	\$ 18,590
Contributions in relation to the actuarially determined contribution	<u>\$ 31,348</u>	<u>\$ 26,916</u>	<u>\$ 18,590</u>
Contributions deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 643,698	\$ 578,842	\$ 611,501
Contributions as a percentage of covered employee payroll	4.87%	4.65%	3.04%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

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

Methods and Assumptions used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scal BB.

Note: Years will continue to be added until there are 10 years for comparison.

**CITY OF LAVON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS-TMRS**

	<u>12/31/2015</u>	<u>12/31/2014</u>
Total Pension Liability		
Service cost	\$ 63,790	\$ 50,365
Interest (on the Total Pension Liability)	48,000	41,927
Changes of benefit terms	-	-
Difference between expected and actual experience	(6,720)	(4,139)
Change of assumptions	26,056	-
Benefit payments, including refunds of employee contributions	<u>(2,425)</u>	<u>(13,802)</u>
Net Change in Total Pension Liability	128,701	74,351
Total Pension Liability - Beginning	655,026	580,675
Total Pension Liability - Ending (a)	<u>\$ 783,727</u>	<u>\$ 655,026</u>
Plan Fiduciary Net Position		
Contributions - employers	\$ 28,967	\$ 17,097
Contributions - employees	32,185	28,942
Net investment income	1,033	36,148
Benefit payments, including refunds of employee contributions	(2,425)	(13,802)
Administrative expense	(629)	(377)
Other	<u>(31)</u>	<u>(31)</u>
Net Change in Plan Fiduciary Net Position	59,100	67,977
Plan Fiduciary Net Position - Beginning	699,640	631,663
Plan Fiduciary Net Position - Ending (b)	<u>\$ 758,740</u>	<u>\$ 699,640</u>
Net Pension Liability (Asset) - Ending (a)-(b)	<u>\$ 24,987</u>	<u>\$ (44,614)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.81%	106.81%
Covered Employee Payroll	\$ 643,698	\$ 578,842
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	3.88%	-7.71%

Note to Schedule:

N/A

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budget		Actual	Variance with Final Budget - Positive (Negative)
	Adopted	Amended		
REVENUES				
Taxes:				
Property	\$ 1,006,000	\$ 1,006,000	\$ 1,003,856	\$ (2,144)
Sales	130,000	132,500	187,872	55,372
Franchise	111,000	111,000	108,486	(2,514)
Charge for services	11,575	-	30,347	30,347
Intergovernmental revenue - state and local	-	-	22,225	22,225
Licenses and permits	203,810	162,310	141,688	(20,622)
Fines and forfeitures	81,900	81,200	162,624	81,424
Donations	-	-	22,839	22,839
Investment income	1,050	-	1,089	1,089
Miscellaneous	5,505	5,505	2,838	(2,667)
Total revenues	<u>1,550,840</u>	<u>1,498,515</u>	<u>1,683,864</u>	<u>185,349</u>
EXPENDITURES				
Current operating:				
General government	468,688	485,339	497,098	(11,759)
Public works	306,561	311,672	292,181	19,491
Municipal court	71,874	69,375	119,406	(50,031)
Public safety	777,561	923,350	716,311	207,039
Parks and recreation	-	-	1,307	(1,307)
Debt service:				
Principal retirement	88,076	104,476	118,401	(13,925)
Interest	-	-	11,632	(11,632)
Capital outlays:				
Public safety	19,150	93,720	68,770	24,950
Public works	13,380	9,800	5,000	4,800
Parks	5,000	-	-	-
Total expenditures	<u>1,750,290</u>	<u>1,997,732</u>	<u>1,830,106</u>	<u>167,626</u>
Excess of revenues over expenditures	(199,450)	(499,217)	(146,242)	352,975
Other financing sources (uses)				
Transfers	281,915	-	255,619	255,619
Sale of assets	-	12,000	12,038	38
Note proceeds	-	-	-	-
Total other financing sources (uses)	<u>281,915</u>	<u>12,000</u>	<u>267,657</u>	<u>255,657</u>
Net change in fund balances	82,465	(487,217)	121,415	608,632
Fund balance, October 1	<u>507,257</u>	<u>507,257</u>	<u>507,257</u>	
Fund balance, September 30	<u>\$ 589,722</u>	<u>\$ 20,040</u>	<u>\$ 628,672</u>	

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

**CITY OF LAVON, TEXAS
REQUIRED RECONCILIATION FOR GENERAL FUND
BUDGET vs. GAAP PRESENTATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

REVENUE

Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 1,683,864
Revenues of non-budgeted funds	
Municipal Court Technoloy fund	2,718
Police TCLEOSE Fund	1,013
Police Seized Asset Fund	-
Municipal Court Security Fund	1,948
Court Funds	<u>2,902</u>
Total revenues of non-budgeted funds	<u>8,581</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 1,692,445</u></u>

EXPENDITURES

Actual amounts (budgetary basis) "expenses" from the budgetary comparison schedules	\$ 1,830,106
Expenditures of non-budgeted funds	
Municipal Court Technoloy fund	5,405
Police TCLEOSE Fund	-
Police Seized Asset Fund	-
Municipal Court Security Fund	1,033
Court Funds	<u>338</u>
Total expenditures of non-budgeted funds	<u>6,776</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 1,836,882</u></u>

Other Revenues and Financing Sources (uses)

Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedules	\$ 267,657
Transfers	(5,577)
Total Other Financing Sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds	<u><u>262,080</u></u>

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

SUPPLEMENTARY INFORMATION



**CITY OF LAVON, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2016**

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Funds	Total Other Governmental Funds
ASSETS						
Cash and cash equivalents	\$ -	\$ 4,548	\$ -	\$ -	\$ -	\$ 4,548
Cash and cash equivalents - restricted	7,715	-	1,300	6,266	24,858	40,139
Total assets	<u>7,715</u>	<u>4,548</u>	<u>1,300</u>	<u>6,266</u>	<u>24,858</u>	<u>44,687</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:						
Restricted for:						
Court	7,715	-	-	6,266	24,858	38,839
Police	-	-	1,300	-	-	1,300
Designated for:						
Police	-	4,548	-	-	-	4,548
Total fund balance	<u>7,715</u>	<u>4,548</u>	<u>1,300</u>	<u>6,266</u>	<u>24,858</u>	<u>44,687</u>
Total liabilities and fund balances	<u>\$ 7,715</u>	<u>\$ 4,548</u>	<u>\$ 1,300</u>	<u>\$ 6,266</u>	<u>\$ 24,858</u>	<u>\$ 44,687</u>

**CITY OF LAVON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Municipal Court Tech Fund</u>	<u>Police TCLEOSE Fund</u>	<u>Police Seized Asset Fund</u>	<u>Municipal Court Security Fund</u>	<u>Court Funds</u>	<u>Total Other Governmental Funds</u>
REVENUES						
Fines and forfeitures	\$ 2,718	\$ -	\$ -	\$ 1,948	\$ 2,902	\$ 7,568
Intergovernmental revenue - state and local	-	1,013	-	-	-	1,013
Total Revenues	<u>2,718</u>	<u>1,013</u>	<u>-</u>	<u>1,948</u>	<u>2,902</u>	<u>8,581</u>
EXPENDITURES						
Current:						
Court	5,405	-	-	1,033	338	6,776
Police	-	-	-	-	-	-
Total Expenditures	<u>5,405</u>	<u>-</u>	<u>-</u>	<u>1,033</u>	<u>338</u>	<u>6,776</u>
Excess of revenues over expenditures	(2,687)	1,013	-	915	2,564	1,805
Other Financing Sources (uses)						
Transfers	(5,000)	(453)	-	(111)	(13)	(5,577)
Total Other Financing Sources (uses)	<u>(5,000)</u>	<u>(453)</u>	<u>-</u>	<u>(111)</u>	<u>(13)</u>	<u>(5,577)</u>
Net Change in Fund Balances	(7,687)	560	-	804	2,551	(3,772)
Fund Balances, October 1	15,402	3,987	1,300	5,464	22,306	48,459
Fund Balances, September 30	<u>\$ 7,715</u>	<u>\$ 4,547</u>	<u>\$ 1,300</u>	<u>\$ 6,268</u>	<u>\$ 24,857</u>	<u>\$ 44,687</u>

**CITY OF LAVON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Collin County TIF	Balance September 30, 2015	Additions	Deductions	Balance September 30, 2015
ASSETS				
Cash and cash equivalents	\$ 232,349	\$ 49,470	\$ -	\$ 281,819
Total Assets	<u>232,349</u>	<u>49,470</u>	<u>-</u>	<u>281,819</u>
LIABILITIES				
Collin County TIF	232,349	49,470	-	281,819
Total Liabilities	<u>\$ 232,349</u>	<u>\$ 49,470</u>	<u>\$ -</u>	<u>\$ 281,819</u>

**CITY OF LAVON, TEXAS
 BALANCE SHEET - COMPONENT UNIT
 ECONOMIC DEVELOPMENT CORPORATION
 SEPTEMBER 30, 2016**

	<u>EDC</u>
ASSETS	
Cash and cash equivalents	\$ 118,588
Receivable-sales tax	13,789
Prepaid Expenses	<u>10,000</u>
Total assets	<u><u>142,377</u></u>
 FUND BALANCE	
Fund Balance:	
Nonspendable	10,000
Unassigned	<u>132,377</u>
Total fund balance	<u><u>142,377</u></u>
 Total liabilities and fund balance	 <u><u>\$ 142,377</u></u>

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION-ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2016**

Total fund balances - governmental funds balance sheet \$ 142,377

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. (70,735)

Net position of governmental activities - statement of net position \$ 71,642

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-COMPONENT UNIT
ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>EDC</u>
REVENUES	
Sales tax	\$ 75,492
Contributions	2,144
Total revenues	<u>77,636</u>
EXPENDITURES	
Current operating:	
Advertising	5,249
Professional and legal	33,046
Dues and subscriptions	1,230
Office expenses	30,223
Travel and training	700
Debt service:	
Principal retirement	12,216
Capital outlays:	
Business park infrastructure	12,324
Total expenditures	<u>94,988</u>
Excess (deficiency) of revenues over (under) expenditures	(17,352)
Other revenues and financing sources (uses)	
Total other financing sources (uses)	<u>-</u>
Net change in fund balance	(17,352)
Fund balance, October 1	159,729
Fund balance, September 30	<u>\$ 142,377</u>

**CITY OF LAVON, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES-COMPONENT UNIT
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Net change in fund balances - statement of revenues, expenditures and
 changes in fund balances - governmental funds** \$ (17,352)

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

Current year long-term debt principal payments on contractual obligations,
 are expenditures in the fund financial statements but are shown as reductions
 in long-term debt in the government-wide financial statements. 12,214

Change in net position - statement of activities \$ (5,138)

**CITY OF LAVON, TEXAS
 BALANCE SHEET - COMPONENT UNIT
 TAX INCREMENT FUND
 SEPTEMBER 30, 2016**

	<u>TIF</u>
ASSETS	
Cash and cash equivalents	<u>\$ 486,821</u>
Total assets	<u><u>486,821</u></u>
 FUND BALANCE	
Fund Balance:	
Nonspendable	-
Unassigned	<u>486,821</u>
Total fund balance	<u><u>486,821</u></u>
 Total liabilities and fund balance	 <u><u>\$ 486,821</u></u>

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION-ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2016**

Total fund balances - governmental funds balance sheet	\$ 486,821
Amounts reported for governmental activities in the statement of net position are different because:	-
	<hr/>
Net position of governmental activities - statement of net position	<u><u>\$ 486,821</u></u>

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-COMPONENT UNIT
TAX INCREMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>TIF</u>
REVENUES	
Total revenues	<u>\$ -</u>
EXPENDITURES	
Total expenditures	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	-
Other revenues and financing sources (uses)	
Intergovernmental revenues	78,039
Interest Income	555
Total other financing sources (uses)	<u>78,594</u>
Net change in fund balance	78,594
Fund balance, October 1	408,227
Fund balance, September 30	<u>\$ 486,821</u>

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES-TIF
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Net change in fund balances - statement of revenues, expenditures and
changes in fund balances - governmental funds** \$ 78,594

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

-

Change in net position - statement of activities \$ 78,594

