

City of Keene

Annual Financial Report

Year Ended September 30, 2016

City of Keene, Texas
 Annual Financial Report
 Year Ended September 30, 2016
 Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Statement of Net Position - Proprietary Fund	20
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	21
Statement of Cash Flows - Proprietary Fund	22
Notes to Financial Statements.....	23
Required Supplemental Information	
Schedule of Changes in Net Pension Liability and Related Ratios for the Measurement Date.....	48
Schedule of Contributions.....	49
Notes to Required Supplementary Information.....	50
Budgetary Comparison Schedule	51
Notes to Budgetary Information.....	52
Combining and Individual Fund Statements	
Combining Balance Sheet Non-Major Governmental Funds	54
Combining Statements of Revenues, Expenditures and Changes In Fund Balance Non-Major Governmental Funds	55

Financial Section



Independent Auditor's Report

To the City Council of
City of Keene, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

City 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our (1) unmodified audit opinion on the business-type activities, major funds, and aggregate remaining funding information; and (2) qualified audit opinion on the governmental activities.

Basis for Qualified Opinion on Governmental Activities

Management has not recorded capital assets related to streets, easements, and right-of-ways in governmental activities. Accounting principles generally accepted in the United States of America require that capital assets (including infrastructure) and related accumulated depreciation and depreciation expense are recorded, which would increase the assets, net position and expenses reported in governmental activities. The amount by which this departure would affect the assets, net position, and expense of the governmental activities has not been determined.

To the City Council
City of Keene, Texas

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph on the governmental activities, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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

Emphasis of Matter

The financial statements of the City of Keene, Texas for the year ended September 30, 2015, before the restatement described in Note L, were audited by another auditor who expressed an unmodified opinion on those statements on December 1, 2016.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note L that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 financial statements of the City other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Texas Municipal Retirement System – Schedule of Changes in Net Pension Liability and Related Ratios, Texas Municipal Retirement System – Schedule of Contributions and Budgetary Comparison Schedule – Budget to Actual – General Fund on pages 48-50 and 51-52 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.

To the City Council
City of Keene, Texas

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 and individual nonmajor fund financial statements and schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
October 6, 2017

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Management's Discussion and Analysis

As management of the City of Keene (the City), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the City's financial statements and accompanying notes, which can be found on pages 23 through 45 of this report.

Financial Highlights

- The City's total combined net position was \$6,342,009 at September 30, 2016 of which \$1,199,506 was unrestricted.
- During the year, expenses were \$197,074 less than the \$8,456,574 generated in revenues for the City's activities.
- The City's general fund reported a fund balance this year of \$1,217,168 of which \$1,099,737 was unassigned and subject to use at the City's discretion.

Overview of the Financial Statements

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates like businesses.
- The financial statements also include *notes to the financial statements* explaining information in the financial statements and provide more detailed data.
- The report also contains other supplementary information in addition to the basic financial statements themselves.

Figure A-1. Required Components of the City's Annual Financial Report

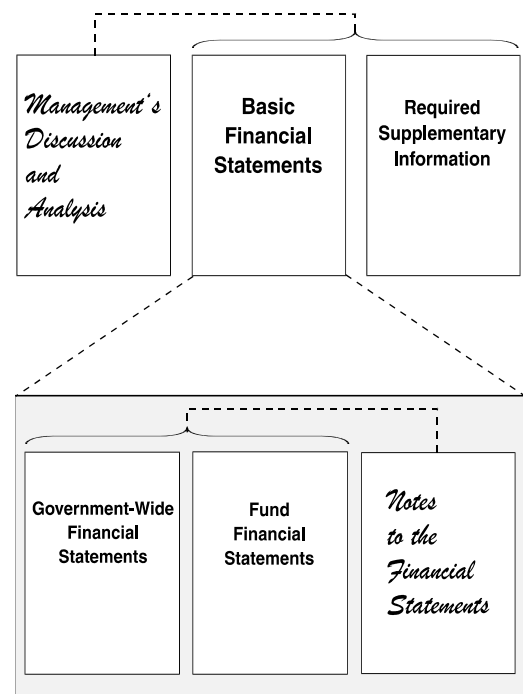


Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

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

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

<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	The entire City's government and the City's Component Units	The activities of the City that are not proprietary or Fiduciary	Activities the City operates similar to private businesses.
	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements. The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes *all* of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net position* and how they have changed. Net position, the difference between the City's assets, deferred outflows of resources of resources, liabilities, and deferred inflows of resources, is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, economic development, parks and recreation, and interest on long-term debt. Property taxes, sales taxes, fees for service, and grants finance most of these activities.

Fund Financial Statements. The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes guidelines to control and manage money for particular purposes or to show that it is properly using certain revenue resources.

The City has two types of funds:

- *Governmental funds*—The City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explain the relationship (or differences) between them. The governmental funds encompass the General fund, the Type A Economic Development Corporation, the Type B Business Development Corporation, the Debt Service fund, and non-major funds of the City, including the Community Activities fund, which notes the funds donated by citizens and other interested parties to pay for special projects.
- *Proprietary funds (business type activities)*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

Financial Analysis of the City as A Whole

Net Position. The City's *combined* net position was \$6,342,009 at September 30, 2016 (Table A-1). Net position was restated for year ended September 30, 2015 to incorporate the net positions of the City's component units.

**Table A-1
City's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015, as restated	2016	2015	2016	2015, as restated
Current and Other Assets	\$ 1,920,830	\$ 1,766,582	\$ 2,601,318	\$ 2,249,454	\$ 4,522,148	\$ 4,016,036
Non-Current Assets	3,350,539	3,691,130	6,204,000	6,562,038	9,554,539	10,253,168
Total Assets	5,271,369	5,457,712	8,805,318	8,811,492	14,076,687	14,269,204
Deferred Outflows	781,799	323,172	92,565	41,274	874,364	364,446
Current Liabilities	499,738	597,258	643,411	458,865	1,143,149	1,056,123
Long-term Liabilities	3,501,598	3,451,266	3,964,295	3,981,326	7,465,893	7,432,592
Total Liabilities	4,001,336	4,048,524	4,607,706	4,440,191	8,609,042	8,488,715
Net Investment in capital assets	2,319,866	2,242,268	2,389,340	2,657,863	4,709,206	4,900,131
Restricted	433,297	121,812	-	-	433,297	121,812
Unrestricted	(701,331)	(631,720)	1,900,837	1,754,712	1,199,506	1,122,992
Total net position	\$ 2,051,832	\$ 1,732,360	\$ 4,290,177	\$ 4,412,575	\$ 6,342,009	\$ 6,144,935

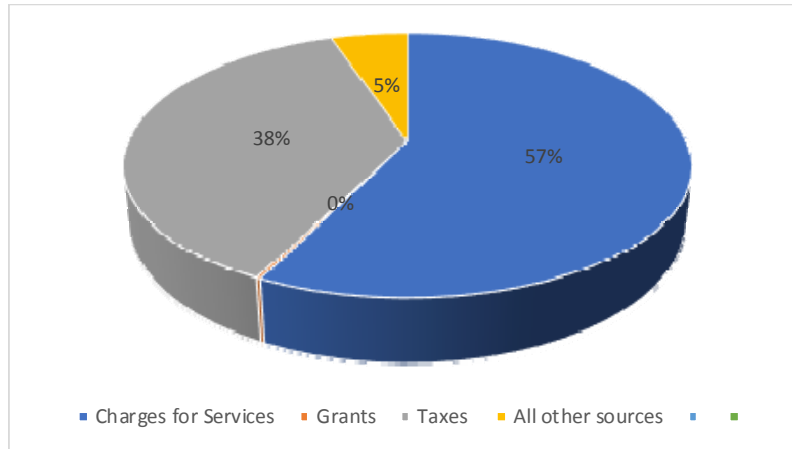
Change in Net Position. The City's total revenues were \$8,456,574 and total expenses were \$8,259,500, resulting in a change in net position of \$197,074 for the year ended September 30, 2016 (Table A-2). This increase results from higher collection from property tax revenues and charges for services and a gain on sale of land, and conservative spending by City departments.

Table A-2
Changes in the City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015, as restated	2016	2015	2016	2015, as restated
Revenues						
Program revenues:						
Charges for services	\$ 1,363,252	\$ 1,113,525	\$ 3,380,887	\$ 3,417,048	\$ 4,744,139	\$ 4,530,573
Grants	197,398	183,836	-	-	197,398	183,836
General Revenues:						
Property taxes	2,041,110	1,847,677	-	-	2,041,110	1,847,677
Sales taxes	695,868	631,988	-	-	695,868	631,988
Franchise fees	206,834	243,897	-	-	206,834	243,897
Other	552,980	133,143	13,376	6,733	566,356	139,876
Interest Income	4,869	4,706	-	-	4,869	4,706
Total Revenues	5,062,311	4,158,772	3,394,263	3,423,781	\$ 8,456,574	\$ 7,582,553
Expenses						
General government	372,555	330,750	-	-	372,555	330,750
Public Safety	1,995,904	1,926,385	-	-	1,995,904	1,926,385
Fire and rescue	1,156,388	1,166,557	-	-	1,156,388	1,166,557
Streets	513,032	497,588	-	-	513,032	497,588
Parks and recreation	42,706	43,375	-	-	42,706	43,375
Municipal court	296,787	298,213	-	-	296,787	298,213
Economic Development	137,666	114,688	-	-	137,666	114,688
Community Development	171,658	116,810	-	-	171,658	116,810
Interest on debt	56,143	12,699	162,780	166,465	218,923	179,164
Water	-	-	2,004,041	1,952,075	2,004,041	1,952,075
Sewer	-	-	1,034,710	815,668	1,034,710	815,668
Sanitation	-	-	315,130	304,071	315,130	304,071
Total Expenses	4,742,839	4,507,065	3,516,661	3,238,279	8,259,500	7,745,344
Changes in net position	319,472	(433,080)	(122,398)	185,502	197,074	(247,578)
Beginning net position	553,580	2,490,961	4,412,575	4,336,562	4,966,155	6,827,523
Prior period adjustments	1,178,780	(325,521)	-	(109,489)	1,178,780	(435,010)
Beginning as restated	<u>1,732,360</u>	<u>2,165,440</u>	<u>4,412,575</u>	<u>4,227,073</u>	<u>6,144,935</u>	<u>6,392,513</u>
Ending net position	<u>2,051,832</u>	<u>1,732,360</u>	<u>4,290,177</u>	<u>4,412,575</u>	<u>6,342,009</u>	<u>6,144,935</u>

Revenue Sources. The majority of the City’s revenue comes from charges for services (57% percent) and taxes (38% percent) (Figure A-3)

**Figure A-3
City’s Revenue Sources**



Net Cost of Business-Type Activities. Table A-3 presents the cost of each of the City’s business-type activities as well as each function’s *net cost* (total cost less charges generated by the activities). The net cost reflects what was added to or used from prior years surplus or fund balance.

**Table A-3
Net Cost of Business-Type Activities**

	Total Cost of Services			Net Cost of Services		
	2016	2015	% Change	2016	2015	% Change
Water	\$ 2,004,041	\$ 1,952,075	3%	98,877	\$ 152,099	-35%
Sewer	1,034,710	815,668	27%	(66,778)	188,449	-135%
Sanitation	315,130	304,071	4%	(5,093)	4,686	-209%
Interest on long-term debt	162,780	166,465	-2%	(162,780)	(166,465)	-2%
Totals at historical cost	\$ 3,516,661	\$ 3,238,279	31%	\$ (135,774)	\$ 178,769	-381%

Long-Term Debt. At year-end, the City had \$7,706,491 in total outstanding debt (including current portion) as shown in Table A-4. More detailed information about the City’s debt is presented in the Notes to the Financial Statements. Long-term debt was restated for year ended September 30, 2015 to incorporate the debt of the City’s component units.

**Table A-4
City's Long-Term Debt**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015, as restated	2016	2015	2016	2015, as restated
Leases payable	\$ -	\$ 16,806		\$ -	\$ -	\$ 16,806
Bonds Payable	-	-	3,720,000	3,790,000	3,720,000	3,790,000
Notes Payable	1,030,673	1,432,055	94,660	114,175	1,125,333	1,546,230
Compensated Absences	163,486	331,814	17,481	20,426	180,967	352,240
Net Pension Liability	2,458,454	1,792,061	221,737	146,240	2,680,191	1,938,301
Total	\$ 3,652,613	\$ 3,572,736	\$ 4,053,878	\$ 4,070,841	\$ 7,706,491	\$ 7,643,577

Capital Assets. At year end, the City had invested \$9,554,539 in a broad range of capital assets including land, equipment, infrastructure, and vehicles (Table A-5). Capital assets were restated for year ended September 30, 2015 to incorporate the capital assets of the City's component units.

**Table A-5
City's Capital Assets**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015, as restated	2016	2015	2016	2015, as restated
Land	\$ 1,566,875	\$ 1,700,265	\$ 435,449.0	\$ 229,593	\$ 2,002,324	\$ 1,929,858
Buildings and Improvements	1,970,416	1,957,530	227,900	227,900	2,198,316	2,185,430
Machinery and equipment	1,010,320	1,036,173	212,125	240,687	1,222,445	1,276,860
Infrastructure	544,940	544,940	15,339,491	15,339,491	15,884,431	15,884,431
Office furniture and equipment	96,984	96,984	19,067	19,067	116,051	116,051
Vehicles	1,671,009	1,701,501	268,198	268,198	1,939,207	1,969,699
Totals at historical costs	6,860,544	7,037,393	16,502,230	16,324,936	\$ 23,362,774	\$ 23,362,329
Less accumulated depreciation	(3,510,005)	(3,346,263)	(10,298,230)	(9,762,898)	(13,808,235)	(13,109,161)
Net Capital Assets	\$ 3,350,539	\$ 3,691,130	\$ 6,204,000	\$ 6,562,038	\$ 9,554,539	\$ 10,253,168

Financial Analysis of the City's Funds

General Fund Highlights. The General Fund balance decreased \$32,367 to \$1,217,168. The decrease can be attributed to higher collections of property taxes and charges for services, offset by an increase in spending by General Fund departments and a decrease in miscellaneous revenues.

Type A Economic Development. The fund balance increased by \$194,793 to (\$94,804), due to gain on sale of land in the current year offset by increase in debt service expenditures.

Type B Business Development. The fund balance remained flat with a small decrease of (\$5,947) to \$283,916, due to increases in revenues and expenditures.

Debt Service. The fund balance remained flat, due to all revenue being transferred to the General Fund.
General Fund Budgetary Highlights

General fund expenditures exceeded revenues by \$190,972. After considering grants and contributions, sale of capital assets, and transfers from other funds, the fund balance for the City's general fund decreased by \$32,367 for the year ended September 30, 2016, which was \$35,960 less than budgeted. This increase was attributed mostly to an increase transfers from the debt service fund and less expenses and revenue.

Economic Factors and Next Year's Budgets and Rates

The proposed tax rate for the upcoming year will decrease to \$0.897823 per \$100 with a budgeted decrease in property tax revenue of \$57,190. Sales tax collections are budgeted for an increase of \$62,000, along with a budgeted decrease in other general revenue sources. Total general fund revenue is projected to increase \$30,296 in the upcoming year.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the City Manager via e-mail at Citymanager@keenetx.com or via mail at 100 N Mockingbird Ln, Keene, TX 76059.

Basic Financial Statements

City of Keene, Texas
Statement of Net Position
September 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets			
Unrestricted:			
Cash and cash equivalents	\$ 1,554,609	\$ 1,790,994	\$ 3,345,603
Receivables, net	322,598	554,627	877,225
Internal balances	23,666	(23,666)	-
Other assets	19,264	-	19,264
Restricted:			
Cash and cash equivalents	693	279,363	280,056
Total current assets	<u>1,920,830</u>	<u>2,601,318</u>	<u>4,522,148</u>
Non-current assets			
Capital assets:			
Non-depreciable assets	1,566,875	435,449	2,002,324
Depreciable assets, net	1,783,664	5,768,551	7,552,215
Total non-current assets	<u>3,350,539</u>	<u>6,204,000</u>	<u>9,554,539</u>
Total assets	<u>5,271,369</u>	<u>8,805,318</u>	<u>14,076,687</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow of resources - pension	781,799	92,565	874,364
Total deferred outflows of resources	<u>781,799</u>	<u>92,565</u>	<u>874,364</u>
LIABILITIES			
Current liabilities			
Accounts payable	122,412	268,819	391,231
Due to other governments	-	1,310	1,310
Accrued interest	-	21,540	21,540
Accrued payroll liabilities	101,572	9,709	111,281
Other payables	124,739	-	124,739
Customer deposits	-	252,450	252,450
Current portion of long-term debt:			
Notes payable	151,015	19,583	170,598
Bonds payable	-	70,000	70,000
Total current liabilities	<u>499,738</u>	<u>643,411</u>	<u>1,143,149</u>
Non-current liabilities			
Notes payable	879,658	75,077	954,735
Bonds payable	-	3,650,000	3,650,000
Compensated absences	163,486	17,481	180,967
Net pension liability	2,458,454	221,737	2,680,191
Total non-current liabilities	<u>3,501,598</u>	<u>3,964,295</u>	<u>7,465,893</u>
Total liabilities	<u>4,001,336</u>	<u>4,607,706</u>	<u>8,609,042</u>
NET POSITION			
Net investment in capital assets	2,319,866	2,389,340	4,709,206
Restricted	433,297	-	433,297
Unrestricted	(701,331)	1,900,837	1,199,506
Total net position	<u>\$ 2,051,832</u>	<u>\$ 4,290,177</u>	<u>\$ 6,342,009</u>

Notes to the financial statements are an integral part of this statement

City of Keene, Texas
Statement of Activities
For the Year Ended September 30, 2016

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 372,555	\$ 81,793	\$ -	\$ -	\$ (290,762)	\$ -	\$ (290,762)
Public safety	1,995,904	-	-	4,400	(1,991,504)	-	(1,991,504)
Fire and rescue	1,156,388	374,382	192,998	-	(589,008)	-	(589,008)
Streets	513,032	-	-	-	(513,032)	-	(513,032)
Parks and recreation	42,706	1,105	-	-	(41,601)	-	(41,601)
Municipal court	296,787	905,972	-	-	609,185	-	609,185
Economic development	137,666	-	-	-	(137,666)	-	(137,666)
Community development	171,658	-	-	-	(171,658)	-	(171,658)
Interest on long-term debt	56,143	-	-	-	(56,143)	-	(56,143)
Total governmental activities	4,742,839	1,363,252	192,998	4,400	(3,182,189)	-	(3,182,189)
Business-type activities:							
Water	2,004,041	2,102,918	-	-	-	98,877	98,877
Sewer	1,034,710	967,932	-	-	-	(66,778)	(66,778)
Sanitation	315,130	310,037	-	-	-	(5,093)	(5,093)
Interest on long-term debt	162,780	-	-	-	-	(162,780)	(162,780)
Total business-type activities	3,516,661	3,380,887	-	-	-	(135,774)	(135,774)
Total primary government	\$ 8,259,500	\$ 4,744,139	\$ 192,998	\$ 4,400	(3,182,189)	(135,774)	(3,317,963)
General revenues:							
Taxes							
Property taxes					2,041,110	-	2,041,110
Sales taxes					695,868	-	695,868
Franchise fees					206,834	-	206,834
Miscellaneous					370,619	13,376	383,995
Gain from disposal of capital assets					34,219	-	34,219
Gain on sale of land					148,142	-	148,142
Interest income					4,869	-	4,869
Total general revenues					3,501,661	13,376	3,515,037
Change in net position					319,472	(122,398)	197,074
Net position - beginning of year					553,580	4,412,575	4,966,155
Prior period adjustment					1,178,780	-	1,178,780
Net position - beginning of year, as restated					1,732,360	4,412,575	6,144,935
Net position - end of year					\$ 2,051,832	\$ 4,290,177	6,342,009

Notes to the financial statements are an integral part of this statement

City of Keene, Texas

Balance Sheet – Governmental Funds

September 30, 2016

	General Fund	Debt Service Fund	Type A Economic Development Corporation	Type B Business Development Corporation	Non-major Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 914,812	\$ -	\$ 234,061	\$ 373,786	\$ 31,950	\$ 1,554,609
Receivables, net						
Property taxes	132,457	7,804	-	-	-	140,261
Sales taxes	68,404	-	34,202	34,202	-	136,808
Ambulance	45,529	-	-	-	-	45,529
Due from other funds	503,178	-	-	-	-	503,178
Other assets	19,264	-	-	-	-	19,264
Restricted cash and cash equivalents	693	-	-	-	-	693
Total assets	<u>\$ 1,684,337</u>	<u>\$ 7,804</u>	<u>\$ 268,263</u>	<u>\$ 407,988</u>	<u>\$ 31,950</u>	<u>\$ 2,400,342</u>
LIABILITIES						
Accounts payable	\$ 120,181	\$ -	\$ -	\$ 2,231	\$ -	\$ 122,412
Accrued payroll liabilities	101,572	-	-	-	-	101,572
Other payables	112,960	-	3,364	2,032	-	118,356
Due to other funds	-	-	359,703	119,809	-	479,512
Total liabilities	<u>334,713</u>	<u>-</u>	<u>363,067</u>	<u>124,072</u>	<u>-</u>	<u>821,852</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	132,456	7,804	-	-	-	140,260
Total deferred inflows of resources	132,456	7,804	-	-	-	140,260
FUND BALANCES						
Restricted						
Child safety	8,419	-	-	-	-	8,419
Court security	97,785	-	-	-	-	97,785
Court technology	9,542	-	-	-	-	9,542
Juvenile case management	1,685	-	-	-	-	1,685
City promotions	-	-	-	-	31,950	31,950
Economic Development	-	-	-	283,916	-	283,916
Unassigned	1,099,737	-	(94,804)	-	-	1,004,933
Total fund balances	<u>1,217,168</u>	<u>-</u>	<u>(94,804)</u>	<u>283,916</u>	<u>31,950</u>	<u>1,438,230</u>
Total liabilities and fund balances	<u>\$ 1,684,337</u>	<u>\$ 7,804</u>	<u>\$ 268,263</u>	<u>\$ 407,988</u>	<u>\$ 31,950</u>	<u>\$ 2,400,342</u>

Notes to the financial statements are an integral part of this statement

City of Keene, Texas

Reconciliation of Governmental Funds
Balance Sheet to Statement of Net Position
September 30, 2016

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 1,438,230

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

Capital assets, net of accumulated depreciation, are not current financial resources and, therefore, are not reported in the fund-level balance sheet. 3,350,539

Long-term debt obligations, which are not due in the current period, and, therefore, are not reported in the fund-level balance sheet. (1,030,673)

Payables for compensated absences are not due in the current period and, therefore, are not reported in the fund-level balance sheet. (163,486)

Net pension liability is not due in the current period and, therefore, is not reported in the fund balance level (2,458,454)

Deferred inflow of resources related to the City's net pension liability results in a decrease in net position in the government-wide financial statements 781,799

Other liabilities related to long-term debt such as accrued interest are not reported in the fund-level balance sheet. (6,383)

Property tax receivables are not available to pay current-year expenditures and, therefore, are deferred in the fund-level balance sheet. 140,260

NET POSITION - GOVERNMENTAL FUNDS \$ 2,051,832

City of Keene, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds For the Year Ended September 30, 2016

	General Fund	Debt Service Fund	Type A Economic Development Corporation	Type B Business Development Corporation	Non-major Funds	Total Governmental Funds
REVENUES						
Taxes						
Property taxes	\$ 1,846,680	\$ 137,771	\$ -	\$ -	\$ -	\$ 1,984,451
Sales taxes	347,906	-	173,981	173,981	-	695,868
Franchise fees	206,834	-	-	-	-	206,834
Licenses, permits and filing fees	26,532	-	-	-	-	26,532
Charges for services	1,336,718	-	-	-	-	1,336,718
Investment earnings	4,455	-	150	264	-	4,869
Other revenues	173,964	-	177,393	-	19,262	370,619
Operating grants and contributions	192,998	-	-	-	-	192,998
Capital grants and contributions	4,400	-	-	-	-	4,400
Total revenues	<u>4,140,487</u>	<u>137,771</u>	<u>351,524</u>	<u>174,245</u>	<u>19,262</u>	<u>4,823,289</u>
EXPENDITURES						
Current:						
General government	368,030	-	-	-	-	368,030
Public safety	1,943,718	-	-	-	-	1,943,718
Fire and rescue	1,088,264	-	-	-	-	1,088,264
Streets	461,768	-	-	-	-	461,768
Parks and recreation	40,738	-	-	-	-	40,738
Municipal court	299,466	-	-	-	-	299,466
Economic development	-	-	122,543	-	-	122,543
Community development	-	-	-	99,695	30,100	129,795
Capital outlay	12,886	-	19,218	19,218	-	51,322
Debt service						
Principal	106,718	-	258,938	52,572	-	418,228
Interest	9,871	-	37,564	8,707	-	56,142
Total expenditures	<u>4,331,459</u>	<u>-</u>	<u>438,263</u>	<u>180,192</u>	<u>30,100</u>	<u>4,980,014</u>
Excess (deficiency) of revenues over (under) expenditures	(190,972)	137,771	(86,739)	(5,947)	(10,838)	(156,725)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	23,446	-	281,532	-	-	304,978
Transfers in	149,769	-	-	-	14,610	164,379
Transfers out	(14,610)	(137,771)	-	-	(11,998)	(164,379)
Total other financing sources (uses)	<u>158,605</u>	<u>(137,771)</u>	<u>281,532</u>	<u>-</u>	<u>2,612</u>	<u>304,978</u>
Net change in fund balances	(32,367)	-	194,793	(5,947)	(8,226)	148,253
Fund balances - beginning of year	1,249,535	-	-	-	-	1,249,535
Prior period adjustment	-	-	(289,597)	289,863	40,176	40,442
Fund balances - beginning of year, as restated	<u>1,249,535</u>	<u>-</u>	<u>(289,597)</u>	<u>289,863</u>	<u>40,176</u>	<u>1,289,977</u>
Fund balances - end of year	<u>\$ 1,217,168</u>	<u>\$ -</u>	<u>\$ (94,804)</u>	<u>\$ 283,916</u>	<u>\$ 31,950</u>	<u>\$ 1,438,230</u>

Notes to the financial statements are an integral part of this statement

City of Keene, Texas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2016

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 148,253

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

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	51,322
Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported with expenditures in the governmental funds.	(269,296)
Disposals of capital assets are recorded on the statement of activities, but do not require the use of current financial resources. Therefore, disposal of capital assets is not reported in the governmental funds.	(122,617)
Current-year long-term debt principal payments on leases, notes, and other debt are reported as expenditures in the fund financial statements, but are shown as reductions in the long-term debt in the government-wide financial statements.	418,188
Current-year changes in liabilities for compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	168,328
Certain revenues reported in the government-wide statement of activities are not reported in the governmental funds.	56,661
Changes in the net pension liability, and related deferred inflows and outflows are recognized in the government-wide financials but are not reported in the fund financial statements.	<u>(131,367)</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 319,472</u>

City of Keene, Texas

Statement of Net Position – Proprietary Fund

September 30, 2016

	<u>Water, Sewer and Sanitation</u>
ASSETS	
Current assets:	
Unrestricted:	
Cash and cash equivalents	\$ 1,790,994
Customer receivables, net	554,627
Restricted:	
Cash and cash equivalents	279,363
Total current assets	<u>2,624,984</u>
Non-current assets:	
Capital assets:	
Non-depreciable assets	435,449
Depreciable assets, net	5,768,551
Total non-current assets	<u>6,204,000</u>
Total assets	<u>8,828,984</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension	92,565
	<u>\$ 92,565</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 268,819
Intergovernmental payable	1,310
Due to other funds	23,666
Accrued interest	21,540
Accrued payroll liabilities	9,709
Customer deposits	252,450
Current portion long-term debt:	
Notes payable	19,583
Bonds payable	70,000
Total current liabilities	<u>667,077</u>
Non-current liabilities:	
Notes payable	75,077
Bonds payable	3,650,000
Compensated absences	17,481
Net pension liability	221,737
Total non-current liabilities	<u>3,964,295</u>
Total liabilities	<u>4,631,372</u>
NET POSITION	
Net investment in capital assets	2,389,340
Restricted for:	
Deposits	252,450
Unrestricted	1,648,387
Total net position	<u>\$ 4,290,177</u>

Notes to the financial statements are an integral part of this statement

City of Keene, Texas

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund
For The Year Ended September 30, 2016

	<u>Water, Sewer and Sanitation</u>
OPERATING REVENUES	
Water charges	\$ 2,065,218
Wastewater charges	946,686
Sanitation fees	303,681
Penalties	65,302
Total operating revenues	<u>3,380,887</u>
OPERATING EXPENSES	
Personnel services	392,025
Contracted services	254,530
Administrative	731,328
Water purchases	438,329
Utilities	213,978
Repairs and maintenance	612,953
Permits and fees	22,230
Materials and supplies	83,929
Depreciation and amortization	562,867
Engineering	41,712
Total operating expenses	<u>3,353,881</u>
Operating income	<u>27,006</u>
NON-OPERATING REVENUES (EXPENSES)	
Miscellaneous income	13,376
Interest expense	(162,780)
Total non-operating revenues (expenses)	<u>(149,404)</u>
Change in net position	(122,398)
Net position - beginning of year	4,412,575
Net position - end of year	<u><u>\$ 4,290,177</u></u>

Notes to the financial statements are an integral part of this statement

City of Keene, Texas

Statement of Cash Flows – Proprietary Fund For The Year Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 3,405,506
Cash payments to employees for services	(379,004)
Cash payments to suppliers of goods and services	(2,230,808)
Net cash provided by operating activities	<u>795,694</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Proceeds from donations	<u>13,376</u>
Net cash provided by non-capital financing activities	<u>13,376</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from disposal of assets	845
Purchase of capital assets	(205,856)
Principal payments on debt	(89,515)
Interest payments on debt	(162,780)
Net cash used in capital and related financing activities	<u>(457,306)</u>

Net change in cash and cash equivalents	351,764
Cash and cash equivalents - beginning of year	<u>1,718,593</u>
Cash and cash equivalents - end of year	<u>\$ 2,070,357</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:

Operating income	\$ 27,006
Adjustments not affecting cash:	
Depreciation and amortization	562,867
(Increase) decrease in assets and increase (decrease) in liabilities:	
Accounts receivable	(25,211)
Accounts payable	143,070
Accrued payroll	(8,240)
Customer deposits	49,830
Due to/ from other funds	25,111
Accrued compensated absences	(2,945)
Net pension liability	24,206
Net cash from operating activities	<u>\$ 795,694</u>

SUPPLEMENTAL INFORMATION:

Cash and cash equivalents at September 30, 2016 consisted of the following:

Cash and cash equivalents - unrestricted	\$ 1,790,994
Cash and cash equivalents - restricted	<u>279,363</u>
Total cash and cash equivalents - end of year	<u>\$ 2,070,357</u>

City of Keene, Texas
Notes to the Financial Statements

A. Summary of Significant Accounting Policies

The City of Keene, Texas (City) is a Home Rule city which citizens elect the mayor and six council members. The Mayor is elected by the citizens at large. Council positions consist of 3 Ward Positions and 3 At Large Positions. The 3 positions are elected at large by citizens, the 3 Ward positions are voted by the citizens in the Ward. The candidate running for a Ward position must live in that Ward. The City operates under the Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, applicable Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. The more significant accounting and reporting policies and practices used by the City are described below.

Reporting Entity

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

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

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. The following was determined:

Keene Economic Development Corporation (KEDC) is a *blended component unit*. The KEDC was formed to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, and on behalf of, the City by developing, implementing, providing and financing projects under the Development Corporation Act of 1979 as defined in Section 4A of the Act. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation. KEDC is presented as a major fund on the City's Governmental Fund financial statements.

City of Keene, Texas

Notes to the Financial Statements

Keene Business Development Corporation (KBDC), formally known as the Keene Community Development Corporation, is a *blended component unit*. The KBDC was formed exclusively for the purposes of benefiting and accomplishing public purposes of, and acting on behalf of, the City in promotion and development of public projects, including, but not limited to, tourism facilities, civic center, downtown/main street renovation and/or development, drainage and related improvements, parks, youth center, sports facilities, public safety facilities, municipal facilities, library facilities, water, sewer and street extensions, any other project that the Board determines as contributing to the promotion or development of new or expanded business enterprises and other related improvements, and any other project authorized under Section 4B of the Development Act of 1979. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation. KBDC is presented as a major fund on the City's Governmental Fund financial statements.

Keene Health Facilities Development Corp (KHFDC) is a *blended component unit*. The KHFDC was formed pursuant to the Health Facilities Development Act [Chapter 221 of the Texas Health and Safety Code (the "HFDC Act")] for the sole public purpose of acquiring, constructing, providing, improving, financing, and refinancing a health facility to assist in the maintenance of public health within the City. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of funds in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation. The KHFDC is presented as a non-major fund on the City's Governmental Fund financial statements. The KHFDC is closed as of September 30, 2016, and remaining balances were transferred to the general fund of the City.

Keene Industrial Development Corp (KIDC) is a *blended component unit*. The KIDC was formed pursuant to the Development Corporation Act, Subtitle C1 [Chapter 501 of the Development Corporation Act] of the Texas Local Government Code for the sole purpose of acquiring, maintaining, leasing, and selling property, and interests therein, as authorized by the Act to promote development within the City and the State of Texas in order to eliminate unemployment and under-employment and to promote and encourage employment and the public welfare of, for, and on behalf of the City of Keene, Texas in accordance with the Act. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of funds in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation. The KIDC is presented as a non-major fund on the City's Governmental Fund financial statements. The KIDC is closed as of September 30, 2016, and remaining balances were transferred to the general fund of the City.

Financial Statement Presentation

Government-wide Financial Statements

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

City of Keene, Texas

Notes to the Financial Statements

Statement of Net Position

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

Statement of Activities

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

Fund Level Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major funds:

General Fund – Governmental fund that reports as the primary fund of the City. This fund is used to account for all financial resources not reported in any other funds.

Debt Service Fund – Governmental fund which accounts for the accumulation of financial resources for the payment of principal and interest on the City's debt.

Type A Economic Development Corporation – Governmental fund which accounts for the accumulation of financial resources for KEDC.

Type B Business Development Corporation – Governmental fund which accounts for the accumulation of financial resources for KBDC.

Water, Sewer and Sanitation Fund – Enterprise fund which accounts for the operating activities of the City's water, sewer, and sanitation services.

The City reports the following non-major funds:

Community Activities – Governmental fund which accounts for revenues and expenditures related to various community activities, such as Starfest, July 4th pavillion rentals, Athletic Association fees, etc.

Health Facilities Development Corporation – Governmental fund which accounts for the accumulation of financial resources for KHFD.

Industrial Development Corporation – Governmental fund which accounts for the accumulation of financial resources for KIDC.

City of Keene, Texas
Notes to the Financial Statements

Measurement Focus/Basis of Accounting

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

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

Major revenue sources susceptible to accrual include sales and property taxes and third party revenues for ambulance services.

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

Cash and cash equivalents

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

Capital assets

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

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

Vehicles	5
Machinery and equipment	5-10
Building improvements	20
Infrastructure	30
Buildings	40

Other Assets

Inventory is stated at cost using the first-in, first-out method. Inventory consists of expendable parts and supplies. Inventories are recorded as expenses when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

City of Keene, Texas

Notes to the Financial Statements

Inter-Fund Activity

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers.

Deferred Outflows and Deferred Inflows of Resources

The statements of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and therefore will not be recognized as an expense until that time. Amounts related to the pension, as described in Note H, have been recorded as a deferred outflow of resources.

The governmental funds balance sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as revenue until that time. Amounts, such as property taxes, received after the sixty day period are not considered available and, therefore, recorded as a deferred inflow of resources.

Long-Term Liabilities

In the government-wide and proprietary fund level financial statements, outstanding debt and other long term obligations including bonds payable, notes payable, capital leases, compensated absences and net pension liability are reported as liabilities with related amortization, interest and changes recorded as expenses.

Compensated Absences

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

Pension Liability

For purposes of measuring the net pension 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 the 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.

Fund Balance

Governmental fund balances are classified as Nonspendable, Restricted, Committed, Assigned and Unassigned. These classifications reflect not only the nature of funds but also provide clarity as to the level of restriction placed upon fund balance.

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

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

City of Keene, Texas
Notes to the Financial Statements

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

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

Unassigned fund balance – Includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Only the General Fund will have unassigned amounts. In all other funds, unassigned is limited to negative residual fund balance.

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

Use of Estimates

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

B. Cash and Cash Equivalents

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

Cash Deposits

At September 30, 2016, the total carrying amounts of the City's deposits including restricted and unrestricted cash and money market accounts were \$3,017,812 and the bank balances were \$3,218,056. While there were days which the bank balance exceeded FDIC coverage during the year, the City's cash deposits at September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City's deposits were covered by FDIC coverage of \$250,000 for each financial institution. The remaining bank balance of \$3,078,585 was covered by collateral of \$4,466,852.

At September 30, 2016, the carrying amount of the component units' deposits was \$607,847 and the bank balance was \$610,529. While there were days which the bank balance exceeded FDIC coverage during the year, the Component Units' cash deposits at September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

City of Keene, Texas
Notes to the Financial Statements

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not exposed to a significant amount of credit risk.

Custodial Credit Risk

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

Concentration of Credit Risk

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

Interest Rate Risk

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

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. Short-term investments are those which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

C. Receivables

Revenue Recognition

The City considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Sales Taxes Receivable

Sales taxes are collected and remitted to the City by the State Comptroller's Office. All sales taxes are collected within sixty days of year end.

Property Taxes Receivable and Deferred Inflows of Resources

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

City of Keene, Texas
Notes to the Financial Statements

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

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

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

Business-type Activities Receivables

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

D. Restricted Assets

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

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents			
Customer deposits	\$ -	\$ 252,450	\$ 252,450
Debt interest and sinking	-	26,913	26,913
Healthcare insurance	68	-	68
Volunteer fire department	625	-	625
Total restricted cash and cash equivalents	\$ 693	\$ 279,363	\$ 280,056

E. Inter-Fund Balances and Activity

Balances due to and from other funds at September 30, 2016 consisted of the following:

Receivable Fund	Payable Fund	Amount
General fund	Type A Economic Development	\$ 359,703
General fund	Type B Business Development	119,809
General fund	Water, Sewer and Sanitation	23,666
		\$ 503,178

City of Keene, Texas
Notes to the Financial Statements

Transfers to and from other funds at September 30, 2016 consisted of the following:

Transfers-in	Transfers-out	Purpose	Amount
General Fund	Debt Service	Debt repayment	\$ 137,771
Other governmental	General fund	Special projects	14,610
General Fund	Other governmental	Special projects	11,998
			<u>\$ 164,379</u>

F. Capital Assets

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

	October 1 as restated	Additions/ Completions	Transfers	Retirements/ Adjustments	Balance September 30
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 1,700,265	\$ -	\$ -	\$ 133,390	\$ 1,566,875
Total capital assets not being depreciated	1,700,265	-	-	133,390	1,566,875
Capital assets being depreciated					
Buildings	1,957,530	12,886	-	-	1,970,416
Machinery and equipment	1,036,173	-	-	25,853	1,010,320
Infrastructure	544,940	-	-	-	544,940
Office furniture and equipment	96,984	-	-	-	96,984
Vehicles	1,701,501	38,436	-	68,928	1,671,009
Total capital assets being depreciated	5,337,128	51,322	-	94,781	5,293,669
Less accumulated depreciation	(3,346,263)	(269,296)	-	(105,554)	(3,510,005)
Total capital assets being depreciated, net	1,990,865	(217,974)	-	(10,773)	1,783,664
Governmental activities capital assets, net	<u>\$ 3,691,130</u>	<u>\$ (217,974)</u>	<u>\$ -</u>	<u>\$ 122,617</u>	<u>\$ 3,350,539</u>

City of Keene, Texas
Notes to the Financial Statements

Capital asset activity in the business-type activities for the year ended September 30, 2016 was as follows:

	Balance October 1, as restated	Additions/ Completions	Transfers	Retirements/ Adjustments	Balance September 30
Business-Type Activities					
Capital assets not being depreciated					
Land	\$ 229,593	\$ -	\$ -	\$ -	\$ 229,593
Construction in progress	-	205,856	-	-	205,856
Total capital assets not being depreciated	229,593	205,856	-	-	435,449
Capital assets being depreciated					
Buildings and improvements	227,900	-	-	-	227,900
Machinery and equipment	240,687	-	-	28,562	212,125
Infrastructure	15,339,491	-	-	-	15,339,491
Office furniture and equipment	19,067	-	-	-	19,067
Vehicles	268,198	-	-	-	268,198
Total capital assets being depreciated	16,095,343	-	-	28,562	16,066,781
Less accumulated depreciation	(9,762,898)	(562,867)	-	(27,535)	(10,298,230)
Total capital assets being depreciated, net	6,332,445	(562,867)	-	1,027	5,768,551
Business-type activities capital assets, net	\$ 6,562,038	\$ (357,011)	\$ -	\$ 1,027	\$ 6,204,000

City of Keene, Texas
Notes to the Financial Statements

Depreciation was charged to functions as follows:

Governmental activities		
General government	\$	11,350
Public safety		68,009
Fire and rescue		77,438
Streets		53,302
Parks and recreation		2,211
Community development		41,863
Economic development		15,123
		269,296
Total depreciation expense - governmental activities	\$	269,296
Business-type activities		
Water	\$	281,434
Sewer		281,433
		562,867
Total depreciation expense - business-type activities	\$	562,867

As noted in the Basis for Qualified Opinion on Governmental Activities paragraph in the audit opinion, the City has not recorded capital assets related to streets, easements, and right-of-ways in governmental activities. The City was under Phase 3 of implementation under GASB 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. Phase 3 governments were encouraged to report infrastructure retroactively, but could elect to report general infrastructure prospectively only. City management is creating a listing of streets, easements, and right-of-ways in order to remedy this issue in future years. Additionally, the City has engaged a consulting firm to assist them with valuation of streets, easements and right-of-ways as of the date of this report.

G. Commitments and Contingencies

Contingencies

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

Litigation

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

City of Keene, Texas
Notes to the Financial Statements

H. Long-Term Obligations

As of September 30, 2016 the City's bonds and notes payable consisted of the following:

<u>Governmental Activities</u>	
Note payable with a financial institution, issued for the purchase of vehicles, due in monthly installments through October 2019, interest rate of 3.875%.	\$ 59,339
Note payable with a financial institution, issued for the purchase of vehicles, due in quarterly installments through July 2022, interest rate of 3.875%.	30,576
Note payable with a financial institution, issued for the purchase of equipment, due in monthly installments through October 2017, interest rate of 3.875%.	19,646
Note payable with a financial institution, issued for the purchase of vehicles, due in quarterly installments through October 2019, interest rate of 3.875%.	68,262
Note payable with a financial institution, issued for the purchase of land, due in quarterly installments through July 2023, interest rate of 4.25% (KBDC).	148,502
Note payable with a financial institution, issued for the purchase of land, due in quarterly installments through April 2017, interest rate of 3.25% (KBDC).	20,537
Note payable with a financial institution, issued for the purchase of land, due in quarterly installments through April 2032, interest rate of 3.25% (KEDC).	240,828
Note payable with a financial institution, issued for the purchase of land, due in quarterly installments through June 2031, interest rate of 4.75% (KEDC).	442,983
	<hr/>
Total - governmental activities	<u>\$ 1,030,673</u>

City of Keene, Texas
Notes to the Financial Statements

Business-Type Activities

2005 Combination Tax and Revenue C.O. bonds, issued for capital improvements, due in annual installments through February 1, 2044, interest rate of 4.125%.	\$ 3,720,000
Total bonds payable	3,720,000
 Note payable, issued for the purchase of equipment, due in quarterly installments through July 2022, interest rate of 3.875%.	 60,691
 Note payable, issued for the purchase of vehicles, due in quarterly installments through July 2019, interest rate of 3.875%.	 33,969
Total notes payable	94,660
Total - business-type activities	\$ 3,814,660

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

	Balance October 1, as restated	Increases	Decreases	Balance September 30	Due Within One Year
Governmental Type Activities					
Notes payable	\$ 1,432,055	\$ -	\$ 401,382	\$ 1,030,673	\$ 151,015
Capital lease payable	16,806	-	16,806	-	-
Compensated absences	331,814	-	168,328	163,486	-
Net pension liability	1,792,061	666,393	-	2,458,454	-
Total governmental activities	\$ 3,572,736	\$ 666,393	\$ 586,516	\$ 3,652,613	\$ 151,015
 Business-Type Activities					
Notes payable	\$ 114,175	-	19,515	\$ 94,660	\$ 19,583
Bond payable	3,790,000	-	70,000	3,720,000	70,000
Compensated absences	20,426	-	2,945	17,481	-
Net pension liability	146,240	75,497	-	221,737	-
Total business-type activities	\$ 4,070,841	\$ 75,497	\$ 92,460	\$ 4,053,878	\$ 89,583

City of Keene, Texas
Notes to the Financial Statements

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

Bonds payable Year Ending September 30	Business-type Activities		
	Principal	Interest	Total
2017	\$ 70,000	\$ 152,006	\$ 222,006
2018	75,000	149,016	224,016
2019	80,000	147,469	227,469
2020	80,000	124,725	204,725
2021	85,000	132,520	217,520
2022-2026	480,000	428,743	908,743
2027-2031	600,000	586,781	1,186,781
2032-2036	725,000	463,031	1,188,031
2037-2041	895,000	295,969	1,190,969
2042-2044	630,000	107,663	737,663
	<u>\$ 3,720,000</u>	<u>\$ 2,587,923</u>	<u>\$ 6,307,923</u>

Notes Payable Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 151,015	\$ 50,952	\$ 201,967
2018	120,856	45,916	166,772
2019	108,548	41,127	149,675
2020	77,018	36,666	113,684
2021	80,312	32,839	113,151
2022-2026	351,824	115,878	467,702
2027-2031	141,100	16,471	157,571
	<u>\$ 1,030,673</u>	<u>\$ 339,849</u>	<u>\$ 1,370,522</u>

Notes Payable Year Ending September 30	Business-type Activities		
	Principal	Interest	Total
2017	\$ 19,583	\$ 4,639	\$ 24,222
2018	20,741	3,480	24,221
2019	21,971	2,250	24,221
2020	10,313	1,275	11,588
2021	11,026	562	11,588
2022	11,026	561	11,587
	<u>\$ 94,660</u>	<u>\$ 12,767</u>	<u>\$ 107,427</u>

City of Keene, Texas
Notes to the Financial Statements

I. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

J. Defined Benefit Pension Plan

Plan Description

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

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

Benefits Provided

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

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

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

Deposit rate	7%
Matching ratio (City to employee)	2 to 1
A member is vested after	5 years
Update service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city are 5 years at 60 years of age, or 20 years at any age.

City of Keene, Texas
Notes to the Financial Statements

Benefits depend upon the sum of the employee’s contributions to the plan, with interest, and City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee’s accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee’s accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee’s salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. The net pension obligation will be liquidated from the General Fund.

Employees Covered By Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	30
Active employees	57
Total	101

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the year ended September 30, 2016. The contribution rates for the City were 14.62% and 14.43% in calendar years 2015 and 2016, respectively. The City’s contributions to TMRS for the year ended September 30, 2016, were \$385,887 and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability was measured as of December 31, 2015 and the Total Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions: Inflation of 2.5% per year, Overall payroll growth of 3.0% per year, and investment rate of return of 6.75%, net of pension plan investment expense, including inflation.

City of Keene, Texas
Notes to the Financial Statements

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

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

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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100%	

City of Keene, Texas
Notes to the Financial Statements

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$ 9,020,694	\$ 6,999,760	\$ 2,020,934
Changes for the year:			
Service cost	404,244	-	404,244
Interest	640,316	-	640,316
Change of benefit terms	-	-	-
Difference between expected and actual experience	90,201	-	90,201
Changes of assumptions	101,103	-	101,103
Contributions - employer	-	386,100	(386,100)
Contributions - employee	-	186,779	(186,779)
Net Investment income	-	10,330	(10,330)
Benefit payments, including refunds of employee contributions	(150,881)	(150,881)	-
Administrative expenses	-	(6,291)	6,291
Other changes	-	(311)	311
Balance at 12/31/2015	<u>\$ 10,105,677</u>	<u>\$ 7,425,486</u>	<u>\$ 2,680,191</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

1% Decrease in Discount rate (5.75%)	Discount rate (6.75%)	1% increase in Discount Rate
\$ 4,383,621	\$ 2,680,191	\$ 1,308,011

Pension Plan Fiduciary Net Position

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

City of Keene, Texas
Notes to the Financial Statements

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

For the year ended September 30, 2016, the city recognized pension expense of \$530,852.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience:	\$ 73,436	\$ -
Change in actuarial assumptions:	78,332	-
Difference between projected and actual investment earnings:	431,905	-
Contributions subsequent to the measurement date:	290,691	-
Total	\$ 874,364	\$ -

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of \$290,691 will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net deferred outflows (inflows) of resources
2017	156,452
2018	156,452
2019	155,884
2020	114,885
2021	-
Total	\$ 583,673

The City also participates in the cost sharing multiple-employer defined group-term life insurance plan operated by the Texas Municipal Retirement System (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 1st of any year to be effective the following January.

City of Keene, Texas
Notes to the Financial Statements

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

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 the adequate resources are available to meet all death benefits payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during the employees' entire careers.

K. Health Care Coverage

During the year ended September 30, 2016, employees of the City were covered by the TML Intergovernmental Employee Benefits Pool (the Plan). The City paid premiums of \$795,437 to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

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

L. Prior Period Adjustment

The City has two component units, KEDC & KBDC, which were included as discretely presented component units as of and for the year ended September 30, 2015. During the year ended September 30, 2016, City management reviewed the relationships between the City and the component units, and determined that these component units should be included as blended component units based on control relationship. Due to this, the City incorporated the component units' historical net position in to the governmental activities of the City as of and for year ended September 30, 2016 and is now showing them as major funds on the governmental fund financial statements. Additionally, capital assets and long-term debt of the component units are now incorporated in the governmental activities on the Statement of Net Position and throughout the related footnotes.

Additionally, during the year ended September 30, 2016, City management reviewed unearned revenue in the general fund of the City, and determined that these amounts should be recorded as revenue rather than unearned revenue and further determined that the revenue should have been recorded in a Special Revenue Fund rather than the General Fund. As a result, the City recorded a prior period adjustment for the balances and reflect the amounts in the Community Activities Fund.

Also, during the year ended September 30, 2016, City management reviewed the net pension liability in the governmental activities of the City, and determined that these amounts were incorrectly recorded in at September 30, 2015. Due to this, the City recorded an additional net pension liability of \$76,399 at September 30, 2015, which was recorded through a prior period adjustment on the current year financial statements.

City of Keene, Texas
Notes to the Financial Statements

See below for details of prior period adjustments to correct errors identified:

	Type A Economic Development Corporation	Type B Business Development Corporation	Non-major Funds
Fund balance, beginning, as originally reported	\$ -	\$ -	\$ -
Component Unit activities	(289,597)	289,863	(2,612)
Community Activities fund	-	-	42,788
Fund balance, beginning, as restated	<u>\$ (289,597)</u>	<u>\$ 289,863</u>	<u>\$ 40,176</u>

	Government-Wide Statements Governmental Activities
Net Position as of September 30, 2015, as previously reported	\$ 553,580
Component Unit activities	1,212,391
Community Activities fund	42,788
Net pension liability	<u>(76,399)</u>
Net position, as of September 30, 2015, as restated	<u>\$ 1,732,360</u>

M. Subsequent Events

The City issued \$5,648,000 in Certificates of Obligation in September 2016 to finance the cost of construction of a new City Hall and community center. The City had no draws on the debt during year ended September 30, 2016. Payment of principal and interest is due in quarterly installments through 2040.

Additionally, the City issued \$2,000,000 in Certificates of Obligation in April 2017 to fund the planning of and actual capital improvements to the water and sewer system and information technology for the City. Payment of principal and interest is due in quarterly installments through 2026.

City of Keene, Texas
Notes to the Financial Statements

N. New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68, and amendments to certain provisions of GASB 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of GASB 67 and GASB 68 for pension plans and pensions that are within their respective scopes. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for financial statements for reporting periods beginning after June 15, 2017.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. This statement is effective for financial statements for reporting periods beginning after December 15, 2015.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is effective for financial statements for reporting periods beginning after December 15, 2015.

In January 2016, GASB issued Statement No. 80: *Blending Requirements for Certain Component Units – on amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

City of Keene, Texas

Notes to the Financial Statements

Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for periods beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82: *Pension Issues – an amendment of GASB Statements No. 67, No.68, and No. 73*. This Statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

The City's management is reviewing the implementation process of these standards by gathering required information.

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Required Supplementary Information

City Of Keene, Texas

Required Supplementary Information
 Schedule of Changes in Net Pension Liability
 and Related Ratios for the Measurement Date
 For the Year Ended December 31, 2015

	<u>2016</u>	<u>2015, as restated</u>
TOTAL PENSION LIABILITY		
Service cost	\$ 404,244	\$ 360,186
Interest	640,316	583,181
Changes of benefit terms	-	-
Difference between expected and actual experience	90,201	6,297
Change of assumptions	101,103	-
Benefit payments, including refunds of employee contributions	(150,881)	(160,059)
Net change in total pension liability	1,084,983	789,605
Total pension liability - beginning	9,020,694	8,231,089
Total pension liability - ending (a)	10,105,677	9,020,694
PLAN FIDUCIARY NET POSITION		
Contributions - employer	386,100	354,901
Contributions - employee	186,779	164,524
Net investment income	10,330	359,633
Benefit payments, including refunds of employee contributions	(150,881)	(160,059)
Administrative expense	(6,291)	(3,754)
Other	(311)	(309)
Net change in plan fiduciary net position	425,726	714,936
Plan fiduciary net position - beginning	6,999,760	6,284,824
Plan fiduciary net position - ending (b)	7,425,486	6,999,760
Net pension liability - ending (a) - (b)	\$ 2,680,191	\$ 2,020,934
Plan fiduciary net position as a percentage of total pension liability	73.48%	77.60%
Covered employee payroll	\$ 2,668,278	\$ 2,350,340
Net pension liability as a percentage of covered employee payroll	100.45%	85.98%

Note: The schedule is intended to show information for ten years. Additional years will be displayed as they become available.

City of Keene, Texas

Required Supplementary Information
Schedule of Contributions

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 392,128	\$ 393,667
Contributions in relation to the actuarially determined contribution	<u>(385,887)</u>	<u>(383,871)</u>
Contribution deficiency (excess)	<u>6,241</u>	<u>9,796</u>
Covered employee payroll	<u>\$ 2,668,278</u>	<u>\$ 2,350,340</u>
Contributions as a percentage of covered employee payroll	15%	17%

Note: The schedule is intended to show information for ten years. Additional years will be displayed as they become available.

City of Keene, Texas

Notes to Required Supplementary Information

Note 1. Schedule of Contributions

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method – Entry Age Normal

Amortization Method – Level Percentage of Payroll, Closed

Remaining Amortization Period – 30 years

Asset Valuation Method – 10 Year smoothed market; 15% soft corridor

Inflation – 2.5%

Salary Increases – 3.50% to 10.50% including inflation

Investment Rate of Return – 6.75%

Retirement Age – Experience-based table of rates that are specific the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014

Mortality – RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

There were no benefit changes during the year.

City of Keene, Texas
 General Fund
 Budgetary Comparison Schedule
 For the Year Ended September 30, 2016

	Budgets		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,954,248	\$ 1,954,248	\$ 1,846,680	\$ (107,568)
Sales taxes	310,000	310,000	347,906	37,906
Franchise taxes	200,000	200,000	206,834	6,834
License and permits	40,000	40,000	26,532	(13,468)
Charges for services	2,707,350	2,707,350	1,336,718	(1,370,632)
Investment earnings	-	-	4,455	4,455
Miscellaneous	136,915	136,915	173,964	37,049
Capital grants and contributions	-	-	4,400	4,400
Operating grants and contributions	-	-	192,998	192,998
Total revenues	<u>5,348,513</u>	<u>5,348,513</u>	<u>4,140,487</u>	<u>(1,208,026)</u>
EXPENDITURES				
General government	1,113,722	1,113,722	368,030	745,692
Public safety	1,881,287	1,881,287	1,943,718	(62,431)
Fire and rescue	1,112,025	1,112,025	1,088,264	23,761
Streets	425,814	425,814	461,768	(35,954)
Parks and recreation	43,304	43,304	40,738	2,566
Municipal court	653,918	653,918	299,466	354,452
Debt service:				-
Principal	114,850	114,850	106,718	8,132
Interest	-	-	9,871	(9,871)
Capital outlay	-	-	12,886	(12,886)
Total expenditures	<u>5,344,920</u>	<u>5,344,920</u>	<u>4,331,459</u>	<u>1,013,461</u>
Excess (deficiency) of revenues				
Over (under) expenditures	3,593	3,593	(190,972)	(194,565)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	23,446	23,446
Transfers in from other funds	-	-	149,769	149,769
Transfers out to other funds	-	-	(14,610)	(14,610)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>158,605</u>	<u>158,605</u>
Change in fund balance	3,593	3,593	(32,367)	(35,960)
Fund balance - beginning of year	1,249,535	1,249,535	1,249,535	-
Fund balance - end of year	<u>\$ 1,253,128</u>	<u>\$ 1,253,128</u>	<u>\$ 1,217,168</u>	<u>\$ (35,960)</u>

City Of Keene, Texas

Notes to Required Supplementary Information

A. General Fund Budgetary Analysis

Budgetary Information

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

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

Combining and Individual Fund Statements

City of Keene, Texas
 Combining Balance Sheet
 Non-Major Governmental Funds
 September 30, 2016

	Community Activities	Health Facilities Development Corporation	Industrial Development Corporation	Total Non-major Funds
ASSETS				
Cash and cash equivalents	\$ 31,950	\$ -	\$ -	\$ 31,950
Total assets	<u>\$ 31,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,950</u>
LIABILITIES	\$ -	\$ -	\$ -	\$ -
FUND BALANCES				
Restricted				
City promotions	31,950	-	-	31,950
Total fund balances	<u>31,950</u>	<u>-</u>	<u>-</u>	<u>31,950</u>
Total liabilities and fund balances	<u>\$ 31,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,950</u>

City of Keene, Texas

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Non-Major Governmental Funds

For the Year Ended September 30, 2016

	Community Activities	Facilities Development Corporation	Industrial Development Corporation	Total Non-major Funds
REVENUES				
Other revenues	\$ 19,262	\$ -	\$ -	\$ 19,262
Total revenues	<u>19,262</u>	<u>-</u>	<u>-</u>	<u>19,262</u>
EXPENDITURES				
Current:				
Community development	30,100	-	-	30,100
Total expenditures	<u>30,100</u>	<u>-</u>	<u>-</u>	<u>30,100</u>
Excess (deficiency) of revenues over (under) expenditures	(10,838)	-	-	(10,838)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	14,610	-	14,610
Transfers out	-	-	(11,998)	(11,998)
Total other financing sources (uses)	<u>-</u>	<u>14,610</u>	<u>(11,998)</u>	<u>2,612</u>
Net change in fund balances	(10,838)	14,610	(11,998)	(8,226)
Restricted fund balances - beginning of year	-	-	-	-
Prior period restatement	<u>42,788</u>	<u>(14,610)</u>	<u>11,998</u>	<u>40,176</u>
Restricted fund balances - beginning of year, as restated	42,788	(14,610)	11,998	40,176
Fund balances - end of year	<u>\$ 31,950</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,950</u>