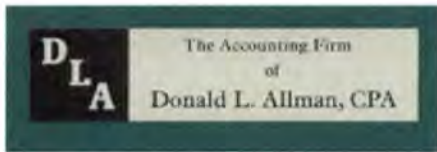


VILLAGE OF SALADO, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

VILLAGE OF SALADO, TEXAS

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Donald Allman, CPA, PC
205 East University Ave., Ste. 165
Georgetown, Texas 78626
Email: dallman@donallmancpa.com

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the Honorable Mayor
And Members of the City Council
Village of Salado, Texas

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 Village of Salado, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the City adopted new accounting guidance, Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and 37-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

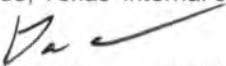
Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017, on our consideration of the Village of Salado, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Salado, Texas' internal control over financial reporting and compliance.



Donald L. Allman, CPA, PC

Georgetown, TX
March 10, 2017

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

Financial Highlights:

- The assets of the Village of Salado exceeded its liabilities as of September 30, 2016, by \$2,851,650 (Net Position). Of this amount, \$728,512 represents unrestricted net assets. Unrestricted net assets may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net position decreased by \$421,908 during the year.
- The General Fund had net income of \$11,754 on the government-wide funds basis.

Overview of Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Village of Salado's basic financial statements. The Village's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes additional supplementary information in addition to the basic financial statements.

Government-wide Financial Statements – The Government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported in net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. This statement combines and consolidates governmental funds current financial resources (short-term spendable resources), capital assets, and long-term liabilities of the Village.

The statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. This, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis of accounting used in prior reporting models.

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Village uses two fund type – governmental and proprietary (business-type).

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources. The governmental fund statements provide a detailed short-term view of the Village's general government operations and help you determine whether resources are available in the near future to finance Village programs. Comparing the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements will help the readers to better understand the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

The Village adopts an annual appropriated budget for its general fund and hotel/motel tax fund. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis:

As noted earlier, net position may serve over time as a useful indicator of the Village's financial position. As of September 30, 2016, the Village's net assets exceeded liabilities by \$2,851,650.

A portion of the Village's net position \$728,512, reflects its unrestricted net assets which are available for spending at the Village's discretion.

Summary of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current Assets	\$ 843,669	\$ 1,115,370	\$ 7,656,971	8,235,978	\$ 8,500,640	\$9,351,348
Capital Assets (Net)	1,202,765	1,165,439	1,917,144	1,421,621	3,119,909	2,587,060
Total Assets	\$ 2,046,434	\$ 2,280,809	\$ 9,574,115	9,657,599	\$ 11,620,549	11,938,408
Deferred Outflows of Resources	27,537	21,801	-	-	27,537	21,801
						-
Short-Term Liabilities	\$ 93,088	\$ 345,789	\$ 365,782	48,464	\$ 458,870	394,253
Long-Term Liabilities	112,134	90,565	8,200,000	8,200,000	8,312,134	8,290,565
Total Liabilities	\$ 205,222	\$ 436,354	\$ 8,565,782	8,248,464	\$ 8,771,004	8,684,818
Deferred Inflows of Resources	25,432	1,833	-	-	25,432	1,833
						-
Net Position:						-
Invested in Capital Assets	\$ 1,202,765	\$ 1,165,439	\$ 920,373	1,421,621	\$ 2,123,138	2,587,060
Restricted	7,724	-	-	-	7,724	-
Unrestricted	632,828	698,984	87,960	(12,486)	720,788	686,498
Total Net Position	\$ 1,843,317	\$ 1,864,423	\$ 1,008,333	1,409,135	\$ 2,851,650	3,273,558

Governmental activities decreased the Village's net position by \$(421,908) in 2016. The following table provides a comparison of the Village's operations for the year ended September 30, 2016 to the year ended September 30, 2015.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Summary of Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Program Revenues:						
Charges for Services	\$ 37,862	\$ 71,228	\$ 39,234	17,033	\$ 77,096	\$ 88,261
General Revenues:	\$ -			-	-	-
Ad Valorem Taxes	354,622	338,596	239,804	-	594,426	338,596
Sales Taxes	374,501	361,538	-	-	374,501	361,538
Franchise Fees	187,822	218,182	-	-	187,822	218,182
Mixed Beverage Taxes	8,585	14,579	-	-	8,585	14,579
Court Fines and fees	26,224	105,177	-	-	26,224	105,177
Occupancy Taxes	-	-	129,427	235,165	129,427	235,165
Investment Earnings	7,419	3,897	43,872	1,967	51,291	5,864
Donations	-	-	-	1,233,506	-	1,233,506
Other Revenues	43,037	9,194	709	1,279	43,746	10,473
Total Revenues	\$ 1,040,072	\$ 1,122,391	\$ 453,046	1,488,950	\$ 1,493,118	\$ 2,611,341
Expenses:						
General Government	\$ 493,934	\$ 544,776	\$ -	-	\$ 493,934	\$ 544,776
Judicial	58,345	41,696	-	-	58,345	41,696
Police	292,629	325,216	-	-	292,629	325,216
Fire Protection & EMS	36,000	36,304	-	-	36,000	36,304
Total Pension Expense	49,514	20,857	-	-	49,514	20,857
Public Works	84,954	76,131	-	-	84,954	76,131
Parks	12,942	14,228	-	-	12,942	14,228
Tourism, Wastewater	-	-	886,708	251,359	886,708	251,359
Total Expenses	\$ 1,028,318	\$ 1,059,208	\$ 886,708	251,359	\$ 1,915,026	\$ 1,310,567
Change in Net Position	\$ 11,754	\$ 63,183	\$ (433,662)	1,237,591	\$ (421,908)	\$ 1,300,774
PP Adjust/Transfer	(32,860)	(291,326)	32,860	171,544	-	(119,782)
Net Position Beginning	\$ 1,864,423	\$ 2,092,566	\$ 1,409,135	-	\$ 3,273,558	\$ 2,092,566
Net Position Ending	\$ 1,843,317	\$ 1,864,423	\$ 1,008,333	1,409,135	\$ 2,851,650	\$ 3,273,558

Financial Analysis of the Government's Funds:

General Fund – The Village utilizes a general fund to account for the basic services provided to citizens by the Village. At September 30, 2016, the Village's general fund reported an ending fund balance of \$1,843,317. Of this balance, \$728,512 constitutes undesignated, unreserved fund balance which is available for spending at the Village's discretion.

During the current year, General Fund balance increased by \$11,754.

Proprietary Fund – The Village collects an occupancy tax equal to 7%, less an administrative fee, of adjusted hotel and motel collections for the purpose of promoting tourism, and has also added a Wastewater Treatment Facility and Chamber of Commerce Fiduciary Fund. At September 30, 2016, the Village's Proprietary fund reported an ending fund balance of \$1,008,333. The Wastewater Treatment Facility was in service as of 9/30/16.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Capital Assets:

The Village's investment in capital assets for its governmental activities as of September 30, 2016 amounts to \$1,202,765 (net of accumulated depreciation) in the general fund and \$1,917,144 in the business-type fund. The investment in capital assets includes infrastructure, equipment, vehicles, land, and buildings. The following table summarizes the Village's investment in fixed assets.

	Governmental Activities
Land	\$ 45,577
Buildings	287,752
Vehicles and Equipment	166,446
Infrastructure	702,990
Total Capital Assets, Net	\$ 1,202,765
	Business-Type Activities
Wastewater Treatment Facility	\$ 1,713,110
Machinery & Equipment	28,460
Bond Issuance Costs	175,574
	1,917,144

During 9/30/16, major asset additions for the Village were to the Wastewater Treatment Facility and Street Improvements and vehicles.

Long-Term Liabilities

For the year ended September 30, 2016 activity related to long-term liabilities is as follows:

	Balance at 9/30/2015	Additions	Retirements	Balance at 9/30/2016
Compensated Absences Payable	\$ 90,565	\$ -	\$ 11,915	\$ 78,650

American National Bank of Texas, Permanent Improvement Bond, \$8,200,000. Payments begin in 2017.

Budget Analysis:

The Village prepares its budgets on the modified accrual of accounting, which is a method of accounting prescribed by generally accepted accounting principles (GAAP). During the current year, the Village had one amendment to each budget to allow for unanticipated expenditures.

The following is a budget to actual comparison for the general fund for the year ended September 30, 2016.

**VILLAGE OF SALADO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
Budget to Actual Variances
For the Year Ended September 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes	\$ 741,200	\$ 741,200	\$ 737,708	\$ (3,492)
Franchise Fees	194,500	194,500	187,822	\$ (6,678)
Fines	58,000	58,000	26,224	(31,776)
Investment Income	3,000	3,000	7,419	4,419
Grant Revenue	-	-	-	-
Other Revenue	60,800	60,800	80,899	20,099
Total Revenue	<u>\$1,057,500</u>	<u>\$ 1,057,500</u>	<u>\$ 1,040,072</u>	<u>\$ (17,428)</u>
<u>Expenditures</u>				
General Government	\$ 465,829	\$ 461,604	\$ 493,934	\$ (32,330)
Judicial	54,990	59,745	58,345	1,400
Public Safety	361,573	361,043	328,629	32,414
Public Works	175,192	175,192	84,954	90,238
Parks	9,370	9,370	12,942	(3,572)
Total Pension Expense			49,514	(49,514)
Tourism	-	-	-	-
Total Expenditures	<u>\$1,066,954</u>	<u>\$ 1,066,954</u>	<u>\$ 1,028,318</u>	<u>\$ 38,636</u>
Excess (Deficiency) of Revenues Over Expenditures:	\$ (9,454)	\$ (9,454)	\$ 11,754	\$ 21,208
Other Financing Sources (Uses):				
Transfers In	\$ -	\$ -	\$ -	\$ -
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ (9,454)	\$ (9,454)	\$ 11,754	\$ 21,208
Transfers			(32,860)	
Fund Balances - Beginning of Year	1,864,423	1,864,423	1,864,423	-
Fund Balances - End of Year	<u>\$1,854,969</u>	<u>\$ 1,854,969</u>	<u>\$ 1,843,317</u>	<u>\$ 21,208</u>

Significant budget to actual variances – The budget for the general fund of the Village experienced expenditures under budget by \$38,636. The actual revenues were under expectations by \$17,428, yielding an overall positive budget variance of \$21,208. Significant items contributing to the variance can be briefly summarized as follows:

- Less than expected fines.
- Less than budgeted public works expenditures.

Economic Factors and Next Year's Budget:

Due to the State acquiring property along Interstate 35, a decrease in businesses in that area is expected; leading to decreased collections from sales tax used for Village operations. Ad valorem tax increased tremendously due to development. Hotel/Motel occupancy tax revenues are expected to remain the same.

There are no major changes expected during the 2015-2016 budget year.

Request for Information:

The financial report is designed to provide our citizens, investors, and creditors with a general overview of the Village's finances. If you have any questions about this report or need any additional information, please contact the Village Secretary Judy King, at P.O. Box 219, Salado, Texas 76571, or call 254-947-5060.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**VILLAGE OF SALADO, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

Primary Government

	Governmental	Business-Type	
<u>ASSETS:</u>	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents	\$ 640,637	\$ 84,823	725,460
Investments	4,165	7,203,229	7,207,394
Intergovernmental & Fiduciary Receivable	142,437		142,437
Receivables	56,430	368,919	425,349
	<hr/>	<hr/>	<hr/>
Total Current Assets	\$ 843,669	\$ 7,656,971	8,500,640
Non-Current Assets:			
Capital Assets:			
Land	\$ 45,577	\$ -	45,577
Infrastructure, Net	702,990	1,713,110	2,416,100
Buildings, Net	287,752	-	287,752
Bond Issuance Costs		175,574	175,574
Machinery and Equipment, Net	166,446	28,460	194,906
	<hr/>	<hr/>	<hr/>
Total Non-Current Assets	\$ 1,202,765	\$ 1,917,144	3,119,909
Total Assets	<hr/> \$ 2,046,434	<hr/> \$ 9,574,115	<hr/> 11,620,549
Deferred Outflows of Resources	27,537		27,537
<u>LIABILITIES:</u>			
Current Liabilities:			
Accounts Payable	\$ 71,652	\$ 213,600	285,252
Intergovernmental Payable	-	142,437	142,437
Other Current Liabilities	23,269	9,745	33,014
Total Current Liabilities	<hr/> \$ 94,921	<hr/> \$ 365,782	<hr/> 460,703
Non Current Liabilities:			
Permanent Improvement Bond, Series 2015	-	8,200,000	8,200,000
Net Pension Liability	33,484		33,484
Compensated Absences Payable	78,650	-	78,650
Total Non-Current Liabilities	<hr/> \$ 112,134	<hr/> \$ 8,200,000	<hr/> 8,312,134
Total Liabilities	<hr/> \$ 207,055	<hr/> \$ 8,565,782	<hr/> 8,772,837
Deferred Inflows of Resources	23,599	-	23,599
<u>NET POSITION</u>			
Invested in Capital Assets	\$ 1,202,765	\$ 920,373	2,123,138
Restricted for: Court Tech & Court Security	\$ 7,724		7,724
Restricted for Bond		-	-
Unrestricted	632,828	87,960	720,788
Total Net Position	<hr/> \$ 1,843,317	<hr/> \$ 1,008,333	<hr/> 2,851,650

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF SALADO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental	Business- Type Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 493,934	\$ 37,862	\$ -	\$ -	\$ (456,072)
Judicial	58,345	26,224	-	-	(32,121)
Police	292,629	-	-	-	(292,629)
Fire Protection	36,000	3,640	-	-	(32,360)
Public Works	84,954	-	-	-	(84,954)
Parks	12,942	6,108	-	-	(6,834)
Total Pension Expense	49,514	-	-	-	(49,514)
Total Primary Government:	\$ 1,028,318	\$ 73,834	\$ -	\$ -	\$ (954,484)
Business-Type Activities:					
Wastewater & Hotel	886,708	39,234			(847,474)
 General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes				\$ 354,622	239,804
Sales Taxes				374,501	
Hotel Occupancy Tax				-	129,427
Franchise Fees				187,822	
Mixed Beverage Taxes				8,585	
Other Income				33,289	709
Investment Earnings				7,419	43,872
Total General Revenues				\$ 966,238	413,812
Change in Net Position				\$ 11,754	(433,662)
Transfers				(32,860)	32,860
Net Position - Beginning				\$ 1,864,423	1,409,135
Net Position - Ending				\$ 1,843,317	1,008,333

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**VILLAGE OF SALADO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016**

	General Fund	Total Governmental Funds
Assets:		
Cash and Cash Equivalents	\$ 640,637	\$ 640,637
Investments	4,165	4,165
Interest Receivable	-	-
Property Taxes Receivable	6,611	6,611
Other Receivables	49,819	49,819
Intergovernmental Receivables	-	-
Due from Business-Type Activities	142,437	142,437
Total Assets	\$ 843,669	\$ 843,669
Liabilities and Fund Balances		
Liabilities:		
Accounts Payable	\$ 52,857	\$ 52,857
Payroll expenses Payable	5,468	5,468
Intergovernmental Payable	-	-
Due to General Fund	-	-
Deferred Revenues	6,611	6,611
Other Current Liabilities	28,152	28,152
Total Liabilities	\$ 93,088	\$ 93,088
Fund Balances:		
Nonspendable		
Restricted	\$ 7,724	\$ 7,724
Committed	-	-
Assigned		
Unassigned	742,857	742,857
Total Fund Balances	\$ 750,581	\$ 750,581
Total Liabilities and Fund Balances	\$ 843,669	\$ 843,669

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SALADO, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

Total Fund Balances - Governmental Funds	\$	750,581
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,592,655 and the accumulated depreciation was \$427,216. The net effect of including the balances for capital assets (net of depreciation) in the governmental activities is to increase net position.	\$	1,202,765
Deferred Outflows of Resources are not recognized in Governmental Funds		27,537
Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. Deferred property taxes not collected within 60 days.	\$	(1,833)
Accounts payable for Capital Outlay items removed from Governmental Funds		-
The Net Pension Liability is not recognized in Governmental Funds accounting	\$	(33,484)
Deferred Inflows of Resources are not recognized in Governmental Funds	\$	(23,599)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and recording the current change in compensated absences payable. The net effect of these reclassifications and recognitions is to decrease net position. Compensated absences	\$	(78,650)
Net Position of Governmental Activities	<u>\$</u>	<u>1,843,317</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SALADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Total Governmental Funds
<u>Revenues</u>		
Taxes:		
Property Taxes	\$ 354,267	\$ 354,267
General Sales and Use Taxes	374,501	374,501
Hotel Occupancy Tax	-	-
Franchise Fees	187,822	187,822
Mixed Beverage Taxes	8,585	8,585
Licenses and Permits	37,862	37,862
Intergovernmental Revenue and Grants	-	-
Charges for Services	9,748	9,748
Fines	26,224	26,224
Investment Earnings	7,419	7,419
Other Revenue	33,289	33,289
Total Revenues	\$ 1,039,717	\$ 1,039,717
<u>Expenditures</u>		
Current:		
General Government	471,866	471,866
Judicial	58,345	58,345
Public Safety:		
Police	271,958	271,958
Fire Protection	36,000	36,000
Public Works	71,583	71,583
Culture and Recreation:		
Parks	5,329	5,329
Capital Outlay:		
Capital Outlay, including from PY AP	404,905	404,905
Total Expenditures	\$ 1,319,986	\$ 1,319,986
Net Changes in Fund Balances	\$ (280,269)	\$ (280,269)
Transfers	(32,860)	(32,860)
Fund Balances - Beginning	\$ 1,063,710	\$ 1,063,710
Fund Balances - Ending	\$ 750,581	\$ 750,581

The accompanying notes are an integral part of these financial statements.

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

Total Net Change in Fund Balances - Governmental Funds \$ (280,269)

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2015 & 2016 capital outlays is to increase net position. \$ 404,905

Total Pension Expense is not included in Governmental Funds (49,514)

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. \$ (63,723)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recording the current change in other receivables. The net effect of these reclassifications and recognitions is to increase (decrease) net position. \$ -

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes not collected \$6,611
Less prior year \$(6,256) 355

Change in Net Position of Governmental Activities \$ 11,754

Village of Salado
Statement of Net Position – Proprietary Funds
For the Year Ended September 30, 2016

	Business-Type Activities Enterprise Fund
Assets	
Current Assets:	
Cash and cash equivalents	\$ 84,823
Investments - Restricted Funds for Construction & Bonds	7,203,229
Accounts receivable	368,919
Total Current Assets	7,656,971
Non-Current Assets:	
Wastewater Treatment Facility, net	1,713,110
Bond Issuance Costs, net	175,574
Machinery & Equipment - Net	28,460
	-
Total Assets	\$ 9,574,115
Liabilities	
Current Liabilities:	
Accounts payable	213,600
Sewer deposits and Trolley reserve	9,745
Intergovernmental payables	142,437
Total Current Liabilities	365,782
Long-term Liabilities	
Permanent Improvement Bond Series 2015	8,200,000
Total Liabilities	8,565,782
Net Position	
Invested in capital assets, net of related debt	920,373
Unrestricted net position	87,960
Total Net Position	1,008,333
Total Liabilities and Net Position	\$ 9,574,115

The accompanying notes are an integral part of these financial statements.

Village of Salado
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
For the Year Ended September 30, 2016

	Business-Type Activities Enterprise Fund
Revenues	
Hotel Occupancy Tax	\$ 129,427
Property Tax	239,804
Monthly service fees	15,918
Tourism Income	23,317
Miscellaneous	709
Total Revenues	409,175
Expenses	
Tourism Overhead	172,900
Easements, ROW, Survey, Clearances	150,436
Special Projects	-
Wastewater expenses	236,137
Festivals and Events	33,469
Depreciation & Amortization	62,062
Total Expenses	655,004
Net Operating Income (Loss)	(245,829)
Non-Operating Revenue and (Expenses)	
Interest expense	(231,705)
Interest income	43,872
Total Non-Operating Revenue and (Expenses)	(187,833)
Net Income (Loss)	(433,662)
Total Net Position, Beginning of Year	1,409,135
Transfers	32,860
Total Net Position, End of Year	\$ 1,008,333

The accompanying notes are an integral part of these financial statements.

Village of Salado
Statement of Cash Flows – Proprietary Funds
For the Year Ended September 30, 2016

	Business-Type Activities Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 83,762
Payments to suppliers	(174,541)
Payments to employees	(101,076)
Net cash provided (used) by operating activities	(191,855)
Cash flows from Capital and Related Financing Activities	
Miscellaneous	(344)
Acquisition of capital assets	(524,381)
Net cash provided (used) by capital and related financing activities	(524,725)
Cash Flows from Investing Activities	
Interest Expense	(231,705)
Interest on investments	43,872
Net cash provided (used) by investing activities	(187,833)
Net Increase (Decrease) in Cash and Cash Equivalents	(904,413)
Cash and Cash Equivalents at Beginning of Year	8,192,465
Cash and Cash Equivalents at End of Year	\$ 7,288,052
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ (245,829)
Adjustment to reconcile operating income to net cash provided by operating activities	
Depreciation & Amortization	62,062
(Increase) decrease in accounts receivable	(325,406)
Increase (decrease) in accounts payable	211,109
Increase (decrease) in accrued liabilities	(10,887)
Increase (decrease) in intergovernmental payables	117,096
Net cash provided (used) by operating activities	\$ (191,855)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Salado, Texas (the “Village”) was incorporated August 12, 2000, and operates as a general law type B municipality. The Village operates under a mayor-aldermen form of government and provides the following services as authorized by its charter: general government, public safety, streets, community development (planning and zoning, licensing, permitting, and inspection), and culture and recreation.

The financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village’s accounting policies are described below:

A. Reporting Entity

The accompanying financial statements comply with the provisions of the GASB statements No. 14 and 39, “The Financial Reporting Entity,” in that the financial statements include all organizations, activities, functions, and component units for which the Village is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization’s governing body and either (1) the Village’s ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the Village. There are no component units which satisfy requirements for blending within the Village’s financial statements or for discreet presentation.

B. Financial Statement Presentation

These financial statements comply with the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments. Certain aspects of the reporting model are as follows:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Village’s overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the Village’s governmental and business type activities.
- Fund financial statements focusing on the major funds.
- Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components-invested in capital assets, net of related debt; restricted; and unrestricted.

These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or invested in capital assets, net of related debt.”

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the Village as a whole. These statements include all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds (if any), even though the latter are excluded from the government-wide financial statements.

D. Measurement focus and basis of accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Taxes, license fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the government.

The Village reports the following major governmental funds:

The **General Fund** is the general operating fund of the Village. It is used to account for all the financial resources of the Village.

The **Proprietary Fund** is used to account for the receipt of occupancy taxes levied by the Village, a Wastewater Treatment Facility, and Chamber of Commerce Fiduciary Funds. The proceeds are used to promote business opportunities, tourism, culture, and recreation within the Village.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement focus and basis of accounting (continued)

Unless otherwise noted, the figures represented in the *Notes to Financial Statements* are for the combined governmental funds.

As a general rule, the effect of the interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first to the extent available.

E. Cash and Temporary Investments

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and time deposits with initial maturities of three months or less.

Investments

Investments maturing within one year of date of purchase are stated at cost. All other investments are stated at fair value, which is based on quoted market prices.

F. Compensated Absences

The Village permits employees to accumulate earned but unused vacation pay benefits. Vacation pay is accrued when incurred in the governmental activities statement of net assets. In addition, sick leave accrued by employees prior to January 31, 2013 will be paid to employees upon separation of service. Sick leave accrued after that date is not subject to accrual. A liability for these amounts is only reported in the fund financial statements if they have matured, for example, as a result of an employee resignation or retirement.

G. Budgets

The Village adopts annual budgets covering its governmental and hotel/motel tax fund operations. The budget is amended as required. The budgets are adopted on the *modified accrual basis* of accounting, a basis consistent with generally accepted accounting principles (GAAP).

For the year ending September 30, 2016, general fund expenditures were more than budgeted in the public works department by \$30,368. General fund revenues were \$17,428 less than budgeted.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. The Village defines capital assets as assets with initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Village has elected, under the provisions of GASB Statement 34, to report infrastructure using the prospective method. General infrastructure assets acquired prior to October 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all streets and other infrastructure assets acquired subsequent to October 1, 2003.

Property, plant, and equipment are depreciated using the straight line method over the following useful lives:

<u>Asset Class</u>	<u>Years</u>
Buildings	20 to 40
Machinery and Equipment	5 to 10
Infrastructure	40

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Pension contributions after measurement date – these contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
- Difference in expected and actual pension experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

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

I. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

J. Net Assets

Net Assets in the government-wide financial statements represent the difference between assets and liabilities. *Net assets invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Village or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

K. Use of Estimates

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

L. Tax Administration

The Village is a general law type B municipality with a maximum tax rate for all purposes of \$0.25 per \$100 assessed valuation. This maximum tax rate is imposed by the Constitution of the State of Texas.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Tax Administration (continued)

All taxes due the City on real or personal property are collected by the Bell County Tax Assessor-Collector and may be paid at any time after the tax rolls have been completed and approved, which is not later than October 1. Current taxes become delinquent on February 1 following the tax year. There are various penalties for delinquent taxes. There are no discounts allowed on taxes. The procedure for collecting delinquent taxes is to refer to a collection attorney after sending delinquent notices. All properties located within the Village limits on January 1 of each year are charged with a special lien in favor of the Village from such date for taxes due thereon.

NOTE 2 – CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents for financial reporting includes funds invested in money market accounts and all certificates of deposit with a maturity of three months or less from the date of purchase. At September 30, 2016, the Village had total cash balances of \$7,932,854 held by six local financial institutions.

Deposits at year-end are representative of the types of deposits maintained by the Village during the year. The Village's deposits at year-end were entirely covered by federal depository insurance or by acceptable pledged collateral held by the Village's agent in the Village's name. During the entire year ending September 30, 2016, the Village's deposits were fully collateralized in accordance with state law.

Deposits in Tex Pool and Tex Pool Prime

Organized in 1989, Tex Pool is the largest and oldest local government investment pool in the State of Texas. Tex Pool currently provides investment services to over 2,000 communities throughout Texas. The State Comptroller of Public Accounts oversees Tex Pool. Federated Investors is the full service provider to the pools, managing the assets, providing Participant Services, and arranging for all custody and other functions in support.

Tex Pool and Tex Pool *Prime* are managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pools seek to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act. Tex Pool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. Tex Pool *Prime* invests in the above plus, commercial paper and certificates of deposits. Tex Pool and Tex Pool *Prime* are each rated AAA by Standard & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pools cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. Tex Pool and Tex Pool *Prime*, like its participants, are governed by the Texas Public Funds Investment Act, and are in full compliance with the Act.

At September 30, 2016 the Village had deposits with Tex Pool in the amount of \$9,155 included in investments in the financial statements. The TexPool assets qualify as Cash and Cash Equivalents under the definition presented.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2 - CASH AND INVESTMENTS (continued)

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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

Custodial Credit Risk for Deposits

State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the Village and held by the Village or its agent. The Village's deposits are not subject to custodial credit risk, as all deposits are insured or covered by pledged securities.

Credit Risk

To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the Village limits investments to Tex Pool and Certificates of Deposit, either insured by the Federal Deposit Insurance Corporation, or its successors or fully collateralized as described above, with maturities not exceeding one year (see "*Custodial Credit Risk for deposits*" above).

Concentration of Credit Risk

To limit the risk of loss attributable to the magnitude of the Village's investment in a single issuer, the Village deposits/investments in only those entities who fully insure such deposits/investments or with Tex Pool, as described above. The Village has no concentration of credit risk as all deposits/investments are either insured or fully collateralized.

Interest Rate Risk

To limit the risk that changes in interest rates will adversely affect the fair value of investments, the Village does not invest in anything with a maturity date exceeding one year.

Foreign Currency Risk for Investments

The Village does not make investments denominated in any foreign currency.

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 – RECEIVABLES

The following is a breakdown of the September 30, 2016, receivables, reported in the government-wide Statement of Net Assets:

Sales Tax Receivable	\$ 26,103
Occupancy Tax Receivable	7,524
Franchise Fees Receivable	14,129
Other Governmental Receivables	895
Grant Proceeds Receivable	354,075
Ad Valorem Taxes Receivable	10,878
Other Amounts Due to Village	11,745
Total Receivables	<u>\$ 425,349</u>

NOTE 4 – CAPITAL ASSETS

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

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Deletions and Adjustment</u>	<u>Balance September 30, 2016</u>
General Fund				
Capital Assets, not Being Depreciated				
Land and Improvements	\$ 45,577	\$ -	\$ -	\$ 45,577
Total Capital Assets not Being Depreciate	<u>\$ 45,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,577</u>
Capital Assets, Being Depreciated				
Building and Improvements	\$ 390,266	\$ -	\$ -	\$ 390,266
Infrastructure	711,208	64,237	-	775,445
Vehicles and Equipment	445,604	36,812	-	482,416
Total Capital Assets Being Depreciated	<u>\$ 1,547,078</u>	<u>\$ 101,049</u>	<u>\$ -</u>	<u>\$ 1,648,127</u>
Less Accumulated Depreciation for:				
Buildings	\$ (93,813)	\$ (8,701)	\$ -	\$ (102,514)
Infrastructure	(50,930)	(21,525)	-	(72,455)
Vehicles and Equipment	(282,473)	(33,497)	-	(315,970)
Total Accumulated Depreciation	<u>\$ (427,216)</u>	<u>\$ (63,723)</u>	<u>\$ -</u>	<u>\$ (490,939)</u>
Total Capital Assets Being Depreciated-N	<u>\$ 1,119,862</u>	<u>\$ 37,326</u>	<u>\$ -</u>	<u>\$ 1,157,188</u>
Total Net Capital Assets	<u>\$ 1,165,439</u>	<u>\$ 37,326</u>	<u>\$ -</u>	<u>\$ 1,202,765</u>

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 4 – CAPITAL ASSETS (continued)

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Deletions and Adjustment s</u>	<u>Balance September 30, 2016</u>
Proprietary Fund				
Intangible assets				
Bond Issuance	\$ 188,115	\$ -	\$ -	\$ 188,115
Amortization		(12,541)		(12,541)
Total Capital Assets not Being Depreciated	\$ 188,115	\$ (12,541)	\$ -	\$ 175,574
Capital Assets, Being Depreciated				
Building and Improvements	\$ -	\$ -	\$ -	\$ -
Infrastructure	1,233,506	524,381	-	1,757,887
Vehicles and Equipment	33,203	-	-	33,203
Total Capital Assets Being Depreciated	\$ 1,266,709	\$ 524,381	\$ -	\$ 1,791,090
Less Accumulated Depreciation for:				
Buildings	\$ -	\$ -	\$ -	\$ -
Infrastructure	-	(44,777)	-	(44,777)
Vehicles and Equipment	-	(4,743)	-	(4,743)
Total Accumulated Depreciation	\$ -	\$ (49,520)	\$ -	\$ (49,520)
Total Capital Assets Being Depreciated-Net	\$ 1,266,709	\$ 474,861	\$ -	\$ 1,741,570
Total Net Capital Assets	\$ 1,454,824	\$ 462,320	\$ -	\$ 1,917,144

Depreciation expense was charged to programs for the year ended September 30, 2016, as follows:

Administration	\$ 22,068
Police	20,671
Parks	7,613
Judicial	-
Public Works	13,371
	<u>\$ 63,723</u>

NOTE 5 – LONG-TERM LIABILITIES

The Village's long-term liabilities consists of an accrual for compensated absences payable. The changes in long-term debt during the year ended September 30, 2016 are as follows:

	<u>Balance 9-30-15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9-30-16</u>
Compensated Absences Payable	\$ 90,565	\$ -	\$ (11,915)	\$ 78,650

American National Bank of Texas-Loan in the amount of \$8,200,000 interest of 2.94% with interest payments due March 1 and September 1 and principal due September 1, principal payments range from \$335,000 to \$560,000.

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 5 – LONG-TERM LIABILITIES (Continued)

	Balance			Balance
	10/1/2015	Increases	Decreases	9/30/2016
Prosperity Bank	\$ 8,200,000	\$ -	\$ -	\$ 8,200,000

American National Bank of Texas-Loan in the amount of \$8,200,000 interest of 2.94% with interest payments due March 1 and September 1 and principal due September 1, principal payer

September 30,	Principal	Interest	Total
2017	335,000	241,080	576,080
2018	345,000	231,080	576,080
2019	355,000	221,080	576,080
2020	365,000	211,080	576,080
2021	375,000	201,080	576,080
2022-2035	6,425,000	1,765,120	8,190,120
totals	8,200,000	2,870,520	11,070,520

NOTE 6 – RESERVATION AND DESIGNATION OF FUND BALANCES AND NET ASSETS

At September 30, 2016, the Village had reserved net assets in the amount of \$7,724. Purposes for the reservation are as follows: Court Technology Fund \$3,057, Court Security Fund \$4,667.

In accordance with GASB 34, net assets reserved for court technology and court security are reported as deferred revenue under the modified accrual basis of accounting therefore, are not included in *Reserved Fund Balance*.

NOTE 7 – PROPERTY TAXES

The Village’s property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the Village. The assessed value at January 1, 2016, upon which the 2016 levy was based, was \$175,088,660. The total levy assessed was \$594,426.

The tax assessment of September 15, 2016 set a tax levy at \$0.3395 per \$100 of assessed valuation at 100 percent of assumed market value. The Village may levy a tax of up to \$0.25 per \$100 of assessed valuation. Taxes are due by January 31 following the October 1 levy date, at which time a lien attaches to the property.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. At September 30, 2016, property taxes receivable are \$10,878.

NOTE 8 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village’s risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. The Village has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

insurance coverage for any of the last three years. The participation of the Village in TML is limited to payment of premiums. During the year ended September 30, 2016, the Village paid premiums of approximately \$20,104 for provisions of various liability, property, and casualty insurance. The Village has various deductible amounts ranging from \$250 to \$10,000 on various policy cover ages. At year-end, the Village did not have any significant claims outstanding.

The Village also provides workers compensation insurance on its employees through TML. The workers compensation premiums for the year ended September 30, 2015, were approximately \$20,469. Workers compensation is subject to change when audited by TML. At year end September 30, 2016, the Village believed the amounts paid on workers compensation would not change significantly from the amounts recorded.

NOTE 9 – COMMITMENTS & CONTINGENCIES

Fire Department

The Village is under contract with the Salado Volunteer Fire Department. The contract states that the Fire Department agrees to provide fire protection and emergency services to the Village and its citizens on a 24-hour emergency response and on call basis during the term of the agreement. For consideration of the services, the Village agrees to pay the Fire Department an annual fee of \$36,000. The term of this agreement is on year, commencing November 1, 2015, and ending October 31, 2016.

NOTE 10 – PENSION PLAN

Plan Description

The Village of Salado participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act)

NOTE 10 – PENSION PLAN (continued)

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 report (CAFR) that can be obtained at www.tmr.com.

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

B. Benefits Provided

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

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

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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	4
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>14</u>
Total	28

C. Contributions

The contribution rate for the employees in TMRS is 5%, 6% and 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 annually determined 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 Village of Salado were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for Village of Salado were 5% and 5% in calendar years 2014 and 2015 respectively. The city's contributions to TMRS for the year ended September 30, 2016 were \$42,005, and were in excess of the required contributions.

D. Net Pension Liability

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

NOTE 10 – PENSION PLAN (continued)

Actuarial assumptions:

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

Inflation 2.5% per year

Overall payroll growth 3.5% to 10.5% per year

Investment Rate of Return 6.75% net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

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

Asset class	Target allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that 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.

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

Village of Salado		
Schedule of Changes in Net Pension Liability and Related Ratios Current Period		
September 30, 2016		
A.	Total pension liability	
	1. Service Cost	\$ 69,752
	2. Interest (on the Total Pension Liability)	32,388
	3. Changes of benefit terms	-
	4. Difference between expected andn actual experience	(7,357)
	5. Changes of assumptions	8,810
	6. Benefit payments, including refunds of employee contributions	(9,029)
	7. Net change in total pension liability	\$ 94,564
	8. Total pension liability - beginning	432,329
	9. Total pension liability - ending	<u>\$526,893</u>
B.	Plan fiduciary net position	
	1. Contributions - employer	\$ 42,005
	2. Contributions - employee	29,707
	3. Net investment income	635
	4. Benefit payments, including refunds of employee contributions	(9,029)
	5. Administrative Expense	(387)
	6. Other	(18)
	7. Net change in plan fiduciary net position	\$ 62,913
	8. Plan fiduciary net position - beginning	430,496
	9. Plan fiduciary net position - ending	<u>\$493,409</u>
C.	Net pension liability [A.9-B.9]	<u>\$ 33,484</u>
D.	Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]	93.65%
E.	Covered-employee payroll	\$ 594,141
F.	Net pension liability as a percentage of covered employee payroll [C / E]	5.64%

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 (7.75%)
City's net pension liability	\$115,758	\$33,484	\$(33,733)

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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

VILLAGE OF SALADO		
SCHEDULE OF PENSION EXPENSE		
SEPTEMBER 30, 2016		
1.	Total Service Cost	\$ 69,752
2.	Interest on the Total Pension Liability	32,388
3.	Current Period Benefit Changes	-
4.	Employee Contributions (Reduction of Expense)	(29,707)
5.	Projected Earnings on Plan Investments (Reduction of Expense)	(30,135)
6.	Administrative Expense	387
7.	Other Changes in Fiduciary Net Position	19
8.	Recognition of Current Year Outflow (Inflow) of Resources - Liabilities	233
9.	Recognition of Current Year Outflow (Inflow) of Resources - Assets	5,900
10.	Amortization of Prior Year Outflows (Inflows) of Resources - Liabilities	(299)
11.	Amortization of Prior Year Outflows (Inflows) of Resources - Assets	976
12.	Total Pension Expense	<u>\$ 49,514</u>

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 10 – PENSION PLAN (continued)

VILLAGE OF SALADO				
SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE				
SEPTEMBER 30, 2016				
	Recognition		2015	
	Period (or	Total (Inflow)	Recognized	Deferred
	amortization	or Outflow of	in current	(Inflow) Outflow
	yrs)	Resources	pension expense	in future expense
Due to Liabilities:				
Difference in expected and actual experience [actuarial (gains) or losses]	6.2200	\$ (7,357)	\$ (1,183)	\$ (6,174)
Difference in assumption changes [actuarial (gains) or losses]	6.2200	\$ 8,810	\$ 1,416	\$ 7,394
			<u>\$ 233</u>	<u>\$ 1,220</u>
Due to Assets:				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$ 29,499	\$ 5,900	\$ 23,599
			<u>\$ 976</u>	<u>\$ 23,599</u>
Total:				<u>\$ 24,819</u>
Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:				
	Net deferred			
	outflows			
	(inflows) of			
	resources			
July 8, 1905	\$ 6,810			
July 9, 1905	6,810			
July 10, 1905	6,835			
July 11, 1905	6,132			
July 12, 1905	233			
Thereafter	55			
Total	\$ 26,875			

**VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

NOTE 10 – PENSION PLAN (continued)

Supplemental Death Benefits Fund

The Village also participates in the cost-sharing multiple-employer defined benefit 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 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is on "other postemployment 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 that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during the employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$7500, \$7500, and \$7500 respectively, which equaled the required contributions each year.

TMRS records indicate the following percentages contributed by the City (as employer contributions) for the following fiscal years ending:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.01%	0.01%	100%
2014	0.01%	0.01%	100%
2015	0.03%	0.03%	100%
2016	0.02%	(city to provide)	(city to provide)
2017	0.02%	(city to provide)	(city to provide)

VILLAGE OF SALADO, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Note 11 – Subsequent Events

On July 2, 2015, the U. S. Department of Commerce approved the application for a \$1,000,000 EDA Grant. As of September 30, 2016, \$996,771 had been spent and capitalized as construction in progress. As of March 10, 2017 up to the completion date of audit fieldwork, approximately another \$185K had been expended from this grant. The estimated period of completion for this grant is 60 months.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF SALADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP BASIS)</u>	
Revenues:				
Taxes				
Ad Valorem Taxes	\$ 358,000	\$ 358,000	\$ 354,622	\$ (3,378)
General Sales and Use Taxes	375,000	375,000	374,501	(499)
Franchise Fees	194,500	194,500	187,822	(6,678)
Mixed Beverage Tax	8,200	8,200	8,585	385
Licenses and Permits	15,800	15,800	37,862	22,062
Intergovernmental Revenue & Grants	-	-	931	931
Charges for Services	9,500	9,500	9,748	248
Fines	64,000	64,000	26,224	(37,776)
Investment Earnings	3,000	3,000	7,419	4,419
Other Revenue	29,500	29,500	33,289	3,789
Total Revenues	<u>\$ 1,057,500</u>	<u>\$ 1,057,500</u>	<u>\$ 1,041,003</u>	<u>\$ (16,497)</u>
Expenditures:				
General Government	\$ 504,771	\$ 507,581	\$ 471,866	\$ 35,715
Judicial	54,990	59,745	58,345	1,400
Police	325,073	324,543	271,958	52,585
Fire Protection	36,500	36,500	36,000	500
Public Works	48,250	41,215	71,583	(30,368)
Capital Outlay	88,000	88,000	404,905	(316,905)
Parks	9,370	9,370	6,615	2,755
Total Expenditures	<u>\$ 1,066,954</u>	<u>\$ 1,066,954</u>	<u>\$ 1,321,272</u>	<u>\$ (254,318)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (9,454)</u>	<u>\$ (9,454)</u>	<u>\$ (280,269)</u>	<u>\$ (270,815)</u>

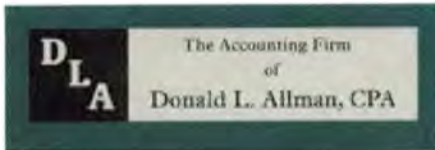
VILLAGE OF SALADO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – PROPRIETARY FUND
SEPTEMBER 30, 2016

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts	Final Budget
			(GAAP	Positive
			BASIS)	(Negative)
Revenues:				
Property Tax			239,804	
Occupancy Tax	\$ 180,000	\$ 180,000	\$ 129,427	\$ (50,573)
Interest Income	500	500	43,872	43,372
Festival Events	148,010	148,910	39,937	
Other Revenue	53,860	49,360	-	(49,360)
Total Revenues	<u>\$ 382,370</u>	<u>\$ 378,770</u>	<u>\$ 453,040</u>	<u>\$ (56,561)</u>
Expenditures:				
Overhead	\$ 199,015	\$ 193,699	\$ 172,900	\$ 20,799
Festival Events	21,500	19,500	33,469	(13,969)
Wastewater expenses	145,555	135,375	236,130	(100,755)
Special Projects	-	-	-	-
Chamber Fiduciary Expense	107,310	113,505	-	113,505
Way Finding Signage	-	-	-	-
Interest Expense	500	500	231,705	(231,205)
Easements, ROW, Survey, Clearance			150,436	
Depreciation & Amortization	-	-	62,062	(62,062)
Salado Swirl, Salado on the Rocks	-	-	-	-
Total Expenditures	<u>\$ 473,880</u>	<u>\$ 462,579</u>	<u>\$ 886,702</u>	<u>\$ (424,123)</u>
Excess (Deficiency) of				
Revenues Over (Under)				
Expenditures	<u>\$ (91,510)</u>	<u>\$ (83,809)</u>	<u>\$ (433,662)</u>	<u>\$ (349,853)</u>

Village of Salado				
Schedule of Changes in Net Pension Liability and Related Ratios				
Last ten years (will ultimately be displayed)				
Total pension liability	2014	2015	####	####
1. Service Cost	\$ 37,674	69,752	xxxx	xxxx
2. Interest (on the Total Pension Liability)	27,570	32,388	xxxx	xxxx
3. Changes of benefit terms	-	-		
4. Difference between expected and actual experience	(1,471)	(7,357)	xxxx	xxxx
5. Changes of assumptions	-	8,810		
6. Benefit payments, including refunds of employee contributions	(12,929)	(9,029)	xxxx	xxxx
7. Net change in total pension liability	\$ 50,844	94,564	xxxx	xxxx
8. Total pension liability - beginning	381,485	432,329	xxxx	xxxx
9. Total pension liability - ending	\$ 432,329	526,893	xxxx	xxxx
Plan fiduciary net position				
1. Contributions - employer	\$ 21,261	42,005	xxxx	xxxx
2. Contributions - employee	18,572	29,707	xxxx	xxxx
3. Net investment income	21,858	635	xxxx	xxxx
4. Benefit payments, including refunds of employee contributions	(12,929)	(9,029)	xxxx	xxxx
5. Administrative Expense	(228)	(387)	xxxx	xxxx
6. Other	(19)	(18)	xxxx	xxxx
7. Net change in plan fiduciary net position	\$ 48,515	62,913	xxxx	xxxx
8. Plan fiduciary net position - beginning	381,981	430,496	xxxx	xxxx
9. Plan fiduciary net position - ending	\$ 430,496	493,409	xxxx	xxxx
Net pension liability [A.9-B.9]	\$ 1,833	33,484	xxxx	xxxx
Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]	99.58%	93.65%	xxx	xxx
Covered-employee payroll	\$ 371,441	\$ 594,141	xxx	xxx
Net pension liability as a percentage of covered employee payroll [C / E]	0.49%	5.64%	xxxx	xxx

Village of Salado					
Schedule of Contributions					
Last 10 Fiscal Years (will ultimately be displayed)					
September 30, 2016					
	2014	2015	2016	2017	
Actually Determined Contribution	\$ 432,329	\$ 526,893	\$ xxx,xxx	\$ xxx,xxx	
Contributions in relation to the actuarially determined contribution	<u>430,496</u>	<u>493,409</u>	<u>xxx,xxx</u>	<u>xxx,xxx</u>	
	-		xxx,xxx	xxx,xxx	
Contribution deficiency (excess)	1,833	33,484	xxx,xxx	xxx,xxx	
Covered employee payroll	\$ 371,441	\$ 594,141	\$ xxx,xxx	\$ xxx,xxx	
Contributions as a percentage of covered employee payroll	0.49%	5.64%	xx.xx%	xx.xx%	
Noes to Schedule of Contributions					
Valuation Date determined	12/31/2015				
Notes					
Valuation Date:					
Notes	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	28 Years				
Asset Valuation Method	10 Year Smoothed Market 15% Soft Corridor				
Inflation	2.5%				
Salary Increases	3.50% to 10.5% Including Inflation				
Investment Rate of Return	6.75%				
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014				
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB				
Other Information:					
Notes	There were no benefit changes during the year.				

INTERNAL CONTROL AND COMPLIANCE



Donald L. Allman, CPA, PC
205 East University Ave., Ste. 165
Georgetown, Texas 78626
Email: dallman@donallmancpa.com

CERTIFIED PUBLIC ACCOUNTANT

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

To the Honorable Mayor and
Members of the City Council
Village of Salado, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Salado, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Village of Salado, Texas' basic financial statements, and have issued our report thereon dated March 10, 2017.

Internal Control Over Financial Reporting

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

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

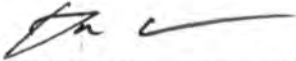
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



Donald. L. Allman, CPA, PC
Georgetown, TX

March 10, 2017