

City of Burnet, Texas
Financial Statements and
Supplementary Information
September 30, 2015
(With Independent Auditor's Report Thereon)

City of Burnet, Texas

September 30, 2015

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Burnet, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of City of Burnet, Texas (the "City"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City of Burnet, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As discussed in Note III.I. to the financial statements, in 2015 the City adopted new accounting guidance, Governmental Accounting Standards Board (“GASB”) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 12, and the schedules of changes in the City’s net pension liability and related ratios, and contributions on pages 49 and 50 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The combining nonmajor governmental funds financial statements on pages 51 and 52 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor governmental funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

January 21, 2016

Management's Discussion and Analysis

As management of the City of Burnet, Texas (the “City of Burnet” or the “City”), we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City of Burnet for the fiscal year ended September 30, 2015.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$43,828,708 (*net position*). Of this amount, \$3,762,487 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City’s total net position increased \$2,513,914 primarily due to continued profitability of utility services provided by the City.
- At the close of the current fiscal year, the City’s governmental funds reported combined fund balances of \$5,849,001, an increase of \$2,274,819 in comparison with the prior year. This increase was mainly due to transfers in from the electric and water and sewer funds. Approximately \$3,897,457 of this amount is available for spending at the government’s discretion (*unassigned fund balances*).
- At the end of the current fiscal year, unrestricted fund balance (the total of *committed*, *assigned* and *unassigned* components of fund balance) for the general fund was \$4,072,418, or approximately 51% of total general fund expenditures.
- The City’s general fund total fund balance increased \$2,118,548 mainly due to transfers in from the electric and water and sewer funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The *statement of net position* presents financial information on all of the City’s assets, 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 either 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 and sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and other governmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-*

type activities). The governmental activities of the City include general government, public safety, highways and streets, aviation services, culture and recreation, sanitation, and economic development. The business-type activities of the City include electricity, and water and sewer services, and the Delaware Springs Golf Course.

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 financial statements can be found on pages 13 and 14 of this report.

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

Governmental Funds. *Governmental funds* are used to account for essentially the functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government 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 evaluating a government's near-term financing requirements.

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

The City maintains nine 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 balance for the general fund, the airport fund and the debt service fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining fund statements section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

Proprietary Funds. The City maintains one type of proprietary fund – enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electricity, and water and sewer services, and the Delaware Springs Golf Course.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for its electricity, and water and sewer services, and the Delaware Springs Golf Course operations, all of which are considered to be major funds of the City.

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

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 can be found on pages 22 through 48 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's pension benefits to its employees. Required supplementary information can be found on pages 49 and 50. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. The combining fund statements can be found on pages 51 through 52 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$43,828,708 at the close of the most recent fiscal year.

City of Burnet's Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets \$	6,459,827	4,273,744	6,947,461	9,513,246	13,407,288	13,786,990
Capital assets, net	24,464,232	24,234,794	38,352,760	36,377,086	62,816,992	60,611,880
Total assets	30,924,059	28,508,538	45,300,221	45,890,332	76,224,280	74,398,870
Total deferred outflows of resources	455,752	316,201	300,940	245,933	756,692	562,134
Current liabilities	512,515	562,422	1,780,108	1,449,980	2,292,623	2,012,402
Noncurrent liabilities	7,505,143	7,317,649	23,306,011	24,316,159	30,811,154	31,633,808
Total liabilities	8,017,658	7,880,071	25,086,119	25,766,139	33,103,777	33,646,210
Total deferred inflows of resources	33,026	-	15,461	-	48,487	-
Net position:						
Net investment in capital assets	21,214,029	20,794,433	17,511,195	16,668,857	38,725,224	37,463,290
Restricted	1,340,997	1,278,648	-	-	1,340,997	1,278,648
Unrestricted	774,101	(1,128,413)	2,988,386	3,701,269	3,762,487	2,572,856
Total net position \$	23,329,127	20,944,668	20,499,581	20,370,126	43,828,708	41,314,794

By far, the largest portion of the City's net position (88.4%) reflects its investment in capital assets, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (3.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position of \$3,762,487 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

The City's overall net position increased \$2,513,914. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

City of Burnet's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program revenues:						
Charges for services	\$ 3,853,657	3,800,702	15,242,128	14,898,024	19,095,785	18,698,726
Operating grants and contributions	532,971	372,945	-	-	532,971	372,945
Capital grants and contributions	767,048	812,732	161,496	-	928,544	812,732
General revenues:						
Property taxes	2,139,732	2,078,955	-	-	2,139,732	2,078,955
Sales taxes	1,475,565	1,432,699	-	-	1,475,565	1,432,699
Franchise taxes	139,780	125,108	-	-	139,780	125,108
Hotel/motel taxes	136,372	108,832	-	-	136,372	108,832
Unrestricted interest	60,127	86,584	59,421	56,859	119,548	143,443
Gain on disposition of capital assets	3,028	2,640	-	5,762	3,028	8,402
Total revenues	9,108,280	8,821,197	15,463,045	14,960,645	24,571,325	23,781,842
Expenses:						
General government	1,935,695	1,832,646	-	-	1,935,695	1,832,646
Public safety	5,115,418	4,936,996	-	-	5,115,418	4,936,996
Highways and streets	735,677	743,803	-	-	735,677	743,803
Aviation services	585,925	699,167	-	-	585,925	699,167
Culture and recreation	980,761	1,032,949	-	-	980,761	1,032,949
Sanitation	785,024	754,222	-	-	785,024	754,222
Economic development	236,673	154,296	-	-	236,673	154,296
Interest on long-term debt	99,480	113,603	-	-	99,480	113,603
Electric	-	-	7,287,947	6,956,392	7,287,947	6,956,392
Water and sewer	-	-	2,679,434	2,499,121	2,679,434	2,499,121
Delaware Springs Golf Course	-	-	1,615,377	1,643,559	1,615,377	1,643,559
Total expenses	10,474,653	10,267,682	11,582,758	11,099,072	22,057,411	21,366,754
Increase (decrease) in net position before transfers	(1,366,373)	(1,446,485)	3,880,287	3,861,573	2,513,914	2,415,088
Transfers	3,792,711	1,713,937	(3,792,711)	(1,713,937)	-	-
Increase in net position	2,426,338	267,452	87,576	2,147,636	2,513,914	2,415,088
Net position, beginning of year, restated for 2015	20,902,789	22,133,892	20,412,005	18,946,294	41,314,794	41,080,186
Net position, end of year	\$ 23,329,127	22,401,344	20,499,581	21,093,930	43,828,708	43,495,274

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$2,426,338 from the prior fiscal year for an ending balance of \$23,329,127. Key elements of the variance from the prior year are as follows:

- Charges for services increased \$52,955. This was mainly attributable to an increase of \$214,477 in public safety revenues resulting from the increase in the EMS transport revenue and a \$52,955 increase in sanitation revenue resulting from a \$1 increase in the monthly billing fee. These increases were offset by a \$172,970 decrease in aviation service revenue due to ongoing construction at the airport and a \$40,905 decrease in general government charges mainly attributable to a \$17,614 reduction in facility rentals and cemetery fees, a \$14,823 reduction in shop allocation charges due to an accounting change, and a \$9,382 decrease in attorney's collection fees remitted by the Burnet Central Appraisal District.
- Operating contributions increased by \$160,026. This increase was attributable to an increase of \$160,427 in public safety operating grants mainly from an increase in the contracts for EMS and fire services provided to the county, and an increase of \$17,660 in operating grant contributions to the airport mainly from the ramp grant, offset by a decrease of \$18,061 in operating grants from the previous year for Galloway Hammond.
- Capital contributions decreased \$45,684. During the prior year, the City received a \$75,000 contribution for the construction of the Seton Rehab Facility. In addition, the City received \$737,732 in contributions for the airport expansion project compared to \$767,048 in the current year.
- Sales tax receipts increased by \$42,866 or 3%.
- Interest income decreased by \$26,457 due to a decrease in the interest rate with the renewal of the City's depository contract. The previous bank depository agreement guaranteeing the City 2% interest expired in June 2015. The current agreement has a minimum guaranteed interest rate of only .10%.
- General government expenses increased \$103,049 mainly due to a \$24,446 or 3% increase in personnel costs, a \$30,564 increase in planning and zoning expenses for abatements and professional services, and a \$41,205 increase in compensated absences liability due to a change in policy extending the vacation carryover period.
- Public safety expenses increased \$178,422 primarily due to increases in personnel costs for fire and police services of \$168,011 or 5%, professional services of \$70,189 to convert historical police department records from paper to digital imaged files, and depreciation expense of \$81,707 mostly due to the completion of the fire station. Increases were offset by a \$110,620 decrease in non-capital equipment purchased in the prior year for the new fire station and a \$23,908 decrease for the GASB 68 pension adjustment.
- Aviation services expenses decreased \$113,242 mainly due to a decrease in fuel purchases consistent with the decrease in fuel sales resulting from ongoing construction at the airport.
- Culture and recreation expenses decreased \$52,188. This is due to a \$25,000 decrease in the operating subsidy to the YMCA in accordance with the operating agreement, a \$17,098 decrease in event expenses mainly due to increased support from the BEDC for the City's summer concert series, and a \$13,027 decrease in total maintenance expenses. During the prior year, maintenance expenses included \$14,112 to upgrade the scoreboards at the ball fields
- Economic development expenses increased \$82,377 mainly attributable to the City spending \$70,783 to relocate the historic Craddock House and increasing their support to the Chamber of Commerce for rent and utilities by \$8,098.
- Transfers from business-type activities increased by \$2,078,774 because in the current year cumulative funds were moved as an operating transfer from the business-type activities to the governmental activities.

Business-Type Activities. For the City's business-type activities, the results for the current fiscal year were positive in that overall net position increased to an ending balance of \$20,499,581. The total increase in net position for business-type activities was \$87,576 from the prior fiscal year. Key elements of the variances from the prior year are as follows:

- Charges for business-type activities totaled \$15,242,128, an increase of \$344,104 or 2.3% from the prior year. This increase is mainly due to the increase in electric revenue. Electric consumption was up slightly, 2.9%, and electric rates increased consistently with the increase in the cost of power.
- Capital grants and contributions were \$161,496 in the current year. The golf course received a \$150,000 contribution for the construction of a pavilion and the BEDC contributed \$11,496 toward the cost of new billboards to advertise the golf course.
- Electric expenses increased \$331,555 mainly because of the increase in the cost of power of \$313,274 from the Lower Colorado River Authority. Kilowatts purchased were up 1.7% and the average cost per kilowatt hour increased from \$0.067 to \$0.070
- Water and sewer expenses increased \$180,313. With the completion of the new sewer plant in May 2015, depreciation expense increased by \$168,550, personnel costs increased \$46,314 or 5% and impact fee waivers increased \$28,962 due to increases in new residential construction and water purchased from the Lower Colorado River Authority increased \$27,224. These increases were offset by a \$93,758 decrease in repairs and maintenance due to an accounting change to capitalize the distribution maintenance system costs in the current year.
- Transfers from business-type activities increased by \$2,078,774 because in the current year cumulative funds were moved by management as an operating transfer from the business-type activities to the governmental activities.

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 *government funds* is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may be a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party or the City itself.

At September 30, 2015, the City's governmental funds reported combined fund balances of \$5,849,001, an increase of \$2,274,819 in comparison with the prior year. Of this amount, \$3,897,457 is available for spending at the government's discretion (*unassigned fund balances*). The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is (a) not in spendable form (\$58,097), (2) legally required to be maintained intact (\$-0-), (3) restricted for particular purposes (\$1,297,622), (4) committed for a particular purpose (\$-0-), or (5) assigned for particular purposes (\$595,825).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,072,418. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 50 percent of total general fund expenditures.

The fund balance of the City's general fund increased by \$2,118,548 during the current fiscal year. The increase was mainly attributable to the increase in transfers in. A total of \$1,600,000 in cumulative funds were moved as an operating transfer from the electric and water and sewer funds to the general fund.

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

Unrestricted net position of the electric, water and sewer, and Delaware Springs Golf Course funds at the end of the year were \$1,419,853, \$1,795,865 and (\$227,332), respectively. Net position for the water and sewer, and Delaware Springs Golf Course funds increased by \$656,816 and \$71,482, respectively. The net position for the electric fund decreased by \$640,722. Key factors affecting these changes have been addressed under the government-wide financial analysis above.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year, the only significant amendment to the budget was to increase transfers in from enterprise funds by \$1,600,000.

Final budget compared to actual results. During the year, actual revenues and transfers in were over budget by \$313,447. This was mostly attributable to the increase in EMS transport revenue. Actual expenditures and transfers out were \$557,097 under appropriations due to reduced amount of actual transfers out and reduced police personnel expenses due to turnover.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$62,816,992 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure and construction in progress. The total net increase in the City's investment in capital assets for the current fiscal year was \$2,205,112 or 3.7%.

City of Burnet's Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2013
Land	\$ 1,321,369	1,315,819	577,543	577,543	1,898,912	1,893,362
Buildings	6,368,331	6,622,503	115,253	118,414	6,483,584	6,740,917
Machinery and equipment	1,088,649	1,240,505	1,246,667	1,544,999	2,335,316	2,785,504
Infrastructure	11,939,672	12,171,769	36,221,025	18,872,652	48,160,697	31,044,421
Construction in progress	3,746,211	2,884,198	192,272	15,263,478	3,938,483	18,147,676
	<u>\$ 24,464,232</u>	<u>24,234,794</u>	<u>38,352,760</u>	<u>36,377,086</u>	<u>62,816,992</u>	<u>60,611,880</u>

Major capital assets during the current fiscal year included:

Work was completed on:

Water distribution system improvements on Sherrard Street	\$ 477,134
Phase III of USDA-ORCA improvements to wastewater treatment plant enhancements	16,901,254
Wastewater improvements including interceptor lines and SSES line improvements	386,289
Street improvements	102,121
Haley Nelson Park lighting	75,648

Work continued on:

Airport master plan improvements/expansion

Additional information on the City’s capital assets can be found in Note III.C. on pages 33 to 35 of this report.

Long-Term Debt. At the end the current fiscal year, the City had total debt outstanding of \$25,521,475.

City of Burnet’s Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2013
Certificates of obligation	\$ 1,255,203	2,210,000	21,630,000	22,425,000	22,885,203	24,635,000
Refunding bonds	1,995,000	1,351,983	376,272	404,492	2,371,272	1,756,475
Tax notes	-	-	265,000	485,000	265,000	485,000
	<u>\$ 3,250,203</u>	<u>3,561,983</u>	<u>22,271,272</u>	<u>23,314,492</u>	<u>25,521,475</u>	<u>26,876,475</u>

The City’s total debt decreased by \$1,355,000 during the current fiscal year. The reason for the decrease was due to the regularly scheduled principal payments due on existing debt. No new debt was issued during the year.

The City maintains an “A” rating from Standard & Poor’s for general obligation debt.

There is no specific maximum debt limit established by law for the City; therefore, the limit is governed by the City’s ability to levy and collect taxes to service the debt for its outstanding general obligation debt.

Additional information on the City’s long-term debt can be found in Note III.D. on pages 35 to 37 of this report.

Economic Factors and Next Year’s Budget and Rates

The following economic factors currently affect the City and were considered in developing the 2016 fiscal year budget.

- Projected moderate increases in sales tax;
- Effect of continuing drought on estimated utility revenue;
- Reduction of interest earnings due to end of depository contract that previously guaranteed 2% interest;
- Increasing personnel costs (including how to manage rising health care costs while keeping the highest level of service for employees);
- Appropriately managing equipment replacements at the optimal time;
- Review of current debt service requirements and consideration of benefits of early defeasance; and
- Preparing to build new police department and city hall with minimal effect on property tax rate and debt ratio.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Manager, City of Burnet, Texas, P. O. Box 1369, Burnet, Texas 78611.

City of Burnet, Texas

Statement of Net Position

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Burnet Economic Development Corporation, Inc.
Assets				
Cash and cash equivalents	\$ 5,776,525	2,010,420	7,786,945	849,794
Receivables (net of allowance for uncollectibles)	813,394	1,401,875	2,215,269	82,518
Intergovernmental receivable	19,528	-	19,528	-
Due from component unit	340,000	-	340,000	-
Inventories	58,023	711,329	769,352	-
Internal balances	(547,717)	547,717	-	-
Prepaid and other items	74	-	74	-
Restricted cash and cash equivalents	-	2,276,120	2,276,120	-
Properties held for resale	-	-	-	885,535
Capital assets not being depreciated:				
Land	1,321,369	577,543	1,898,912	-
Construction in progress	3,746,211	192,272	3,938,483	-
Capital assets, net of accumulated depreciation:				
Buildings	6,368,331	115,253	6,483,584	-
Machinery and equipment	1,088,649	1,246,667	2,335,316	13,780
Infrastructure	11,939,672	36,221,025	48,160,697	-
Total assets	<u>30,924,059</u>	<u>45,300,221</u>	<u>76,224,280</u>	<u>1,831,627</u>
Deferred Outflows of Resources				
Deferred outflows of resources	<u>455,752</u>	<u>300,940</u>	<u>756,692</u>	<u>-</u>
Liabilities				
Accounts and retainages payable	315,358	1,234,228	1,549,586	9,701
Accrued interest payable	14,531	14,475	29,006	-
Accrued liabilities	154,995	114,345	269,340	-
Deposits payable	23,160	417,060	440,220	-
Unearned revenue	4,471	-	4,471	-
Due to primary government	-	-	-	340,000
Noncurrent liabilities:				
Due within one year	703,806	1,136,229	1,840,035	-
Due in more than one year	6,801,337	22,169,782	28,971,119	-
Total liabilities	<u>8,017,658</u>	<u>25,086,119</u>	<u>33,103,777</u>	<u>349,701</u>
Deferred Inflows of Resources				
Deferred inflows of resources	<u>33,026</u>	<u>15,461</u>	<u>48,487</u>	<u>-</u>
Net Position				
Net investment in capital assets	21,214,029	17,511,195	38,725,224	899,315
Restricted for:				
Debt service	194,180	-	194,180	-
Economic development	284,721	-	284,721	-
Aviation services	810,991	-	810,991	-
Public safety	51,105	-	51,105	-
Unrestricted	<u>774,101</u>	<u>2,988,386</u>	<u>3,762,487</u>	<u>582,611</u>
Total net position	<u>\$ 23,329,127</u>	<u>20,499,581</u>	<u>43,828,708</u>	<u>1,481,926</u>

See accompanying notes to financial statements.

City of Burnet, Texas

Statement of Activities

Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,935,695	208,301	-	-
Public safety	5,115,418	2,072,672	506,077	-
Highways and streets	735,677	-	-	-
Aviation services	585,925	652,944	26,894	767,048
Culture and recreation	980,761	21,012	-	-
Sanitation	785,024	898,728	-	-
Economic development	236,673	-	-	-
Interest	99,480	-	-	-
Total governmental activities	10,474,653	3,853,657	532,971	767,048
Business-type activities:				
Electric	7,287,947	9,895,841	-	-
Water and sewer	2,679,434	4,038,239	-	-
Delaware Springs Golf Course	1,615,377	1,308,048	-	161,496
Total business-type activities	11,582,758	15,242,128	-	161,496
Total primary government	\$ 22,057,411	19,095,785	532,971	928,544
Component unit:				
Burnet Economic				
Development Corporation	\$ 248,906	-	44,539	-
General revenues:				
Property taxes				
Sales taxes				
Franchise taxes				
Hotel/motel taxes				
Unrestricted interest				
Gain on disposition of capital assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year, restated				
Net position, end of year				

See accompanying notes to financial statements.

Net Revenues (Expenses) and
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Burnet Economic Development Corporation, Inc.
(1,727,394)	-	(1,727,394)	
(2,536,669)	-	(2,536,669)	
(735,677)	-	(735,677)	
860,961	-	860,961	
(959,749)	-	(959,749)	
113,704	-	113,704	
(236,673)	-	(236,673)	
(99,480)	-	(99,480)	
(5,320,977)	-	(5,320,977)	
-	2,607,894	2,607,894	
-	1,358,805	1,358,805	
-	(145,833)	(145,833)	
-	3,820,866	3,820,866	
(5,320,977)	3,820,866	(1,500,111)	
			(204,367)
2,139,732	-	2,139,732	-
1,475,565	-	1,475,565	491,855
139,780	-	139,780	-
136,372	-	136,372	-
60,127	59,421	119,548	10,453
3,028	-	3,028	(39,075)
3,792,711	(3,792,711)	-	-
7,747,315	(3,733,290)	4,014,025	463,233
2,426,338	87,576	2,513,914	258,866
20,902,789	20,412,005	41,314,794	1,223,060
23,329,127	20,499,581	43,828,708	1,481,926

City of Burnet, Texas

**Balance Sheet
Governmental Funds**

September 30, 2015

	<u>General</u>	<u>Airport</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 3,709,432	422,993	504,782	1,139,318	5,776,525
Receivables (net of allowance for uncollectibles)	733,708	31,617	20,251	27,818	813,394
Intergovernmental receivable	-	19,528	-	-	19,528
Inventories	34,641	23,382	-	-	58,023
Due from component unit	-	340,000	-	-	340,000
Due from other funds	357,753	-	255	63,008	421,016
Prepaid and other items	74	-	-	-	74
Total assets	\$ 4,835,608	837,520	525,288	1,230,144	7,428,560
Liabilities					
Liabilities:					
Accounts and retainages payable	\$ 278,952	13,136	-	23,270	315,358
Accrued liabilities	153,723	1,272	-	-	154,995
Deposits payable	15,365	7,795	-	-	23,160
Unearned revenue	400	4,071	-	-	4,471
Due to other funds	187,186	255	331,108	450,184	968,733
Total liabilities	635,626	26,529	331,108	473,454	1,466,717
Deferred Inflows of Resources					
Unavailable revenue - property taxes	92,849	-	19,993	-	112,842
Fund Balances					
Nonspendable	34,715	23,382	-	-	58,097
Restricted	-	787,609	174,187	335,826	1,297,622
Assigned	-	-	-	595,825	595,825
Unassigned	4,072,418	-	-	(174,961)	3,897,457
Total fund balances	4,107,133	810,991	174,187	756,690	5,849,001
Total liabilities, deferred inflows of resources and fund balances	\$ 4,835,608	837,520	525,288	1,230,144	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					24,464,232
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.					112,842
Long-term liabilities, including general obligation debt payable and the net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.					<u>(7,096,948)</u>
Net position of governmental activities					\$ <u>23,329,127</u>

See accompanying notes to financial statements.

City of Burnet, Texas

**Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds**

Year Ended September 30, 2015

	<u>General</u>	<u>Airport</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 1,762,139	-	376,049	-	2,138,188
Sales taxes	1,475,565	-	-	-	1,475,565
Franchise taxes	139,780	-	-	-	139,780
Hotel/motel taxes	-	-	-	136,372	136,372
Licenses and permits	35,416	-	-	-	35,416
Intergovernmental	434,882	19,528	-	-	454,410
Charges for services - sanitation	898,728	-	-	-	898,728
Charges for services - EMS	1,946,350	-	-	-	1,946,350
Charges for services - other	21,012	-	-	-	21,012
Fines	102,811	-	-	2,402	105,213
Interest	32,543	2,462	8,604	16,518	60,127
Contributions and donations	5,881	7,366	-	-	13,247
Fuel sales	-	450,941	-	-	450,941
Miscellaneous	259,308	202,003	-	-	461,311
Total revenues	<u>7,114,415</u>	<u>682,300</u>	<u>384,653</u>	<u>155,292</u>	<u>8,336,660</u>
Expenditures:					
Current:					
General government	1,617,461	-	-	-	1,617,461
Public safety	4,349,630	-	-	-	4,349,630
Highways and streets	401,815	-	-	-	401,815
Aviation services	-	546,632	-	-	546,632
Culture and recreation	756,395	-	-	-	756,395
Sanitation	785,024	-	-	-	785,024
Economic development	78,790	-	-	87,557	166,347
Debt service:					
Principal	-	-	311,780	-	311,780
Interest and fiscal charges	-	-	100,986	-	100,986
Capital outlay	-	-	-	821,510	821,510
Total expenditures	<u>7,989,115</u>	<u>546,632</u>	<u>412,766</u>	<u>909,067</u>	<u>9,857,580</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(874,700)</u>	<u>135,668</u>	<u>(28,113)</u>	<u>(753,775)</u>	<u>(1,520,920)</u>
Other financing sources (uses):					
Insurance recoveries	3,028	-	-	-	3,028
Transfers in	4,053,696	-	81,609	864,574	4,999,879
Transfers out	<u>(1,063,476)</u>	<u>(140,384)</u>	<u>-</u>	<u>(3,308)</u>	<u>(1,207,168)</u>
Total other financing sources (uses)	<u>2,993,248</u>	<u>(140,384)</u>	<u>81,609</u>	<u>861,266</u>	<u>3,795,739</u>
Net change in fund balances	2,118,548	(4,716)	53,496	107,491	2,274,819
Fund balances, beginning of year	<u>1,988,585</u>	<u>815,707</u>	<u>120,691</u>	<u>649,199</u>	<u>3,574,182</u>
Fund balances, end of year	\$ <u>4,107,133</u>	<u>810,991</u>	<u>174,187</u>	<u>756,690</u>	<u>5,849,001</u>

See accompanying notes to financial statements.

City of Burnet, Texas

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities**

Year Ended September 30, 2015

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

Net change in fund balances - total governmental funds	\$ 2,274,819
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$1,515,026) exceeded depreciation expense (\$1,258,588) in the current period.	229,438
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,544
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds. This amount is the net effect of the change in net OPEB obligation (\$379,117) plus the change in compensated absences (\$49,843) less the change in net pension liability and the related deferred outflows and inflows of resources (\$36,211) less the change in accrued interest payable (\$1,506).	(391,243)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount of principal repayments in the current year.	<u>311,780</u>
Change in net position of governmental activities	<u>\$ 2,426,338</u>

See accompanying notes to financial statements.

City of Burnet, Texas

**General Fund
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual – Budgetary Basis**

Year Ended September 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,777,000	1,777,000	1,762,139	(14,861)
Sales taxes	1,450,000	1,450,000	1,475,565	25,565
Franchise taxes	125,000	125,000	139,780	14,780
Licenses and permits	14,750	14,750	35,416	20,666
Intergovernmental	424,545	424,545	434,882	10,337
Charges for services - sanitation	875,211	875,211	898,728	23,517
Charges for services - EMS	1,675,000	1,675,000	1,946,350	271,350
Charges for services - other	18,000	18,000	21,012	3,012
Fines	102,500	102,500	102,811	311
Interest	32,855	32,855	32,543	(312)
Contributions and donations	5,500	5,500	5,881	381
Miscellaneous	241,694	241,694	259,308	17,614
Total revenues	6,742,055	6,742,055	7,114,415	372,360
Expenditures:				
General government:				
Mayor and Council	21,580	21,580	39,288	(17,708)
Administrative	1,253,039	1,253,039	1,213,883	39,156
Planning and zoning	321,676	321,676	318,426	3,250
City shop	83,046	83,046	82,585	461
Public safety:				
Police	1,729,566	1,754,766	1,655,123	99,643
Municipal court	116,564	116,564	112,272	4,292
Fire	2,865,440	2,865,440	2,857,609	7,831
Highways and streets	462,705	462,705	422,603	40,102
Culture and recreation:				
Parks	651,811	651,811	655,283	(3,472)
Recreation center	175,000	175,000	166,042	8,958
Sanitation	763,230	763,230	785,024	(21,794)
Economic development	82,516	82,516	78,790	3,726
Total expenditures	8,526,173	8,551,373	8,386,928	164,445
Excess (deficiency) of revenues over (under) expenditures	(1,784,118)	(1,809,318)	(1,272,513)	536,805
Other financing sources (uses):				
Insurance recoveries	-	-	3,028	3,028
Transfers in	2,512,609	4,112,609	4,053,696	(58,913)
Transfers out	(1,052,765)	(1,058,315)	(665,663)	392,652
Total other financing sources (uses)	1,459,844	3,054,294	3,391,061	336,767
Net change in fund balances	(324,274)	1,244,976	2,118,548	873,572
Fund balances, beginning of year	2,733,162	2,733,162	2,733,162	-
Fund balances, end of year	\$ 2,408,888	3,978,138	4,851,710	873,572

See accompanying notes to financial statements.

City of Burnet, Texas

**Statement of Net Position –
Proprietary Funds**

September 30, 2015

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewer	Delaware Springs Golf Course	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 714,916	1,245,404	50,100	2,010,420
Receivables (net of allowance for uncollectibles)	977,196	423,067	1,612	1,401,875
Inventories	357,927	236,496	116,906	711,329
Due from other funds	99,199	479,165	-	578,364
Total current assets	<u>2,149,238</u>	<u>2,384,132</u>	<u>168,618</u>	<u>4,701,988</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	2,276,120	-	2,276,120
Capital assets:				
Land	11,171	357,759	208,613	577,543
Buildings	126,438	-	-	126,438
Infrastructure	5,722,839	41,232,487	2,679,367	49,634,693
Machinery and equipment	2,018,823	1,234,388	1,152,926	4,406,137
Construction in progress	11,764	159,890	20,618	192,272
Less accumulated depreciation	<u>(3,529,009)</u>	<u>(10,974,193)</u>	<u>(2,081,121)</u>	<u>(16,584,323)</u>
Total capital assets, net	<u>4,362,026</u>	<u>32,010,331</u>	<u>1,980,403</u>	<u>38,352,760</u>
Total noncurrent assets	<u>4,362,026</u>	<u>34,286,451</u>	<u>1,980,403</u>	<u>40,628,880</u>
Total assets	<u>6,511,264</u>	<u>36,670,583</u>	<u>2,149,021</u>	<u>45,330,868</u>
Deferred Outflows of Resources				
Deferred outflows of resources	<u>152,027</u>	<u>85,673</u>	<u>63,240</u>	<u>300,940</u>
Liabilities				
Current liabilities:				
Accounts and retainages payable	32,311	1,152,425	49,492	1,234,228
Accrued interest payable	2,419	12,056	-	14,475
Accrued liabilities	49,179	23,185	41,981	114,345
Deposits payable	417,060	-	-	417,060
Due to other funds	-	5,249	25,398	30,647
Compensated absences - current	27,574	62,328	81,971	171,873
General obligation debt payable - current	<u>51,356</u>	<u>913,000</u>	<u>-</u>	<u>964,356</u>
Total current liabilities	<u>579,899</u>	<u>2,168,243</u>	<u>198,842</u>	<u>2,946,984</u>
Noncurrent liabilities:				
General obligation debt payable	364,916	20,942,000	-	21,306,916
Net pension liability	<u>260,612</u>	<u>346,489</u>	<u>255,765</u>	<u>862,866</u>
Total noncurrent liabilities	<u>625,528</u>	<u>21,288,489</u>	<u>255,765</u>	<u>22,169,782</u>
Total liabilities	<u>1,205,427</u>	<u>23,456,732</u>	<u>454,607</u>	<u>25,116,766</u>
Deferred Inflows of Resources				
Deferred inflows of resources	<u>4,670</u>	<u>6,208</u>	<u>4,583</u>	<u>15,461</u>
Net Position				
Net investment in capital assets	4,033,341	11,497,451	1,980,403	17,511,195
Unrestricted	<u>1,419,853</u>	<u>1,795,865</u>	<u>(227,332)</u>	<u>2,988,386</u>
Total net position	<u>\$ 5,453,194</u>	<u>13,293,316</u>	<u>1,753,071</u>	<u>20,499,581</u>

See accompanying notes to financial statements.

City of Burnet, Texas

**Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds**

Year Ended September 30, 2015

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewer	Delaware Springs Golf Course	Total
Operating revenues:				
Charges for sales and services:				
Electric service	\$ 9,841,737	-	-	9,841,737
Water and sewer services	-	4,028,771	-	4,028,771
Golf services	-	-	917,838	917,838
Sales of merchandise	-	-	368,017	368,017
Other operating revenue	54,104	9,468	22,193	85,765
Total operating revenues	<u>9,895,841</u>	<u>4,038,239</u>	<u>1,308,048</u>	<u>15,242,128</u>
Operating expenses:				
Personnel	689,610	961,748	782,156	2,433,514
Materials and supplies	79,174	189,400	82,280	350,854
Repairs and maintenance	64,442	132,807	134,575	331,824
Purchased services	51,794	410,194	90,268	552,256
Purchases for resale	6,012,645	85,876	280,992	6,379,513
Depreciation	248,652	759,616	245,106	1,253,374
Other operating expenses	114,212	17,162	-	131,374
Total operating expenses	<u>7,260,529</u>	<u>2,556,803</u>	<u>1,615,377</u>	<u>11,432,709</u>
Operating income (loss)	<u>2,635,312</u>	<u>1,481,436</u>	<u>(307,329)</u>	<u>3,809,419</u>
Nonoperating revenues (expenses):				
Interest earnings	31,066	28,355	-	59,421
Gain on disposition of property	-	-	-	-
Interest expense	(27,418)	(122,631)	-	(150,049)
Total nonoperating revenues (expenses)	<u>3,648</u>	<u>(94,276)</u>	<u>-</u>	<u>(90,628)</u>
Income (loss) before contributions and transfers	2,638,960	1,387,160	(307,329)	3,718,791
Capital contributions	-	-	161,496	161,496
Transfers in	-	-	365,478	365,478
Transfers out	<u>(3,279,682)</u>	<u>(730,344)</u>	<u>(148,163)</u>	<u>(4,158,189)</u>
Change in net position	(640,722)	656,816	71,482	87,576
Net position, beginning of year, restated	<u>6,093,916</u>	<u>12,636,500</u>	<u>1,681,589</u>	<u>20,412,005</u>
Net position, end of year	<u>\$ 5,453,194</u>	<u>13,293,316</u>	<u>1,753,071</u>	<u>20,499,581</u>

See accompanying notes to financial statements.

City of Burnet, Texas

**Statement of Cash Flows –
Proprietary Funds**

Year Ended September 30, 2015

	Business-type Activities - Enterprise Funds			
	Electric	Water and Sewer	Delaware Springs Golf Course	Total
Cash flows from operating activities:				
Receipts from customers and users	\$ 9,956,036	4,010,662	1,308,602	15,275,300
Payments to employees for salaries and wages	(516,716)	(691,563)	(592,620)	(1,800,899)
Payments to suppliers and others	(6,482,944)	(791,097)	(918,386)	(8,192,427)
Net cash provided by (used in) operating activities	<u>2,956,376</u>	<u>2,528,002</u>	<u>(202,404)</u>	<u>5,281,974</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	-	-	365,478	365,478
Transfers to other funds	(3,279,682)	(730,344)	(148,163)	(4,158,189)
Net cash provided by (used in) noncapital financing activities	<u>(3,279,682)</u>	<u>(730,344)</u>	<u>217,315</u>	<u>(3,792,711)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(214,470)	(2,859,039)	(155,540)	(3,229,049)
Capital contributions	-	-	161,496	161,496
Principal paid on capital debt	(138,220)	(905,000)	-	(1,043,220)
Interest paid on capital debt	(18,006)	(121,557)	-	(139,563)
Net cash provided by (used in) capital and related financing activities	<u>(370,696)</u>	<u>(3,885,596)</u>	<u>5,956</u>	<u>(4,250,336)</u>
Cash flows from investing activities:				
Interest on investments	31,066	28,355	-	59,421
Net cash provided by investing activities	<u>31,066</u>	<u>28,355</u>	<u>-</u>	<u>59,421</u>
Net increase (decrease) in cash and cash equivalents	(662,936)	(2,059,583)	20,867	(2,701,652)
Cash and cash equivalents, beginning of year	<u>1,377,852</u>	<u>5,581,107</u>	<u>29,233</u>	<u>6,988,192</u>
Cash and cash equivalents, end of year	<u>\$ 714,916</u>	<u>3,521,524</u>	<u>50,100</u>	<u>4,286,540</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 2,635,312	1,481,436	(307,329)	3,809,419
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	248,652	759,616	245,107	1,253,375
Decrease (increase) in receivables	40,103	(27,577)	554	13,080
Decrease (increase) in due from / due to other funds	38,179	59,730	(153,328)	(55,419)
Decrease (increase) in inventories	(38,200)	6,237	(19,686)	(51,649)
Increase in accounts payable and accrued liabilities	20,492	249,688	39,690	309,870
Increase in deposits payable	20,092	-	-	20,092
Decrease in net pension liability and pension-related deferred outflows and inflows of resources	(5,121)	(6,807)	(5,023)	(16,951)
Increase (decrease) in compensated absences	(3,133)	5,679	(2,389)	157
Total adjustments	<u>321,064</u>	<u>1,046,566</u>	<u>104,925</u>	<u>1,472,555</u>
Net cash provided by (used in) operating activities	<u>\$ 2,956,376</u>	<u>2,528,002</u>	<u>(202,404)</u>	<u>5,281,974</u>
Non-cash capital and related financing activities:				
Contributions of capital assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

City of Burnet, Texas

Notes to Financial Statements

September 30, 2015

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Burnet, Texas, the county seat for Burnet County, is situated in the midwestern part of Burnet County in Central Texas and encompasses approximately six square miles. The City of Burnet, Texas (the “City”) is a “Home Rule Charter” city. The City operates under a Council / Manager form of government meaning that the City Council makes and adopts regulations, laws and policy and the City Manager is responsible for the day to day operations of the City. The City provides basic services to its citizens, such as police, fire, electricity, water and sewer, and sanitation, as well as health and welfare, economic development, aviation services, and parks and recreation services.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City did not have any blended component units. A discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Discretely presented component unit - The Burnet Economic Development Corporation, Inc. (the “Development Corporation”) is a governmental nonprofit corporation organized for the purpose of promoting, assisting, and enhancing economic development activities of the City of Burnet, Texas. The City Council appoints a governing body that is not substantively the same as the governing body of the primary government. Budgets of the Corporation and debt to be incurred must be approved by the Council. The Development Corporation does not issue separate financial statements.

B. Basis of Presentation - Government-Wide Financial Statements

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

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

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - Government-Wide Financial Statements (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's electric, and water and sewer functions 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.

C. Basis of Presentation - Fund Financial Statements

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

The City reports the following major governmental funds:

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

The airport fund, a special revenue fund, accounts for the operations of Burnet Municipal Airport.

The debt service fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The City reports the following major enterprise funds:

The electric fund accounts for the City's electric services to its residents. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, and financing and related debt service.

The water and sewer fund accounts for the City's water and sewer services to its residents. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, and financing and related debt service.

The Delaware Springs Golf Course fund accounts for the operation of the Delaware Springs Municipal Golf Course. All activities necessary for the operation of the golf course are accounted for in this fund including, but not limited to, administration, operations, maintenance, and financing and related debt service.

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

C. Basis of Presentation - Fund Financial Statements (continued)

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

D. Measurement Focus and Basis of Accounting (continued)

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

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

E. Budgetary Information

Annual budgets are legally adopted for the following funds (under the City's budgetary fund structure): the general fund, the hotel/motel tax fund, the airport fund, and the debt service fund. Capital projects funds are generally planned on both a project-length basis and an annual basis. Also, operating plans are developed for the electric fund, water and sewer fund and the Delaware Springs Golf Course fund.

The appropriated budget is prepared by fund, department and object. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders and contracts). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

The City prepares its appropriated budgets on a budgetary basis structure which differs from that used for financial reporting in accordance with generally accepted accounting principles ("GAAP"). The budget and all transactions of the general fund are presented in accordance with the City's budgetary basis structure in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgetary Basis to provide a meaningful comparison of actual results with the budget. The major difference between the budgetary basis and the GAAP basis is that the budgetary basis uses a fund structure which is used in the City's legally adopted budget (rather than the fund structure used in their financial statements) which results in certain activities reported on a GAAP basis which are not included on a budgetary basis. Adjustments necessary for the general fund to convert the net change in fund balance on the budgetary basis to a GAAP basis are provided below:

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

E. Budgetary Information (continued)

Net change in fund balance - budgetary basis	\$ 2,118,548
Activites not included in general fund budget	<u>-</u>
Net change in fund balance - GAAP basis	<u>\$ 2,118,548</u>

F. Cash and Cash Equivalents, and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, external investment pools and deposits in the City's internal cash pool.

Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in the State Treasurer's Texas Local Government Investment Pool ("TexPool"). In accordance with state law, TexPool operates in conformity with all of the requirements of the Securities and Exchange Commission's ("SEC") Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, TexPool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. TexPool is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

G. Inventories and Prepaid Items

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

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

H. Capital Assets

Capital assets, which include land, buildings, machinery and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

H. Capital Assets (continued)

excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10 – 40
Machinery and equipment	5 – 10
Infrastructure	10 – 50

I. Long-Term Liabilities

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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

J. Pensions

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

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheet 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.

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Net Position Flow Assumptions

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.

M. Fund Balance Flow Assumptions

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.

N. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

N. Fund Balance Policies (continued)

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. City management is authorized to assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The components and specific purpose details of nonspendable, restricted, and assigned fund balances of governmental funds at September 30, 2015 are as follows:

	<u>General</u>	<u>Airport</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:					
Inventories	\$ 34,641	23,382	-	-	58,023
Prepaid items	74	-	-	-	74
Restricted:					
General obligation debt service	-	-	174,187	-	174,187
Economic development	-	-	-	284,721	284,721
Aviation services	-	841,453	-	-	841,453
Public safety	-	-	-	51,105	51,105
Assigned:					
Capital projects	-	-	-	595,825	595,825
Unassigned	<u>4,072,418</u>	<u>-</u>	<u>-</u>	<u>(174,961)</u>	<u>3,897,457</u>
	<u>\$ 4,107,133</u>	<u>864,835</u>	<u>174,187</u>	<u>756,690</u>	<u>5,902,845</u>

O. Program Revenues

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

P. Property Taxes

Property taxes attach as an enforceable lien on real property and are levied as of October 1 on the assessed value as of the previous January 1 for all real and personal property in the City.

City of Burnet, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

Q. Compensated Absences

The City's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from government service subject to certain limitations. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

R. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric fund, water and sewer fund and Delaware Springs Golf Course fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including general obligation debt payable and the net pension liability, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$7,096,948 are as follows.

General obligation debt payable	\$ 3,250,203
Compensated absences	410,162
Accrued interest payable	14,531
Net OPEB obligation	2,001,587
Net pension liability	1,843,191
Pension-related deferred outflows of resources	(455,752)
Pension-related deferred inflows of resources	<u>33,026</u>
	<u>\$ 7,096,948</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds

A. Cash Deposits and Investments

Investments of the City at September 30, 2015, consist of investments in Texas Local Government Investment Pool (“TexPool”) of \$1,142,632. TexPool operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See Note I.F. for a discussion of how the shares in TexPool are valued.

State statutes and the City’s investment policy authorize the City to invest in obligations of the United States and its agencies, certificates of deposit, and public funds investment pools.

Credit Risk: For an investment, credit risk is the risk that an investment issuer or other counterparty to an investment will not fulfill obligations. The Public Funds Investment Act (Government Code Chapter 2256) restricts the types of investments in which the City may invest. The City’s investment policy addresses credit quality by further restricting authorized investments to obligations of the United States and its agencies, and public funds investment pools rated AAA or AA from a nationally recognized rating service. The City’s investment in TexPool is rated AAAM by Standard & Poors.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City will only invest on a basis which allows liquidity to meet cash flow needs as necessary – the weighted average maturity should be 180 days or less for the general fund and 365 days or less for the debt service fund. The weighted average maturity of TexPool is 40 days as of September 30, 2015.

Custodial Credit Risk: The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party. City policy requires all deposits to be federally insured or collateralized by eligible securities held by an independent third-party custodian.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateralized securities that are in the possession of an outside third party. The City has no specific policies that limit the custodial credit risk for its investments.

A reconciliation of deposits and investments as shown on the statement of net position:

Cash on hand	\$	2,018
Carrying amount of deposits		9,768,209
Carrying amount of investments		<u>1,142,632</u>
	\$	<u><u>10,912,859</u></u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

A. Cash Deposits and Investments (continued)

Per the statement of net position for the City:

Cash and cash equivalents	\$ 7,786,945
Restricted cash and cash equivalents	2,276,120
	10,063,065

Per the statement of net position for the Burnet
Economic Development Corporation, Inc.:

Cash and cash equivalents	849,794
	\$ 10,912,859

B. Receivables

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

	General	Airport	Debt Service	Nonmajor Governmental Funds	Total
Receivables:					
Property taxes	\$ 92,849	-	19,993	-	112,842
Sales taxes	247,553	-	-	-	247,553
Franchise taxes	4,021	-	-	-	4,021
Hotel/motel taxes	-	-	-	27,818	27,818
EMS	8,477,515	-	-	-	8,477,515
Other	114,978	85,461	258	-	200,697
	8,936,916	85,461	20,251	27,818	9,070,446
Less: allowance for uncollectibles	(8,203,208)	-	-	-	(8,203,208)
	\$ 733,708	85,461	20,251	27,818	867,238

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

C. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,315,819	5,550	-	1,321,369
Construction in progress	2,884,198	862,013	-	3,746,211
Total capital assets not being depreciated	<u>4,200,017</u>	<u>867,563</u>	<u>-</u>	<u>5,067,580</u>
Capital assets, being depreciated:				
Buildings	9,405,509	55,731	-	9,461,240
Machinery and equipment	7,437,184	352,255	-	7,789,439
Infrastructure	18,144,752	239,477	-	18,384,229
Total capital assets, being depreciated	<u>34,987,445</u>	<u>647,463</u>	<u>-</u>	<u>35,634,908</u>
Less accumulated depreciation for:				
Buildings	(2,783,006)	(309,903)	-	(3,092,909)
Machinery and equipment	(6,196,679)	(504,111)	-	(6,700,790)
Infrastructure	(5,972,983)	(471,574)	-	(6,444,557)
Total accumulated depreciation	<u>(14,952,668)</u>	<u>(1,285,588)</u>	<u>-</u>	<u>(16,238,256)</u>
Total capital assets, being depreciated, net	<u>20,034,777</u>	<u>(638,125)</u>	<u>-</u>	<u>19,396,652</u>
	<u>\$ 24,234,794</u>	<u>229,438</u>	<u>-</u>	<u>24,464,232</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 577,543	-	-	577,543
Construction in progress	15,263,478	1,830,048	(16,901,254)	192,272
Total capital assets not being depreciated	<u>15,841,021</u>	<u>1,830,048</u>	<u>(16,901,254)</u>	<u>769,815</u>
Capital assets, being depreciated:				
Buildings	126,438	-	-	126,438
Machinery and equipment	4,373,093	33,044	-	4,406,137
Infrastructure	31,367,482	18,267,211	-	49,634,693
Total capital assets being depreciated	<u>35,867,013</u>	<u>18,300,255</u>	<u>-</u>	<u>54,167,268</u>
Less accumulated depreciation for:				
Buildings	(8,024)	(3,161)	-	(11,185)
Machinery and equipment	(2,828,094)	(331,376)	-	(3,159,470)
Infrastructure	(12,494,830)	(918,838)	-	(13,413,668)
Total accumulated depreciation	<u>(15,330,948)</u>	<u>(1,253,375)</u>	<u>-</u>	<u>(16,584,323)</u>
Total capital assets, being depreciated, net	<u>20,536,065</u>	<u>17,046,880</u>	<u>-</u>	<u>37,582,945</u>
	<u>\$ 36,377,086</u>	<u>18,876,928</u>	<u>(16,901,254)</u>	<u>38,352,760</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

C. Capital Assets (continued)

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

General government	\$	234,715
Public safety		501,401
Highways and streets		311,338
Aviation services		33,376
Culture and recreation		<u>204,758</u>
Total depreciation expense	\$	<u><u>1,285,588</u></u>

The City has active construction projects as of September 30, 2015. At year-end, the City's construction contract commitments with contractors for governmental activities are as follows:

Project Title	Spent to Date	Remaining Commitment
Airport improvements	\$ 3,746,211	<u>3,940,000</u>

For the airport improvements project, the City has secured a governmental grant to fund 90% of the construction costs, with the City funding the remaining 10%. The City has funded their entire obligation under the grant agreement; therefore, the remaining construction commitments under the project will be financed by the grantor.

At September 30, 2015, the City's construction contract commitments with contractors for business-type activities are as follows:

Project Title	Spent to Date	Remaining Commitment
Ramsey's Way electric	\$ 11,764	13,236
Airy Mount water line	29,024	5,000
Airport water line	39,460	221,145
Honey Rock water line	3,929	30,000
Ramsey's Way water line	87,477	15,000
Golf course pavilion and signage	<u>20,618</u>	<u>260,000</u>
	<u><u>\$ 192,272</u></u>	<u><u>544,381</u></u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

C. Capital Assets (continued)

The construction contract commitments will be financed with available resources.

D. Long-Term Liabilities

The City issues general obligation bonds, tax notes and combination tax and revenue certificates of obligation (collectively, “general obligation debt”) to provide funds for the acquisition and construction of major capital facilities for both governmental and business-type activities. These general obligation debts are direct obligations and pledge the full faith and credit of the City. The general obligation bonds, tax notes and certificates of obligation generally are issued with equal amounts of principal maturing each year with maturities that range from 6 to 40 years. General obligation debt outstanding at September 30, 2015 is as follows.

	<u>Date</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>
<i>Governmental Activities</i>					
Combination tax and revenue certificates of obligation	1998	\$ 175,000	4.15-5.10%	2018	\$ 65,000
General obligation refunding bonds	2008	3,325,561	3.52%	2024	1,995,000
Combination tax and revenue certificates of obligation	2013	2,240,000	2.19%	2028	<u>1,190,203</u>
					<u>\$ 3,250,203</u>
<i>Business-Type Activities</i>					
Combination tax and revenue certificates of obligation	2003	\$ 1,289,000	4.50%	2042	\$ 1,103,000
Combination tax and revenue certificates of obligation	2004	527,000	4.50%	2043	462,000
Combination tax and revenue certificates of obligation	2006	1,050,000	4.12%	2045	930,000
Combination tax and revenue certificates of obligation	2010	11,425,000	0.00%	2040	9,845,000
Combination tax and revenue certificates of obligation	2012	9,900,000	0.00%	2042	9,210,000
Combination tax and revenue certificates of obligation	2012A	110,000	0.00-1.26%	2022	80,000
Tax note	2010	1,145,000	1.75-3.35%	2017	265,000
General obligation refunding bonds	2008	909,439	3.52%	2024	<u>376,272</u>
					<u>\$ 22,271,272</u>

Changes in the government’s long-term liabilities for the year ended September 30, 2015 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation debt	\$ 3,561,983	-	(311,780)	3,250,203	293,644
Compensated absences	360,319	410,162	(360,319)	410,162	410,162
Net OPEB obligation	1,622,470	379,117	-	2,001,587	-
Net pension liability	<u>1,772,877</u>	<u>70,314</u>	<u>-</u>	<u>1,843,191</u>	<u>-</u>
	<u>\$ 7,317,649</u>	<u>859,593</u>	<u>(672,099)</u>	<u>7,505,143</u>	<u>703,806</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

D. Long-Term Liabilities (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
General obligation debt	\$ 23,314,492	-	(1,043,220)	22,271,272	964,356
Compensated absences	171,716	171,873	(171,716)	171,873	171,873
Net pension liability	829,951	32,915	-	862,866	-
	<u>\$ 24,316,159</u>	<u>204,788</u>	<u>(1,214,936)</u>	<u>23,306,011</u>	<u>1,136,229</u>

The liability for compensated absences for governmental activities and the net OPEB obligation is substantially liquidated by the General Fund.

The debt service requirements for the City's bonds and certificates of obligation follow:

Year Ended September 30,	Principal	Interest	Total
Governmental Activities			
2016	\$ 293,644	87,422	381,066
2017	295,508	78,566	374,074
2018	302,373	69,589	371,962
2019	282,373	60,357	342,730
2020	290,373	52,658	343,031
2021 - 2025	1,263,932	144,313	1,408,245
2026 - 2028	<u>522,000</u>	<u>23,264</u>	<u>545,264</u>
	<u>\$ 3,250,203</u>	<u>516,169</u>	<u>3,766,372</u>
Business-Type Activities			
2016	\$ 964,356	130,986	1,095,342
2017	963,492	123,732	1,087,224
2018	839,627	115,986	955,613
2019	841,627	112,329	953,956
2020	843,627	108,510	952,137
2021 - 2025	4,198,135	484,732	4,682,867
2026 - 2030	3,989,408	401,817	4,391,225
2031 - 2035	3,980,000	340,291	4,320,291
2036 - 2040	3,950,000	279,096	4,229,096
2041 - 2045	<u>1,701,000</u>	<u>217,901</u>	<u>1,918,901</u>
	<u>\$ 22,271,272</u>	<u>2,315,380</u>	<u>24,586,652</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

D. Long-Term Liabilities (continued)

The City's bond indentures contain restrictions concerning the maintenance of accounting records as well as reporting the results of the City's operations to specified major bond holders. The City is in compliance with all significant requirements and restrictions.

There is no specific maximum debt limit established by law for the City; therefore, the limit is governed by the City's ability to levy and collect taxes to service the debt.

The City has pledged net revenues of the water and sewer system to repay \$21,630,000 in combination tax and revenue certificates of obligation issued from 2003 to 2012. Annual principal and interest payments on the debt is expected to require approximately 50% of the pledged net revenues. The total principal and interest remaining to be paid on the debt is \$23,856,573. Principal and interest paid for the current year and total pledged net revenues for the current year were \$930,786 and \$1,835,449, respectively.

E. Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt service	\$ 34,757
General	Nonmajor governmental	322,996
Debt service	Airport	255
Nonmajor governmental	Delaware Springs Golf Course	25,398
Nonmajor governmental	Debt service	1,375
Nonmajor governmental	Nonmajor governmental	14,118
Nonmajor governmental	General	16,868
Nonmajor governmental	Water and sewer	5,249
Electric	Debt service	23,786
Electric	Nonmajor governmental	75,413
Water and sewer	Debt service	271,190
Water and sewer	General	170,318
Water and sewer	Nonmajor governmental	37,657
		\$ 999,380

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

F. Interfund Transfers

The composition of interfund transfers for the year ended September 30, 2015 is as follows:

	Transfer out:						Total
	General	Airport	Nonmajor Governmental	Electric	Water and Sewer	Delaware Springs Golf Course	
Transfer in:							
General	\$ -	21,084	3,308	3,212,284	715,656	101,364	4,053,696
Debt Service	57,274	24,335	-	-	-	-	81,609
Nonmajor governmental	640,724	94,965	-	67,398	14,688	46,799	864,574
Delaware Springs Golf Course	365,478	-	-	-	-	-	365,478
	<u>\$ 1,063,476</u>	<u>140,384</u>	<u>3,308</u>	<u>3,279,682</u>	<u>730,344</u>	<u>148,163</u>	<u>5,365,357</u>

During the year, transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, and (2) move proprietary fund resources to the general fund for payments in lieu of taxes, administrative allocations, and a return on the general fund's investment in the electric fund.

G. Employee Benefits

Pension Plan

Plan Description - The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report ("CAFR") that can be obtained at www.tmrs.com.

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

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

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

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

Employees Covered by Benefit Terms – At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	50
Inactive employees entitled to but not yet receiving benefits	54
Active employees	109

Contributions – The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal 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 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7% and 7% in calendar years 2015 and 2014, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$648,053 and were equal to the required contributions.

Net Pension Liability – The City's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

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

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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 actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.8%
International Equity	17.5%	6.1%
Core Fixed Income	30.0%	1.5%
Non-Core Fixed Income	10.0%	3.5%
Real Return	5.0%	1.8%
Real Estate	10.0%	5.3%
Absolute Return	5.0%	4.3%
Private Equity	5.0%	8.5%
Total	100.0%	

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2013	\$ 18,987,048	16,384,220	2,602,828
Changes for the year:			
Service cost	753,691	-	753,691
Interest	1,317,058	-	1,317,058
Difference between expected and actual experience	(61,528)	-	(61,528)
Contributions - employer	-	602,184	(602,184)
Contributions - employee	-	377,039	(377,039)
Net investment income	-	937,360	(937,360)
Benefit payments, including refunds of employee contributions	(1,097,550)	(1,097,550)	-
Administrative expense	-	(9,786)	9,786
Other changes	-	(805)	805
Net changes	911,671	808,442	103,229
Balance at December 31, 2014	\$ 19,898,719	17,192,662	2,706,057

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point (8.0%) higher than the current rate.

	1% Decrease (6.0%)	Current Rate Assumption (7.0%)	1% Increase (8.0%)
City's net pension liability	\$ 5,865,086	2,706,057	165,665

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Pension Plan (continued)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

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

For the year ended September 30, 2015, the City recognized pension expense of \$586,272.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	48,487
Difference between projected and actual investment earnings	167,628	-
Contributions subsequent to the measurement date	<u>501,477</u>	<u>-</u>
	<u>\$ 669,105</u>	<u>48,487</u>

The \$501,477 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	
2015	\$ 28,866
2016	28,866
2017	28,866
2018	<u>32,543</u>
Total	<u>\$ 119,141</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Supplemental Death Benefits Plan

Plan Description – 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.

Benefits – 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 for retired employees is considered an “other postemployment benefit”, or OPEB.

Contributions – The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers. The City’s contributions to the SDBF for the years ended September 30, 2015, 2014 and 2013, were \$8,619, \$8,979, and \$7,227, respectively, which equaled the required annual contributions each year.

Other Post-Employment Benefit Plan

Plan Description and Benefits – The City provides medical (including dental) benefits to eligible retirees through a single-employer defined benefit plan. Retirees who have retired with 20 years of service without regard to age, and were hired prior to January 1, 2010 are eligible for benefits.

Contributions – The City provides on a pay-as-you-go basis. The City’s annual funding for these benefits is equal to the monthly contribution rate for the qualified retired employees – the retiree is responsible for the contribution for any family coverage elected. For 2015, the City paid contributions of \$97,661.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other post-employment benefit (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of Government Accounting Standards Board (“GASB”) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. For 2015, the ARC of \$503,885 is comprised of employer normal service costs of \$211,623 and amortization of unfunded actuarial liabilities of \$292,262. The following table shows the components of the City’s annual net OPEB cost, the amount actually contributed to the plan, and the City’s net OPEB obligation:

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Other Post-Employment Benefit Plan (continued)

Annual required contribution (ARC)	\$ 503,885
Interest on prior year net OPEB obligation	64,899
Amortization of prior year net OPEB obligation	<u>(92,006)</u>
Annual OPEB cost	476,778
Contributions made	<u>(97,661)</u>
Increase in net OPEB obligation	379,117
Net OPEB obligation, beginning of year	<u>1,622,470</u>
Net OPEB obligation, end of year	<u><u>\$ 2,001,587</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015, 2014, and 2013 were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	Percentage of APC Contributed	Net OPEB Obligation
2015	\$ 476,778	97,661	20.48%	\$ 2,001,587
2014	426,523	62,798	14.72%	1,622,470
2013	442,119	61,099	13.82%	1,258,745

Funded Status and Funding Progress – As of October 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded (i.e., the ratio of plan assets to actuarial accrued liabilities.) The actuarial accrued liability for benefits was \$5,079,983 with no assets, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$5,079,983. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,961,201 and the ratio of the UAAL to the covered payroll was 102.4%.

The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/01/2014	\$ -	5,079,983	0.0%	5,079,983	4,961,201	102.4%
10/01/2013	-	4,456,823	0.0%	4,456,823	5,400,000	82.5%
10/01/2012	-	4,294,749	0.0%	\$ 4,294,749	5,374,728	79.9%

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

G. Employee Benefits (continued)

Other Post-Employment Benefit Plan (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the plan provisions and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations. The Projected Unit Cost actuarial cost method is used to calculate the annual required contribution for the plan. Using the plan benefits, the present monthly contribution rates and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. The significant actuarial assumptions included a (a) 4.0% discount rate (1% real rate of return plus 3% inflation), (b) 5.0% annual healthcare cost trend rate, and (c) mortality rates (probabilities of dying) based on the RP-2000 combined mortality table for males and females. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over thirty years.

H. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property and workmen's compensation coverage. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

I. Changes in Accounting Principles

The City adopted the provisions of Governmental Accounting Standards Board (“GASB”) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68* effective October 1, 2014. GASB No. 68 provides new requirements for accounting for defined benefit pension plans, primarily focusing on the recognition of a net pension asset or liability in the statement of net position. GASB No. 71 provides requirements on accounting and reporting for contributions made to defined benefit pension plans after the measurement date, primarily focusing on the recognition of a deferred outflow of resources in the statement of net position. It was not practical for the City to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions at October 1, 2014; consequently, the effects of adopting the statements excluded deferred outflows of resources and deferred outflows of resources (except deferred outflows of resources related to contributions made to the plan after the measurement date). The cumulative effect of these changes in accounting principle decreased unrestricted net position for governmental activities and business-type activities by \$1,456,676 and \$681,925, respectively, at October 1, 2014.

J. Deferred Outflows and Inflows of Resources

The statements of financial position, and the balance sheet includes the following deferred outflows/inflows of resources at September 30, 2015:

	Statements of Net Position		Balance Sheet	
	Governmental Activities	Business-Type Activities - Water and Sewer	General Fund	Debt Service Fund
Deferred outflows of resources:				
Deferred charge on refunding Pension - post measurement date contributions	\$ -	87,587	-	-
Pension - net differences between projected and actual earnings	341,574	159,903	-	-
	<u>114,178</u>	<u>53,450</u>	<u>-</u>	<u>-</u>
	<u>\$ 455,752</u>	<u>300,940</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources:				
Unavailable property tax revenue Pension - differences between expected and actual experience	\$ -	-	92,849	19,993
	<u>33,026</u>	<u>15,461</u>	<u>-</u>	<u>-</u>
	<u>\$ 33,026</u>	<u>15,461</u>	<u>92,849</u>	<u>19,993</u>

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

J. Deferred Outflows and Inflows of Resources (continued)

Deferred Outflows of Resources. The deferred charge on refunding, resulting from the difference in the carrying value of refunded debt and its reacquisition price, is amortized over the shorter of the life of the refunded or refunding debt. Post-measurement date contributions will be recognized as a reduction of the net pension liability in the following fiscal year. The pension-related net differences between projected and actual earnings will be recognized in pension expense over five years.

Deferred Inflows of Resources. The governmental funds, under the modified accrual basis of accounting, report unavailable revenues from property taxes, which is deferred and recognized as an inflow of resources in the period that the amounts become available. The pension-related difference between expected and actual experience will be recognized in pension expense over the average of the expected remaining service lives of all active employees.

K. Operating Lease

The City leases a building for all City administrative services. Total cost for the lease was \$39,339 for the year ended September 30, 2015. The future minimum lease payments for the lease are as follows: 2016, \$40,125; 2017, and \$30,546.

L. Commitments and Contingencies

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

The City has contracted with a private company for the collection and disposal of solid waste. The contract's initial five-year term expired October 2009. Thereafter, the contract is renewed for additional terms of five years if mutually agreed by the parties. The fees charged under the contract are adjusted annually to reflect changes in the cost of operations. The City's cost under the agreement for the year ended September 30, 2015, was \$771,439.

The City has entered into a long-term agreement to purchase water from the Lower Colorado River Authority (the "Authority") effective January 1985. The agreement allows the City the right to withdraw up to 4100 acre-feet of raw water from the Colorado River. The cost of the water is adjusted each year as determined by the Board of Directors of the Authority. The City's cost under the agreement for the year ended September 30, 2015, was \$85,876.

Also, the City has entered into a long-term agreement to purchase wholesale electric power from the Lower Colorado River Authority effective June 2011. The cost of electric power is based on the reasonable and necessary cost of providing power generation in accordance with Article 8503.011 of the Texas Special District Local Laws Code. The City's cost under the agreement for the year ended September 30, 2015, was \$6,012,645.

City of Burnet, Texas

Notes to Financial Statements (Continued)

III. Detailed Notes On All Activities and Funds (continued)

L. Commitments and Contingencies (continued)

The City is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate outcome of these claims will not have a material adverse effect on the City's financial position.

M. Prior Year Restatements

In addition to the restatements of unrestricted net position at October 1, 2014 for the changes in accounting principles discussed in Note III.L., fund balance for the airport fund and unrestricted net position for governmental activities at October 1, 2014 was decreased by \$41,879 for certain errors noted in accounts receivable for the airport fund which relate to prior years.

N. Authoritative Pronouncement Not Yet Effective

A summary of pronouncements issued by the Governmental Accounting Standards Board, which may impact the City but are not yet effective follows. The City has not yet determined the effects of the adoption of these pronouncements on the financial statements.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Statement 75) – The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB) and to improve information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of Statement 75 are effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Statement 76) – The objective of Statement 76 is to identify - in the context of the current governmental financial reporting environment - the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles and the framework for selecting those principles. The provisions of Statement 76 are effective for financial statements for periods beginning after June 15, 2015.

GASB Statement No. 77, Tax Abatement Disclosures (Statement 77) – The objective of Statement 77 is to improve disclosures on the nature and magnitude of tax abatements, specifically how tax abatements affect a government's future ability to raise resources and meet its financial obligations and the impact those abatements have on a government's financial position and economic condition. The provisions of Statement 77 are effective for financial statements for periods beginning after December 15, 2015.

Required Supplementary Information

City of Burnet, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

December 31, 2014

Total Pension Liability

Service cost	\$ 753,691
Interest (on the Total Pension Liability)	1,317,058
Difference between expected and actual experience	(61,528)
Benefit payments, including refunds of employee contributions	<u>(1,097,550)</u>
Net change in Total Pension Liability	911,671
Total Pension Liability - beginning	<u>18,987,048</u>
Total Pension Liability - ending (a)	<u><u>\$ 19,898,719</u></u>

Plan Fiduciary Net Position

Contributions - employer	\$ 602,184
Contributions - employee	377,039
Net investment income	937,360
Benefit payments, including refunds of employee contributions	(1,097,550)
Administrative expense	(9,786)
Other	<u>(805)</u>
Net change in Plan Fiduciary Net Position	808,442
Plan Fiduciary Net Position - beginning	<u>16,384,220</u>
Plan Fiduciary Net Position - ending (b)	<u><u>\$ 17,192,662</u></u>
Net Pension Liability - ending (a) - (b)	\$ 2,706,057
Plan Fiduciary Net Position as a percentage of Total Pension Liability	86.4%
Covered employee payroll	\$ 5,386,274
Net Pension Liability as a percentage of covered employee payroll	50.2%

Note: The City of Burnet adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective September 1, 2014. Information for years prior to 2014 is not available.

See accompanying independent auditor's report.

City of Burnet, Texas
Schedule of Contributions
Year Ended September 30, 2015

Actuarially Determined Contributions	\$	648,053
Contributions in relation to the actuarially determined contributions		648,053
Contribution deficiency (excess)	\$	-
Covered employee payroll	\$	5,386,274
Contributions as a percentage of covered employee payroll		12.0%

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	29 years
Asset Valuation Method	10 year smoothed market, 15% soft corridor
Inflation	3%
Salary Increases	3.50% to 12.00%, including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009 RP2000 Combined Mortality Table with the Blue Collar Adjustment with males rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

There were no benefit changes during the year.

Note: The City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective September 1, 2014. Information for years prior to 2015 is not available.

See accompanying independent auditor's report.

Supplementary Information

City of Burnet, Texas

**Combining Balance Sheet
Nonmajor Governmental Funds**

September 30, 2015

	Special Revenue				Capital Projects				Total Nonmajor Governmental Funds
	Hotel/ Motel Tax	Police Seizure	Court Security and Technology	Total	General Capital Projects	General Capital Equipment	Airport Capital Project	Total	
Assets									
Cash and cash equivalents	\$ 294,077	2,270	31,967	328,314	-	811,004	-	811,004	1,139,318
Receivables	27,818	-	-	27,818	-	-	-	-	27,818
Due from other funds	-	-	16,868	16,868	-	46,140	-	46,140	63,008
Total assets	<u>\$ 321,895</u>	<u>2,270</u>	<u>48,835</u>	<u>373,000</u>	<u>-</u>	<u>857,144</u>	<u>-</u>	<u>857,144</u>	<u>1,230,144</u>
Liabilities and Fund Balances									
Liabilities:									
Accounts and retainages payable	\$ 2,221	-	-	2,221	18,620	2,429	-	21,049	23,270
Due to other funds	34,953	-	-	34,953	155,202	258,890	1,139	415,231	450,184
Total liabilities	<u>37,174</u>	<u>-</u>	<u>-</u>	<u>37,174</u>	<u>173,822</u>	<u>261,319</u>	<u>1,139</u>	<u>436,280</u>	<u>473,454</u>
Fund balances:									
Restricted	284,721	2,270	48,835	335,826	-	-	-	-	335,826
Assigned	-	-	-	-	-	595,825	-	595,825	595,825
Unassigned	-	-	-	-	(173,822)	-	(1,139)	(174,961)	(174,961)
Total fund balances	<u>284,721</u>	<u>2,270</u>	<u>48,835</u>	<u>335,826</u>	<u>(173,822)</u>	<u>595,825</u>	<u>(1,139)</u>	<u>420,864</u>	<u>756,690</u>
Total liabilities and fund balances	<u>\$ 321,895</u>	<u>2,270</u>	<u>48,835</u>	<u>373,000</u>	<u>-</u>	<u>857,144</u>	<u>-</u>	<u>857,144</u>	<u>1,230,144</u>

See accompanying independent auditor's report.

City of Burnet, Texas

**Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
Nonmajor Governmental Funds**

Year Ended September 30, 2015

	Special Revenue				Capital Projects				Total Nonmajor Governmental Funds
	Hotel/ Motel Tax	Police Seizure	Court Security and Technology	Total	General Capital Projects	General Capital Equipment	Airport Capital Project	Total	
Revenues:									
Hotel/motel taxes	\$ 136,372	-	-	136,372	-	-	-	-	136,372
Fines	-	-	2,402	2,402	-	-	-	-	2,402
Interest	3,895	35	493	4,423	97	11,998	-	12,095	16,518
Total revenues	<u>140,267</u>	<u>35</u>	<u>2,895</u>	<u>143,197</u>	<u>97</u>	<u>11,998</u>	<u>-</u>	<u>12,095</u>	<u>155,292</u>
Expenditures:									
Current -									
Economic development	87,557	-	-	87,557	-	-	-	-	87,557
Capital outlay	-	-	-	-	307,784	418,761	94,965	821,510	821,510
Total expenditures	<u>87,557</u>	<u>-</u>	<u>-</u>	<u>87,557</u>	<u>307,784</u>	<u>418,761</u>	<u>94,965</u>	<u>821,510</u>	<u>909,067</u>
Excess (deficiency) of revenues over (under) expenditures	<u>52,710</u>	<u>35</u>	<u>2,895</u>	<u>55,640</u>	<u>(307,687)</u>	<u>(406,763)</u>	<u>(94,965)</u>	<u>(809,415)</u>	<u>(753,775)</u>
Other financing sources (uses):									
Transfers in	-	-	-	-	242,911	526,698	94,965	864,574	864,574
Transfers out	(3,308)	-	-	(3,308)	-	-	-	-	(3,308)
Total other financing sources (uses)	<u>(3,308)</u>	<u>-</u>	<u>-</u>	<u>(3,308)</u>	<u>242,911</u>	<u>526,698</u>	<u>94,965</u>	<u>864,574</u>	<u>861,266</u>
Net change in fund balances	49,402	35	2,895	52,332	(64,776)	119,935	-	55,159	107,491
Fund balances, beginning of year	<u>235,319</u>	<u>2,235</u>	<u>45,940</u>	<u>283,494</u>	<u>(109,046)</u>	<u>475,890</u>	<u>(1,139)</u>	<u>365,705</u>	<u>649,199</u>
Fund balances, end of year	<u>\$ 284,721</u>	<u>2,270</u>	<u>48,835</u>	<u>335,826</u>	<u>(173,822)</u>	<u>595,825</u>	<u>(1,139)</u>	<u>420,864</u>	<u>756,690</u>

See accompanying independent auditor's report.