

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

YEARS ENDED DECEMBER 31, 2016 and 2015

**HAASS, LINDOW & CAMPSEY**

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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# FLORESVILLE ELECTRIC LIGHT & POWER SYSTEM

## REPORT OF MANAGEMENT

The Board of Trustees are responsible for the audited financial statements but has delegated responsibility for the preparation to Management.

The audited financial statements included in this audit were prepared by Management in conformity with generally accepted accounting principles and the statements are presented fairly in all material respects. Management has prepared accompanying financial information presented in the audit and has ensured it is consistent with information in the audited financial statements.

Floresville Electric Light & Power System (THE SYSTEM) reviews and provides multiple control structures designed to provide reasonable assurance that the financial information is reliable, accurate and assets are appropriately accounted for and adequately safeguarded. To further ensure the safeguards, THE SYSTEM has several Board of Trustee Briefings each year.

The Board Audit Committee meets annually with Management and the external auditors to review the audit and financial procedures. This committee also ensures that Management fulfills its responsibilities for the supplementary information as presented in the Management Discussion and Analysis and other financial reports. THE SYSTEM'S external auditors, Haass, Lindow & Campsey, P.C., were given full and free access to the records through THE SYSTEM Management to perform the audit.

The Board of Trustees is responsible for reviewing and approving the audited financial statements.

Dwain Duke  
General Manager

Marcy Jacobs  
Executive Manager of Business Operations

December 31, 2016

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

The Management Discussion and Analysis (MD&A) serves as an introduction to the financial statements of Floresville Electric Light and Power System (FELPS). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the year ending December 31, 2016. It also provides an overview of FELPS general financial condition and results of operations for the year ending December 31, 2016. This MD&A is in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

### **The audited financial statements presented this year include the following:**

The *Statements of Net Position* present FELPS' assets and liabilities for the current and prior year. Assets are reported as current and restricted. Restricted assets include cash, cash equivalents, and investments. These assets are classified as restricted due to State Law and Bond Ordinances. Additionally, receivables, inventories, prepayments, and net capital assets are itemized. Liabilities are segregated into current and non-current to illustrate the long-term nature of net debt. Fund net position, or the difference between the total assets and total liabilities, are reported. The fund net position are classified as net investment in capital assets (net of related debt), restricted and unrestricted which is available for operations.

The *Statements of Revenues, Expenses and Changes in Fund Net Position* include all current and prior year revenues and expenses. This statement identifies, for the current and prior year, the amount of revenue generated from existing energy sales to cover operating expenses for the year, with operating expenses shown by major cost categories. Remaining revenue is available to pay for disbursements according to the flow of funds, as stated in the Bond Ordinance. These statements provide information on the credit worthiness of the utility system as a whole.

The *Statements of Cash Flows* presents two years of cash activity. The statement is prepared using the direct method, in accordance with GASB 34, which reports cash receipts and payments along with a reconciliation of operating income to net cash provided by the operating activities. Categories of cash flows presented are cash flows from operating activities, non-capital financing activities, capital and related financing activities, and allowed investment processes. The changes in cash balances during the two years shown are an important indicator of FELPS' liquidity and financial condition. The flow of funds of the System, as stated in the Bond Ordinance, requires gross revenues of the System be applied in sequence: (1) to the payment of current Maintenance and Operation Expenses, (2) to the payment of all Parity Bonds, including the establishment and maintenance of the reserve fund portion of the Retirement Account or repayment of any Reserve Fund surety policy, (3) to the payment and security of obligations hereinafter issued which are inferior in lien to the Parity Bonds, (4) to the Repair and Replacement Account, (5) to the payment of the annual amount due to the Participating Cities, and (6) for any purpose authorized by law for the benefit of the System.

GASB 33, *Accounting and Financial Reporting for Nonexchange Transaction*, requires governments to recognize capital contributions to enterprise funds as revenues, not contributed capital. This revenue is shown on the Statements of Revenues, Expenses, and Changes in Fund Net position.

Another important aspect of the financial reporting involves the statements of net position presentation. Essentially, the utility system's equity is categorized as fund net position. The change due to GASB 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, were recognized in 2015. At year-end 2016, this amounted to \$35,379,810 as compared with \$32,318,475 for December 31, 2015. The statements of net position focuses further on asset liquidity.

Following are other analysis and explanations of the transactions, activities and events that had a major impact on either the fund net position or the change in fund net position for 2016. This discussion will compare results to the prior year.

## **Major Transactions and Events:**

FELPS, during its history, has shown steady growth. When the system was purchased from CPS Energy (CPSE) in 1942, by the cities of Floresville, Stockdale and Poth, the utility had 802 customers compared with an average of 15,368 at the end of 2016.

FELPS does not plan on issuing or refunding any Bonds in 2017.

FELPS earned an A+ rating from Standard & Poor's and an AA- rating from Fitch on the 2015 Refunding Bond Issue. Standard & Poor's stated FELPS has solid historical financial performances. Fitch views the strengthening of utility practices as a positive credit factor. Both entities also cited a favorable purchase power contract as a credit positive. Other strengths include strong management that emphasizes extensive planning.

CPS Energy, with an industry leading credit rating, continues to serve as FELPS' wholesale power supplier. CPS Energy continues to diversify the fuel mix with traditional and renewable fuel sources. CPS Energy uses the output from two units of the South Texas Project (STP) nuclear power plant near Bay City, Texas, as well as output from natural gas and coal-fired plants. During 2016, CPS Energy continued to increase their renewable generation capacity, securing their position as a leader in Texas renewable generation. CPS Energy also continued projects to increase energy efficiency and reduce pollution emissions. This diverse mix of generation fuels and efficiency help keep the electric bills the lowest among the nation's largest cities, which allow FELPS to keep electric retail bills low.

FELPS' new Wholesale Power Agreement with CPS Energy began January 1, 2016. During 2016, FELPS renegotiated the agreement to include a cost reduction and an extension of the terms through December 31, 2025.

FELPS is allowed by the System Agreement and based on FELPS Board authorization, to transfer up to three percent of the system's gross electric sales revenue to the owner cities – Floresville, Stockdale and Poth. According to the franchise agreements, FELPS transfers two and a half percent of gross electric sales within the city limits of La Vernia and two percent within the city limits of Falls City to those two cities. During 2016, these distributions were made.

FELPS maintains ongoing training and development of staff with participation in outside organizations related to FELPS' engineering, operational and financial functions. Board of Trustee Members attend periodic work sessions to help them make informed decision. FELPS has implemented enhanced and regular key staff meetings to disseminate information and obtain vital feedback. Customers are continually provided timely information through bill mailings and other forums.

FELPS is meeting all legal and environmental standards. FELPS continues to work with the American Public Power Association and the Texas Public Power Association to ensure the best interests of the system.

Management and the Board reviews all budgets on an ongoing basis and annually updates forecasts with new financial analysis from actual experience. FELPS financial planning window extends through 2025 and remains on track with its long-range forecast and plans.

The Board of Trustees and Management team continue to work well together and there is a good working relationship with the Owner and Franchise cities. FELPS is well positioned to provide quality service to meet growth requirements, as well as provide competitive service to the customers. FELPS also supports the youth in the community through donations for scholarships, stock shows and various other youth activities.

## **Comparison of 12 Months Ended December 2016 and 2015**

Operating revenues from electric sales for year 2016 totaled \$38,465,435, a 5.1 percent increase from the previous year. This overall increase in revenue is attributed to the additional fuel and regulatory charges for 2016. During the year the number of customers increased by 151 to a year-end average of 15,368; representing a 1 percent increase.

The Total Purchased Power Cost was \$25,745,493 or approximately 4.4 percent higher than the comparable amount for 2015. This increase was due to the higher fuel and regulatory charges in 2016. The fuel component of the purchased power cost is passed through to the customers in the form of a charge as stated in the FELPS rate tariffs.

FELPS' operating and maintenance expenses, other than Purchased Power Costs, amounted to \$10,399,367, which was 4.8 percent lower as compared to the previous year. Total depreciation expense amounted to \$3,085,278, which was \$146,600 or 5.0% greater than 2015. This increase reflects the distribution plant additions.

FELPS makes payments to the cities of Floresville, Stockdale and Poth based on a percentage of the prior year's gross electric sales revenue. FELPS, once again, has met the owner cities distribution transfer at the maximum bond ordinance level of three percent. The amount distributed in 2016 totaled \$1,097,519, which decreased by 5.6 percent over last year, reflecting the decreased revenue from 2015. Of this total, Floresville received \$702,413 and Poth and Stockdale each received \$197,553.

Income before contributions was \$3,741,693 in 2016 as compared to \$2,332,035 in 2015. This increase of \$1,409,658 or 60% was primarily due to the increase in rate revenue and other income.

Total assets at December 31, 2016 amounted to \$79,707,691; an increase of \$2,861,102. The increase from the prior year is mostly due to an increase in capital plant additions but is offset by a decrease in the Construction Fund. Bonds proceeds from the 2015 Bond Issue were spent during 2016.

For the year ended December 31, 2016 cash and bond funds used for capital expenditures amounted to \$5,115,358 compared with \$5,310,251 in 2015, a decrease of 3.7%. As of December 31, 2016, FELPS had approximately \$1.7 million of bond proceeds available for eligible capital projects in 2017. Capital expenditures are funded with a mixture of bond funds and cash reserves. FELPS continues to implement strategic initiatives and cost-containment efforts to provide effective, reliable and cost-efficient electricity. Major projects included in the capital expenditures for 2016 were investments in replacing rotten poles throughout the distribution system. In order to continue to upgrade the vehicle fleet, eight pickup trucks were purchased. FELPS constructed distribution lines to newly developed service areas. FELPS updated the company logo and rolled that into a refresh of the company website. The GIS/mapping program continues to be integrated with the customer data, including the upgrade of the outage system. Many other small capital projects were completed during 2016. Computer hardware, software and equipment continue to be upgraded as needed. Major projects expected in 2017 include the testing and replacing of rotten poles, replacing a power transformer at the Floresville substation, phase one of an Advanced Metering Infrastructure, installation of a network domain and the office building renovation project. Also budgeted for 2017 is the replacement of a construction bucket truck. FELPS continues to optimize the level of permanent staff size with the use of unique outside professional services and contractors.

For more information, contact Dwain Duke, General Manager at (830) 216-7000, ext 257 or Marcy Jacobs, Executive Manager, Business Operations at ext 261. FELPS' mailing address is P O Box 218, Floresville, TX 78114.

### SUMMARY OF BALANCE SHEET INFORMATION

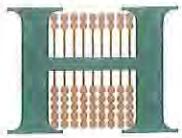
	December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Assets</u>			
Current and other assets	\$ 28,565,472	\$ 28,081,815	\$ 31,078,132
Capital assets, net	50,325,967	48,574,582	45,725,348
Deferred outflows of resources	<u>816,252</u>	<u>190,192</u>	-
Total Assets	<u>\$ 79,707,691</u>	<u>\$ 76,846,589</u>	<u>\$ 76,803,480</u>
<u>Liabilities</u>			
Current liabilities	\$ 5,365,074	\$ 4,886,565	\$ 5,917,626
Noncurrent liabilities	<u>38,962,807</u>	<u>39,641,549</u>	<u>40,712,535</u>
Total Liabilities	<u>44,327,881</u>	<u>44,528,114</u>	<u>46,630,161</u>
<u>Net Position</u>			
Net investment in capital assets	22,472,228	19,142,373	14,861,738
Restricted for bond retirement and repair and replacement-expendable	1,677,706	2,144,771	1,883,514
Restricted for bond reserve and construction fund	5,969,378	7,295,582	10,284,463
Unrestricted	<u>5,260,498</u>	<u>3,735,749</u>	<u>3,143,604</u>
Fund Net Assets	<u>35,379,810</u>	<u>32,318,475</u>	<u>30,173,319</u>
	<u>\$ 79,707,691</u>	<u>\$ 76,846,589</u>	<u>\$ 76,803,480</u>

### SUMMARY OF CAPITAL ASSETS, NET OF DEPRECIATION INFORMATION (Dollars in Thousands)

	December 31,			Change		2015 vs. 2014	
	<u>2016</u>	<u>2015</u>	<u>2014</u>	2016 vs. 2015	%	2015	%
Electric Plant Distribution	\$ 88,455	\$ 84,198	\$ 79,100	\$ 4,257	5.1%	\$ 5,098	6.4%
Land, Buildings & Improvements	1,999	1,980	1,924	19	1.0%	56	2.9%
Automobiles & Trucks	4,068	4,113	4,019	(45)	-1.1%	94	2.3%
Office & Computer Equipment	1,214	1,140	1,592	74	6.5%	(452)	-28.4%
Large Tools	549	542	533	7	1.3%	9	1.7%
Capital Assets, Net of Depreciation	<u>\$ 96,285</u>	<u>\$ 91,973</u>	<u>\$ 87,168</u>	<u>\$ 4,312</u>		<u>\$ 4,805</u>	

**SUMMARY OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION INFORMATION**

	Years Ended December 31,			2016 vs. 2015	Change	2015 vs. 2014
	<u>2016</u>	<u>2015</u>	<u>2014</u>			
<b>Revenue:</b>						
Utility operating, net of Purchased Power	\$12,719,942	\$11,921,452	\$12,413,747	\$ 798,490	6.7%	\$ (492,295) -3.97%
Other income, net	1,421,118	1,336,212	1,125,957	84,906	6.4%	210,255 18.67%
<b>Total Revenue</b>	<b>14,141,060</b>	<b>13,257,664</b>	<b>13,539,704</b>	<b>883,396</b>	<b>6.7%</b>	<b>(282,040)</b> <b>-2.08%</b>
<b>Expenses:</b>						
Depreciation	3,085,278	2,938,678	2,756,092	146,600	5.0%	182,586 6.62%
Operating and maintenance	2,753,212	3,193,640	1,308,616	(440,428)	-13.8%	1,885,024 144.05%
Transmission	1,448	4,947	4,912	(3,499)	-70.7%	35 0.71%
Non-productive labor	-	-	934,753	-	0.0%	(934,753) -100.00%
Meter reading, accounting & collecting	2,356,874	2,456,689	1,805,435	(99,815)	-4.1%	651,254 36.07%
Administrative	1,239,717	1,320,318	1,792,975	(80,601)	-6.1%	(472,657) -26.36%
Interest on bonded debt	962,838	1,011,357	1,057,894	(48,519)	-4.8%	(46,537) -4.40%
<b>Total Expenses</b>	<b>10,399,367</b>	<b>10,925,629</b>	<b>9,660,677</b>	<b>(526,262)</b>	<b>-4.8%</b>	<b>1,264,952</b> <b>13.09%</b>
<b>Income Before Contributions</b>	<b>3,741,693</b>	<b>2,332,035</b>	<b>3,879,027</b>	<b>1,409,658</b>	<b>60.4%</b>	<b>(1,546,992)</b> <b>-39.88%</b>
Contributions in Aid of Construction	417,161	975,356	1,850,306	(558,195)	-57.2%	(874,950) -47.29%
<b>Change in Fund Net Position</b>	<b>4,158,854</b>	<b>3,307,391</b>	<b>5,729,333</b>	<b>851,463</b>	<b>25.7%</b>	<b>(2,421,942)</b> <b>-42.27%</b>
Payments to the cities of Flo, S'dale, Poth	(1,097,519)	(1,162,235)	(935,232)	64,716	-5.6%	(227,003) 24.27%
Effect of defined benefit funding obligation	-	-	(11,378,925)	-	0.0%	11,378,925 -
<b>Fund Net Position-Beginning</b>	<b>32,318,475</b>	<b>30,173,319</b>	<b>36,758,143</b>	<b>2,145,156</b>	<b>7.1%</b>	<b>(6,584,824)</b> <b>-17.91%</b>
<b>Fund Net Position-Ending</b>	<b>\$35,379,810</b>	<b>\$32,318,475</b>	<b>\$30,173,319</b>	<b>\$ 3,061,335</b>	<b>9.5%</b>	<b>\$ 2,145,156</b> <b>7.11%</b>



# HAASS, LINDOW & CAMPSEY

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

To the Board of Trustees  
City of Floresville Electric Light  
and Power System  
Floresville, Texas

### Report on the Financial Statements

We have audited the financial statements of the business-type activities, of City of Floresville Electric Light and Power System (FELPS), a component unit of the City of Floresville, Texas as of December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City of Floresville Electric Light and Power System (FELPS) as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FELPS 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 FELPS 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 opinion.

**Lawrence Haass, CPA • Bruce L. Lindow, CPA • Arthur Campsey, Jr., CPA**

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## **Opinion**

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of FELPS as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 of the notes to the financial statements, FELPS adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27, effective January 1, 2015. Accordingly, the accounting changes have been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

## **Other Matters**

### Required Supplementary and Accompanying Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information (RSI) as indicated in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounts Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic or historical context. We have applied certain limited procedures to the RSI 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.

The accompanying information, as indicated in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America.



A Professional Corporation

January 31, 2017

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

STATEMENTS OF NET POSITION

Years Ended December 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 15,500,367	\$ 12,821,429
Certificates of deposit	700,000	1,250,000
Accounts receivable-trade (net of allowance for doubtful accounts of \$64,888 and \$75,555)	1,628,330	1,579,683
Accounts receivable-miscellaneous	260,681	209,195
Accrued interest receivable	4,996	8,013
Inventory	1,691,613	1,640,829
Prepaid expenses	210,451	193,463
Total current assets	<u>19,996,438</u>	<u>17,702,612</u>
 <b>Restricted cash and investments:</b>		
Bond Retirement Fund (Note 2)	1,332,706	1,344,771
Bond Reserve Fund (Note 2)	1,217,015	1,080,850
Construction Fund (Note 12)	4,752,363	6,214,732
Customer Utility Deposit Fund (Note 4)	921,950	938,850
Repair and Replacement Fund (Note 3)	345,000	800,000
	<u>8,569,034</u>	<u>10,379,203</u>
 <b>Capital assets:</b>		
Electric plant (Note 8)	88,455,478	84,198,669
Other (Note 8)	7,829,558	7,774,694
	<u>96,285,036</u>	<u>91,973,363</u>
Less accumulated depreciation	45,959,069	43,398,781
	<u>50,325,967</u>	<u>48,574,582</u>
	 Total assets	 78,891,439
 <b>Deferred outflows of resources</b>		
Unrealized contribution and losses related to Pension	<u>816,252</u>	<u>190,192</u>
	 Total assets plus deferred outflows of resources	 <u>\$ 79,707,691</u>
		<u>\$ 76,846,589</u>

**STATEMENTS OF NET POSITION**

	<u>2016</u>	<u>2015</u>
<b>Current liabilities:</b>		
Current maturities of revenue bonds payable	\$ 1,625,000	\$ 1,615,000
Accounts payable-trade	2,121,343	1,654,881
Accrued bond interest payable	382,970	376,854
<b>Accrued liabilities:</b>		
Sales tax	38,137	39,620
Other	275,674	261,360
Customer deposits	921,950	938,850
Total current liabilities	5,365,074	4,886,565
 <b>Noncurrent liabilities</b>		
Revenue improvement bonds payable (Note 9)	26,228,739	27,817,209
Net pension liability	12,734,068	11,824,340
	38,962,807	39,641,549
Total liabilities	44,327,881	44,528,114
 <b>Net position:</b>		
Net investment in capital assets	22,472,228	19,142,373
Restricted for bond retirement and repair and replacement - expendable	1,677,706	2,144,771
Restricted for bond reserve and construction fund	5,969,378	7,295,582
Unrestricted	5,260,498	3,735,749
Total net position	35,379,810	32,318,475
	\$ 79,707,691	\$ 76,846,589

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Power sold	\$ 38,465,435	\$ 36,583,982
Cost of power purchased (Note 11)	<u>25,745,493</u>	<u>24,662,530</u>
	<u>12,719,942</u>	<u>11,921,452</u>
 Operating expenses:		
Distribution:		
System operation	1,213,260	1,122,217
System maintenance	1,470,140	2,012,107
Street lighting maintenance	<u>69,812</u>	<u>59,316</u>
	<u>2,753,212</u>	<u>3,193,640</u>
Transmission	<u>1,448</u>	<u>4,947</u>
Meter reading, accounting and collecting	<u>2,356,874</u>	<u>2,456,689</u>
 Administrative:		
General expenses	1,139,784	1,071,660
Storeroom expenses	<u>99,933</u>	<u>248,658</u>
	<u>1,239,717</u>	<u>1,320,318</u>
 Depreciation:		
Electric plant	2,622,025	2,466,274
Other	<u>463,253</u>	<u>472,404</u>
	<u>3,085,278</u>	<u>2,938,678</u>
Total operating expenses	<u>9,436,529</u>	<u>9,914,272</u>

See accompanying notes and independent auditors' report

## CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Years Ended December 31, 2016 and 2015  
(Continued)

	<u>2016</u>	<u>2015</u>
Income from operations	\$ 3,283,413	\$ 2,007,180
Other income and deductions:		
Miscellaneous service sales and other - net of expenses	347,708	376,466
Interest on investments	57,287	27,678
Miscellaneous and late fees	1,016,123	932,068
Interest on bonded debt (Note 9)	<u>(962,838)</u>	<u>(1,011,357)</u>
	<u>458,280</u>	<u>324,855</u>
Income before contributions	3,741,693	2,332,035
Contributions in aid of construction	<u>417,161</u>	<u>975,356</u>
Change in fund net position	4,158,854	3,307,391
Cash distributions - cities (Note 7)	(1,097,519)	(1,162,235)
Fund net position, beginning	<u>32,318,475</u>	<u>30,173,319</u>
Fund net position, ending	<u>\$ 35,379,810</u>	<u>\$ 32,318,475</u>

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 38,415,305	\$ 37,165,824
Cash payments to suppliers for goods and services	(28,640,282)	(29,656,694)
Cash payments to employees for services	(2,917,264)	(3,037,950)
Net cash provided by operating activities	6,857,759	4,471,180
Cash flows from noncapital financing activities:		
Other income	1,326,871	1,335,114
Decrease (increase) in customer deposits and advances	16,900	(9,875)
Net increase in net pension liability	283,668	255,223
Cash distributions to cities from retained earnings	(1,097,519)	(1,162,235)
Net cash provided by noncapital financing activities	529,920	418,227
Cash flows from capital and related financing activities:		
Capital expenditures	(4,859,142)	(5,494,782)
Contribution in aid of construction	417,161	975,356
Bond premium on issuance	-	108,899
Bonds payable payment	(1,615,000)	(8,155,000)
Net bond proceeds (less capitalized bond costs)	-	6,565,000
Interest paid on bonds	(1,038,433)	(1,205,953)
Decrease (increase) in certificates of deposit	550,000	(550,000)
Decrease in repair and replacement fund	455,000	-
Decrease (increase) in bond retirement fund	12,065	(261,257)
Increase in bond reserve fund	(136,165)	(92,370)
Net cash used by capital and related financing activities	(6,214,514)	(8,110,107)
Cash flows from investing activities:		
Interest income	60,304	24,174
Decrease (increase) in construction fund	1,462,369	3,081,251
Increase in customers utility deposit fund	(16,900)	9,875
Net cash provided by investing activities	1,505,773	3,115,300
Net increase (decrease) in cash	2,678,938	(105,400)
Cash and cash equivalents-beginning of year	12,821,429	12,926,829
Cash and cash equivalents-end of year	\$ 15,500,367	\$ 12,821,429

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015  
 (Continued)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Income from operations	\$ 3,283,413	\$ 2,007,180
Noncash items included in income from operations:		
Depreciation expense	3,246,233	3,108,822
Effect of changes in operating working capital:		
Accounts receivable	(48,647)	604,537
Prepaid expenses and inventory	(67,772)	137,361
Accounts payable	592,656	(1,063,001)
Accrued liabilities and prepaid revenue	12,831	(153,575)
Capitalized depreciation	(160,955)	(170,144)
Net cash provided by operating activities	<u>\$ 6,857,759</u>	<u>\$ 4,471,180</u>

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Floresville Electric Light and Power System (The System/FELPS) is a municipally owned electric light and power distribution system which serves most of Wilson County, Texas and portions of Bexar and Karnes Counties, Texas, including the cities of Floresville, Stockdale, Poth (each a participating city), Falls City, and La Vernia. Management and control of the system is vested in a five-member Board of Trustees composed of the Mayor of Floresville, one member for each of the cities of Floresville, Poth and Stockdale appointed by the respective governing body, and one member appointed on a rotating basis by the City Councils of the Cities of Floresville, Poth or Stockdale. The Board also includes two non-voting advisory members appointed by the cities of Falls City and La Vernia.

The financial statements of FELPS pension plan are separately audited and reported. The financial results of the Pension Plan are not included herein except for certain disclosures as provided in these notes.

**Utility plant** - The System follows the policy of recording line construction at cost, which includes materials, labor and the automotive expenses applicable to the line construction. Other utility plant assets are recorded at cost. Costs of repairs and minor replacements are charged to expense as incurred.

**Inventory** - Inventory is stated at the lower of cost (moving average method) or market.

**Revenue recognition** - Electric revenues are based on billings rendered to customers on a monthly basis. The System does not accrue unbilled services rendered.

**Sales tax** - The state of Texas and local municipalities impose sales tax on the System's sales to nonexempt customers. The company collects that tax and remits the entire amount to the state. The System's accounting policy is to exclude the tax collected and remitted from revenue and cost of power purchased.

**Depreciation** - Depreciation is calculated by the straight-line method over the estimated useful lives (ranging from 1 to 30 years) of the related assets. Depreciation on automotive equipment is charged to line construction when applicable thereto. Other depreciation is charged to operations or utility plant depreciation.

**Income taxes** - The City of Floresville Electric Light and Power System is a municipally owned utility and, as such, is exempt from income taxes.

**Cash and cash equivalents** - Consist of cash, cash equivalents and certificates of deposit with original maturities of 90 days or less. Cash equivalents are stated at cost, which approximates market value.

**Trade accounts receivable** - Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

**Estimates** - The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures.

**Advertising** - Advertising costs which are included in general expenses are expensed as incurred. Advertising expense was \$5,468 and \$15,742 in the years ended 2016 and 2015.

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Basis of accounting - The financial statements of The System are presented in accordance with U.S. generally accepted accounting principles for proprietary funds of governmental entities. Accounting records generally follow the Uniform System of Accounts for Electric and Gas Utilities issued by the National Association of Regulatory Utility Commissioners. The financial statements are presented on the accrual basis of accounting. The System's policy is to first apply unrestricted resources when an expense is incurred when there are both restricted and unrestricted net position available.

In 2003, The System implemented GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments. This implementation resulted in certain restatements of prior fiscal year amounts. In addition, previously reported retained earnings were reclassified as fund net position and categorized as net investment in capital assets (net of related debt) restricted and unrestricted. The other changes in financial statement presentation as compared to prior years were the change to the direct method of cash flow reporting and the addition of management's discussion and analysis as required information.

Revenue and expenses - Revenues are recorded when billed. Customers' meters are read, and bills are rendered, monthly. Rate schedules include an adjustment clause. The Systems' adjustment clause permits recovery of regulatory assessments. Beginning in March 2000, The System began recovering assessments from the Public Utility Commission of Texas (PUCT) for transmission access charges and from the Texas Independent System Operator (ISO) for operating costs. Operating revenues are revenues derived directly from the sale of electric light and power. All other revenue earned is included in other income (nonoperating) in these financial statements.

**2015 GASB pronouncement implementations:**

GASB Statement No. 67, Financial Reporting for Pension Plans, amends the requirements of GASB Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts, or equivalent arrangements. This Statement enhances note disclosures and RSI. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in ten-year RSI schedules (as the information becomes available).

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, amends the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of GASB Statement No. 50, Pension Disclosures, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Refer below to description of effects of implementation of this standard.

**Implementation of GASB Statement No. 68** - FELPS adopted the requirements of GASB Statement No. 68 in 2015. This statement provides guidance for the measurement and recognition of a net pension liability and pension expense, and includes instruction for balances to be recognized as deferred outflows of resources and deferred inflows of resources. The impact for FELPS is as follows:

**Net pension liability** - The net pension liability reported under GASB Statement No. 68 is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the Plan's fiduciary net position. Previous to this new guidance, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions.

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Deferred outflows of resources and deferred inflows of resources** - GASB Statement No. 68 requires recognition of deferred outflows and inflows of resources associated with the difference between projected and actual earnings on Plan investments, to be amortized to pension expense over a closed five-year period. Also to be recognized as deferred outflows and inflows of resources are differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, to be amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees receiving pension benefits. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year end are recognized as deferred outflows of resources, to be included in pension expense in the subsequent fiscal year.

GASB Statement No. 68 is effective for financial statement periods beginning after June 15, 2014, with the effects of accounting change to be applied retroactively by restating the financial statements. FELPS adopted GASB Statement No. 68 in 2015 and, accordingly, had restated amounts of the affected balances within the financial statements for the year ended December 31, 2014, as follows:

Statement of net position	As Originally Reported	As Restated	Effect of Change
Noncurrent liabilities:			
Net pension liability	\$ -	\$ (11,378,925)	\$ (11,378,925)
Net position	\$ 41,552,244	\$ 30,173,319	\$ 11,378,925

**Deferred outflows of Resources** - Pursuant to GASB Statement No. 68 accounting methodologies adopted beginning in 2015, recognition of deferred outflows of resources related to the pension amounted to \$190,192 as of December 31, 2015, and was adjusted to \$816,252 as of December 31, 2016.

**GASB Statement No. 40** - GASB Statement No. 40 requires additional disclosure to address exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, if applicable. (There are no investments in foreign currencies, and this risk does not apply.) In accordance with its investment policy, the System is authorized to invest in "Local Government Investment Pools", and have elected to use TexPool, which is managed by Texas Trust, an entity created by the Texas legislature as a special purpose entity to efficiently and economically manage, invest and safeguard funds for its clients. TexPool meets the credit risk requirements of their investment policy to invest in securities rated AAA or AAA-m or at an equivalent rating, by at least one nationally recognized rating service. Interest rate risk is minimized due to restrictions on weighted average maturity and maximum maturity of any one investment, which should average 60 days or less. The investment at TexPool at December 31, 2016 and 2015 of \$2,550,223 and \$5,002,827, respectively, approximates carrying value and market value at year end. (GASB Statement 79 allows and TexPool has elected to value all applicable investments at amortized cost for financial reporting purposes.) (Texas Trust has been granted a direct account with the Federal Reserve and the Depository Trust Company, and is allowed to maintain custody of assets at these organizations.)

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**2 BOND RETIREMENT FUND**

Bond retirement and bond reserve funds consist of monies deposited in accordance with debt service and reserve provisions of bond indentures and ordinances. At December 31, 2016 and 2015, bond retirement and bond reserve funds consisted of the following:

	<u>2016</u>	<u>2015</u>
	2009, 2011, 2014 and 2015 Series Bonds	2009, 2011, 2014 and 2015 Series Bonds
Bond Retirement Funds		
Cash and cash equivalents	<u>\$ 1,332,706</u>	<u>\$ 1,344,771</u>
Bond Reserve Funds		
Cash and cash equivalents	<u>\$ 1,217,015</u>	<u>\$ 1,080,850</u>

**3 REPAIR AND REPLACEMENT FUND AND CONSTRUCTION FUND**

Repair and replacement funds are restricted in use to future contingencies and to the construction of improvements to the System as directed by the Board of Trustees. Repair and replacement funds as of December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Certificates of deposit	<u>\$ 345,000</u>	<u>\$ 800,000</u>

**4 CUSTOMER UTILITY DEPOSIT FUND**

In January 1996, the Board of Trustees established a Customer Meter Security Deposit Account as restricted funds. Activity in this account in 2016 and 2015 were as follows:

	<u>Customer Meter Security Deposit</u>
Balance at January 1, 2015	<u>\$ 928,975</u>
Deposits into the account (net)	<u>9,875</u>
Balance at December 31, 2015	<u>938,850</u>
Withdrawals from the account (net)	<u>(16,900)</u>
Balance at December 31, 2016	<u>\$ 921,950</u>

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**5 CASH**

As of December 31, 2016, the carrying amount of the System's deposits with banks and financial institutions was \$17,387,376 and bank balances totaled \$17,398,895. At December 31, 2015 these amounts were \$14,495,980 and \$14,496,480 respectively. The bank balance total is collateralized as follows:

	<u>2016</u>	<u>2015</u>
Amount insured by FDIC and SIPC	\$ 1,750,000	\$ 1,750,000
Amount collateralized with securities in the System's name, held in safekeeping by an agent bank of the System's custodial banks	<u>15,400,389</u>	<u>10,732,563</u>
	<u>\$ 17,150,389</u>	<u>\$12,482,563</u>

(The FDIC limit was increased to \$250,000 per bank. The System was under-collateralized by \$248,506 and \$2,013,417 at December 31, 2016 and 2015, and other times during 2016 and 2015.)

**6 UNDIVIDED OWNERSHIP INTERESTS**

In an agreement signed in 1996 by the three mayors of the Cities of Floresville, Stockdale and Poth, each of the three cities shall be deemed an owner of an undivided interest in the System as set out below. The equity percentages so established shall be permanent in effect and shall remain constant regardless of subsequent differences in rates of growth, population or consumption of energy among the cities.

<u>City of</u>	<u>Equity Percentages</u>
Floresville	64%
Stockdale	18%
Poth	<u>18%</u>
	<u>100%</u>

**7 CASH DISTRIBUTIONS**

During 1996, in an agreement that was signed by the three Cities of Floresville, Stockdale and Poth (Note 10), the system agreed to annually distribute in the aggregate to the cities, an amount not greater than three percent (3%) of the dollar value of annual electric sales for the entire system for the year. The amount distributed to each City shall be based on the respective equity percentage of each City (Note 10) applied to the total amount approved for distribution by the board. Any such distribution to the Cities will be paid monthly in amounts equal to one twelfth (1/12) of the total distribution amount determined based on sales for the previous year. Total distributions to the three cities in 2016 and 2015 were \$1,097,519 and \$1,162,235, respectively.

During the January 2017 Board of Trustees meeting, it was decided that the 2017 distributions to the Cities would be \$1,153,963 which was three percent of the annual electric sales for 2016.

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8 CAPITAL ASSETS** (Details on page 32)

A detail of utility plant accounts as of December 31, 2016 is as follows (in thousands):

	Cost basis	Estimated useful lives	Depreciation expense
Electric distribution system	\$ 86,805	30 years	\$ 2,574
Electric transmission system	<u>1,650</u>	30 years	48
	<u><u>88,455</u></u>		<u><u>2,622</u></u>
Land, buildings and improvements	1,999	5 to 20 years	71
Automobiles and trucks	4,068	3 to 10 years	344
Office and computer equipment	1,214	1 to 10 years	185
Large tools	<u>549</u>	3 to 5 years	<u>24</u>
	<u><u>7,830</u></u>		<u><u>624</u></u>
	<u><u>\$ 96,285</u></u>		<u><u>\$ 3,246</u></u>

Included in depreciation expense is \$160,955 of auto and truck depreciation that was capitalized into the utility plant in 2016. A total of \$170,144 was capitalized in 2015 and is included in the totals below.

Capital asset activity for the years ended December 31, 2016 and 2015 was as follows (in thousands):

	Balance 1/1/2015	Additions Increases	Reductions Decreases	Balance 12/31/2015	Additions Increases	Reductions Decreases	Balance 12/31/2016
<b>Fixed assets:</b>							
Electric plant:							
Depreciable	\$ 78,942	\$ 5,488	\$ 389	\$ 84,041	\$ 4,723	\$ 466	\$ 88,298
Land	<u>157</u>	-	-	<u>157</u>	-	-	<u>157</u>
Total electric plant	<u><u>79,099</u></u>	<u><u>5,488</u></u>	<u><u>389</u></u>	<u><u>84,198</u></u>	<u><u>4,723</u></u>	<u><u>466</u></u>	<u><u>88,455</u></u>
Buildings and improvements:							
Depreciable	1,867	56	-	1,923	44	25	1,942
Land	<u>57</u>	-	-	<u>57</u>	-	-	<u>57</u>
Total building and improv.	<u><u>1,924</u></u>	<u><u>56</u></u>	<u><u>-</u></u>	<u><u>1,980</u></u>	<u><u>44</u></u>	<u><u>25</u></u>	<u><u>1,999</u></u>
Other assets:							
Automobiles and trucks	4,019	301	207	4,113	261	306	4,068
Office and computer equipment	1,592	105	557	1,140	74	-	1,214
Large tools	<u>534</u>	<u>8</u>	<u>-</u>	<u>542</u>	<u>8</u>	<u>1</u>	<u>549</u>
Total fixed assets	<u><u>87,168</u></u>	<u><u>5,958</u></u>	<u><u>1,153</u></u>	<u><u>91,973</u></u>	<u><u>5,110</u></u>	<u><u>798</u></u>	<u><u>96,285</u></u>

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8 CAPITAL ASSETS** (Continued)

	Balance 1/1/2015	Additions Increases	Reductions Decreases	Balance 12/31/2015	Additions Increases	Reductions Decreases	Balance 12/31/2016
Accumulated depreciation and amortization:							
Electric plant	34,791	2,466	389	36,868	2,622	353	39,137
Buildings and improvements	1,680	101	-	1,781	71	25	1,827
Automobiles and trucks	3,287	304	207	3,384	344	306	3,422
Office and computer equip.	1,213	212	557	868	185	-	1,053
Large tools	472	26	-	498	24	2	520
Total	41,443	3,109	1,153	43,399	3,246	686	45,959
Depreciable assets - net	\$ 45,511	\$ 2,849	\$ -	\$ 48,360	\$ 1,864	\$ 112	\$ 50,112
Capital assets - net	<u>\$ 45,725</u>	<u>\$ 2,849</u>	<u>\$ -</u>	<u>\$ 48,574</u>	<u>\$ 1,864</u>	<u>\$ 112</u>	<u>\$ 50,326</u>

**9 REVENUE IMPROVEMENT BONDS PAYABLE** (See page 33 for details)

Details of revenue improvement bonds at December 31, 2016 are as follows (in thousands)

Series	Original Amount	Call option date	Due serially through	Interest Rate	<u>Balance Outstanding</u>	
					Current	Long-term
2009	\$4,000	8/15/20	2034	3.50% to 4.75%	130	3,150
2011	\$9,955	8/15/21	2035	2.00% to 4.70%	320	8,280
2014 Jr Lien	\$2,015	8/15/20	2024	2.00% to 4.00%	135	1,610
2014	\$8,935	8/15/21	2034	2.00% to 4.75%	250	8,155
2015	\$6,565	8/15/25	2030	2.00% to 4.00%	790	4,975
					1,625	26,170
Add unamortized bond premium (net) on 2009, 2011, 2014 and 2015 series bonds					-	59
					\$ 1,625	\$ 26,229

See accompanying independent auditors' report

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

(Continued)

**9 REVENUE IMPROVEMENT BONDS PAYABLE** (Continued)

Details of long-term debt activity for years ended December 31, 2016 and 2015 (in thousands)

Series:	Balance Outstanding 1/1/2015	Additions Decreases	Reductions Decreases	Balance 12/31/2015	Additions Increases	Reductions Decreases	Balance Outstanding 12/31/2016
2005	\$ 7,310	\$ -	\$ 7,310	\$ -	\$ -	\$ -	\$ -
2009	3,525	-	120	3,405	-	125	3,280
2011	9,215	-	305	8,910	-	310	8,600
2014 Jr	8,935	-	285	8,650	-	245	8,405
2014	2,015	-	135	1,880	-	135	1,745
2015	-	6,565	-	6,565	-	800	5,765
	\$ 31,000	\$ 6,565	\$ 8,155	\$ 29,410	\$ -	\$ -	\$ 27,795
Less:							
Bond current maturities	(1,530)			(1,615)			(1,625)
Unamortized bond discount	(136)			-			-
Add:							
Unamortized bond premium	-			22			59
Long-term debt	\$ 29,334			\$ 27,817			\$ 26,229

A provision of the 2014 and 2015 Bond Series was to take part of the proceeds and "refund" parts of the 2002 (\$2,025,000) and 2005 (6,625,000) Bonds to effectively lower the overall interest rate on the outstanding bonds. The proceeds used to "refund" these bonds had been paid to the previous bond holders. The annual requirements to amortize the bonds payable outstanding as of December 31, 2016 are as follows:

Year ending December 31,	Principal	Interest	Total requirements
2017	\$ 1,625,000	\$ 1,021,252	\$ 2,646,252
2018	1,655,000	982,253	2,637,253
2019	1,705,000	942,552	2,647,552
2020	1,745,000	901,628	2,646,628
2021	1,780,000	856,278	2,636,278
2022-2026	6,300,000	3,566,913	9,866,913
2027-2031	6,065,000	2,341,183	8,406,183
2032-2036	5,345,000	1,032,991	6,377,991
2037-2039	1,575,000	152,000	1,727,000
	\$ 27,795,000	\$ 11,797,050	\$ 39,592,050

Total interest expense (including amortization of bond discount/premium) on the above bonds was \$1,081,079 for 2016, and \$1,229,263 for 2015, of which \$118,241 and \$217,906, respectively, was capitalized.

As of December 31, 2016 and 2015, bond debt service and reserve requirements for the 2005, 2009, 2011, 2014 and 2015 series Bonds has been met.

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**9 REVENUE IMPROVEMENT BONDS PAYABLE** (Continued)

**2009, 2011, 2014 and 2015 Series Bonds Details**

On April 1, 2009 and April 14, 2011, October 2, 2014 and September 30, 2015 Improvement Revenue Bonds, Series 2009, Series 2011, Series 2014 and Series 2015, and October 30, 2014 Junior Lien Revenue Refunding Bonds Series 2014 Jr., (the "Bonds") were issued. The "Bonds" are special obligations of the City of Floresville (City) payable, both as to principal and interest, solely from and equally and ratably secured, together with the currently outstanding parity bonds, by a first lien on and pledge of the "Net Revenues" of the System after the payment of maintenance and operating expenses. (Maintenance and operating expenses include contractual payments which under Texas laws and their provisions are established as operating expenses.)

The "Bonds" are not a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The ordinance does not create a lien or mortgage on the System, except the "Net Revenues", and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

As additional security, a "Retirement Account" is required to be maintained, either in cash or a surety bond, in an amount at least equal to the average annual debt service requirements of the "Bonds" and any additional bonds issued on parity with the "Bonds" (referred to as the reserve fund portion). The City has exercised its option and has purchased surety bonds for some of the required amounts.

Also, from the Net Revenues pledged to the payment and security of the "Bonds", the Board shall cause to be paid in the "Retirement Account" such amounts as will be fully sufficient to promptly pay, when due, all principal of and interest on the "Bonds" (referred as the interest and sinking fund portion).

The City covenants with the holders of Parity Bonds that a special fund or account shall be created and established to be known as the "City of Floresville Electric Light and Power System Repair and Replacement Account" (hereinafter called "Repair and Replacement Account") at such Depository as may be designated by the Board in an amount determined by the Board of not less than \$75,000 nor more than an amount reasonably determined by the Board pursuant to a specific resolution to be necessary for specific purposes but not to exceed 5% of the value of the System less accumulated depreciation as determined by the Board.

On September 30, 2015, the System issued \$6.565 million of Series 2015 Improvement Revenue Bonds. The interest cost for this issue, which has maturities in 2016 through 2030, is 2.07%. Bond proceeds are used primarily for construction projects.

**10 THE PENSION PLAN FOR THE EMPLOYEES OF THE CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM (THE PLAN)**

The System adopted in 1974 a contributory pension plan for the benefit of eligible employees. The Plan is a single-employer pension plan administered by selected employees of the System. The Plan may be amended from time to time in any respect whatever by resolution of the Board of Trustees of the System in accordance with provisions provided for in section 13 of the Plan agreement.

The System issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. That report may be obtained by writing to Floresville Electric Light and Power System, P.O. Box 218, Floresville, TX 78114 (a fee exists related to the copying of these financial statements).

See accompanying independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**10 THE PENSION PLAN FOR THE EMPLOYEES OF THE CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM (THE PLAN) (Continued)**

The total employer and employee funding, which includes amortization of past service costs is as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Employee contributions	\$ 221,907	\$ 194,490
The System's contributions	<u>598,938</u>	<u>576,975</u>
	<u>\$ 820,845</u>	<u>\$ 771,465</u>
Covered payroll	<u>\$ 3,992,921</u>	<u>\$ 3,846,500</u>
Total payroll	<u>\$ 4,068,414</u>	<u>\$ 3,983,501</u>

**Contributions** - The current policy of FELPS is to use each actuarial valuation as the basis for determining employer contributions to the Plan during the fiscal year beginning in the calendar year after the valuation year. The January 1, 2015, valuation is the basis for contributions in 2015, with recommendations from the Administrative Committee, composed of a cross-functional group of active and retired FELPS employees. They establish funding levels, considering annual actuarial valuations. Generally, participating employees contribute 6% (existing employees will increase their contribution rate by .5% per year, until they reach the 6% rate in 2017) of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement age of 65 with at least 20 years of credited service, or termination of employment. Participants who leave FELPS service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Plan, plus the vested portion of accumulated interest.

The balance of Plan contributions is the responsibility of FELPS, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For 2016 and 2015, the amount to be funded was established using a general target near the 30-year funding contribution level as determined by the Plan's actuary using the entry-age normal cost method.

**Net Pension Liability** - FELPS net pension liability at December 31, 2016 and December 31, 2015, was measured as of January 1, 2015. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2015, and rolled forward/backward using generally accepted actuarial procedures to the December 31, 2016 and 2015 values, respectively.

## CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)**10 THE PENSION PLAN FOR THE EMPLOYEES OF THE CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM (THE PLAN) (Continued)****Changes in Net Pension Liability**Total pension liability

	<u>2016</u>	<u>2015</u>
Service cost	\$ 495,522	\$ 481,089
Interest cost	1,372,330	1,315,357
Changes in Plan benefits	-	-
Changes in assumptions	(445,415)	696,030
Differences between expected and actual experience	-	-
Benefit payments	(1,001,982)	(868,856)
Net change in total pension liability	420,455	1,623,620
Total pension liability, beginning of period	21,806,374	20,182,754
Total pension liability, end of period	<u>22,226,829</u>	<u>21,806,374</u>

Plan fiduciary net position

Employer contributions	(580,600)	(572,455)
Participant contributions	(190,865)	(172,470)
Earnings on Plan assets	218,140	(374,546)
Benefit payments	1,001,982	868,856
Administrative Expense	40,616	-
Net change in Plan fiduciary net position	489,273	(250,615)
Plan fiduciary net position, beginning of period	<u>(9,982,034)</u>	<u>(9,731,419)</u>
Plan fiduciary net position, end of period	<u>(9,492,761)</u>	<u>(9,982,034)</u>
Net pension liability, end of period	<u>\$ 12,734,068</u>	<u>\$ 11,824,340</u>

FELPS recorded \$882,606 and \$832,198 in pension expense for the years ended December 31, 2016 and 2015, respectively.

**Actuarial Assumptions** - Significant actuarial assumptions used in the January 1, 2015 valuation include a rate of return on the investment assets of 6.5%, and annual projected salary increases averaging 5.0% per year. The projected salary increases include an inflation rate of 3.0%. Mortality rates were changed to the RP-2014 Employee and Annuitant Blue Collar Table for Males or Females with generational projection from 2014 using scale MP-2014. (The disabled mortality table changed to RP-2014 Disabled Retiree Mortality with no projection.) (The measurement date used for year-end totals for the years ended December 31, 2016 and 2015 was January 1, 2015.)

**Discount Rate** - The discount rate used to measure the total pension liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that future employee contributions will be made at the current contribution rate and that future FELPS contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the 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 Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**10 THE PENSION PLAN FOR THE EMPLOYEES OF THE CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM (THE PLAN) (Continued)**

The following table presents the sensitivity of net pension liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total pension liability:

<u>Discount Rate</u>	<u>Discount Rate Sensitivity</u>	
	Net Pension Liability <u>at January 31,</u>	
	<u>2016</u>	<u>2015</u>
1% decrease - 5.5%	\$ 15,797,854	\$ 14,891,743
Current discount rate - 6.5%	12,734,068	11,824,340
1% increase - 7.5%	10,199,993	9,287,274

**Plan Fiduciary Net Position** - Detailed information about the Plan's fiduciary net position is available in the separately issued Plan financial statements. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position for the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. Investments are stated at fair market value. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the Plan.

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension** - The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for FELPS at December 31, 2016, and 2015:

	<u>January 31,</u>	
<u>Deferred outflows of resources</u>	<u>2016</u>	<u>2015</u>
Differences between projected and actual earnings on pension assets	\$ 816,252	\$ 190,192
Changes in assumptions	-	-
Differences between expected and actual experience in the measurement of total pension liability	-	-
Employer's contributions to the Plan subsequent to the measurement of total pension liability	-	-
Total deferred outflows of resources	<u>\$ 816,252</u>	<u>\$ 190,192</u>

<u>Deferred inflows of resources</u>	<u>2016</u>	<u>2015</u>
Differences between projected and actual earnings on pension assets	\$ 215,950	\$ 47,548
Changes in assumptions	-	-
Differences between expected and actual experience in the measurement of total pension liability	-	-
Total deferred inflows of resources	<u>\$ 215,950</u>	<u>\$ 47,548</u>

See accompanying independent auditors' report  
(continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**10 THE PENSION PLAN FOR THE EMPLOYEES OF THE CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM (THE PLAN) (Continued)**

The following table presents the future amortization of pension-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Plan in the current fiscal year and subsequent to the net pension liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net pension liability in the subsequent fiscal year.

**Amortization of Pension-Related Deferred Outflows/Inflows of Resources**

Year ended December 31,	
2017	\$ 215,950
2018	215,950
2019	215,950
2020	168,402
2021	-
Thereafter	-
Total	<u><u>\$ 816,252</u></u>

A general summary of the defined benefit plan of the system is as follows: All employees who are regularly engaged full time employees are eligible on their date of employment. Each participant is required to contribute 4% of compensation and the System is to contribute at an actuarially determined rate. (Effective with the first full payroll in 2014, contribution rate for new hires is 6%, and existing employees will increase .5% per year, until they reach the 6% rate in 2017.) The current rate of the System's contribution is 15.0% of annual covered payroll.

Normal retirement age is 65 with early retirement at age 55 plus 10 years of vested service. The participant becomes vested only after 10 years of employment service, at which time they are 100% vested. If the participant has completed 20 or more years of credited service and attains age 65, retirement benefits are 65% of the average of the highest five of the last ten consecutive plan years' monthly compensation. If the participant completed less than 20 years of service a different calculation based on the actual number of years completed will be used. Other rules apply related to disability, death and early retirement benefits.

**11 POWER PURCHASED**

Electric power purchased during 2016 and 2015, in the amounts of \$25,745,493 and \$24,662,530 (net), was purchased from one supplier. Electric power is purchased from this supplier under a contract, that extended the 2012 agreement from January 1, 2016 to December 31, 2020 (exclusive of termination and option periods). During the year, the supplier incurred costs related to the industry restructuring brought about by the deregulation of utility companies and passed these costs through to the System. The System has also passed these costs through to its customers. A total of \$4,658,784 and \$2,904,262 for 2016 and 2015, respectively, related to these costs incurred by the System, have been netted against the amount billed to the customer.

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12 CONSTRUCTION FUND, GOVERNMENT BONDS AND FAIR VALUE MEASUREMENTS**

Part of the proceeds from the Series 2014 and 2015 bonds were invested in government bonds which are included in the statement of net position under the caption "Construction Fund" as established by the System. The balances in the Construction Fund at December 31, 2016, consisted of cash of \$4,502,363 and certificates of deposit at Wells Fargo of \$250,000.

The balances in the Construction Fund at December 31, 2015, consisted of cash of \$3,714,732 and certificates of deposit at Wells Fargo of \$2,500,000.

**13 CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the System to concentrations of credit risk consist principally of trade accounts receivable. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of utility customers (over 15,000), both residential and commercial, in the System's service area (most of Wilson County and parts of Bexar and Karnes Counties). Credit risk is also reduced by customer deposits held by the System.

The System is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. The System purchases commercial liability and property insurance coverage to provide protection in the event of large losses. There has not been any significant reduction in insurance coverage from coverage in the prior years and there have not been any insurance settlements in the past three years that have exceeded the insurance coverage.

**14 IMPAIRMENT OF LONG-LIVED ASSETS**

The System reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended December 31, 2016 and 2015.

**15 SUBSEQUENT EVENTS**

Subsequent events were evaluated through January 31, 2017, which is the date the financial statements were available to be issued. (There were no significant subsequent events.)

See accompanying independent auditors' report  
(continued)

## **ACCOMPANYING INFORMATION**

## CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

## COMPARATIVE STATEMENTS OF INCOME

Years Ended December 31, 2016 and 2015

	2016	2015	Increase (Decrease)
Power sold	\$ 38,465,435	\$ 36,583,982	\$ 1,881,453
Cost of power purchased	<u>(25,745,493)</u>	<u>(24,662,530)</u>	<u>(1,082,963)</u>
	<u>12,719,942</u>	<u>11,921,452</u>	<u>798,490</u>
Operating expenses:			
Distribution:			
System operation	1,260,354	1,172,072	88,282
System maintenance	1,556,132	2,100,092	(543,960)
Street lighting maintenance	77,702	61,107	16,595
Transmission operation	<u>1,448</u>	<u>4,947</u>	<u>(3,499)</u>
	<u>2,895,636</u>	<u>3,338,218</u>	<u>(442,582)</u>
Meter reading, accounting and collecting	<u>2,597,262</u>	<u>2,665,485</u>	<u>(68,223)</u>
Administrative:			
General expenses	1,143,600	1,074,891	68,709
Storeroom expenses	<u>175,905</u>	<u>367,050</u>	<u>(191,145)</u>
	<u>1,319,505</u>	<u>1,441,941</u>	<u>(122,436)</u>
Total operating expenses	<u>6,812,403</u>	<u>7,445,644</u>	<u>(633,241)</u>
Income from operations	<u>5,907,539</u>	<u>4,475,808</u>	<u>1,431,731</u>
Other income:			
Miscellaneous service sales, line extensions and in aid of construction-net of expenses	762,769	1,349,468	(586,699)
Interest on investments	57,287	27,678	29,609
Miscellaneous and late fees	<u>1,016,122</u>	<u>932,068</u>	<u>84,054</u>
	<u>1,836,178</u>	<u>2,309,214</u>	<u>(473,036)</u>
Income before other deductions	<u>7,743,717</u>	<u>6,785,022</u>	<u>958,695</u>
Other deductions:			
Depreciation on electric utility plant	2,622,025	2,466,274	155,751
Interest on bonded debt	962,838	1,011,357	(48,519)
Internet activities - net	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 4,158,854</u>	<u>\$ 3,307,391</u>	<u>\$ 851,463</u>

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

COMPARATIVE SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

Years Ended December 31, 2016 and 2015

	2016	2015	Increase (Decrease)
Advertising	\$ 5,468	\$ 15,742	\$ (10,274)
Advisory fees	2,100	4,200	(2,100)
Bad debts	51,000	67,500	(16,500)
Board of trustee fees	13,275	13,500	(225)
Consulting fees-retirement plan	18,094	52,610	(34,516)
Customer assistance	793	1,278	(485)
Donations and community support	68,216	50,481	17,735
Employee benefits	93,170	37,751	55,419
Financial planning	48,885	28,245	20,640
Franchise-City of Falls City	15,241	13,577	1,664
Franchise-City of La Vernia	26,914	26,872	42
Incentive program	81,226	82,150	(924)
Insurance-general	147,845	140,346	7,499
Interest-customer deposits and other	13,526	13,559	(33)
Professional services	93,392	133,412	(40,020)
Linen service	17,899	7,888	10,011
Membership dues	29,355	29,789	(434)
Miscellaneous	9,077	9,020	57
Salaries-administrative and assistant	185,699	123,318	62,381
Technology expense	76,533	84,471	(7,938)
Telephone	49,437	46,184	3,253
Training schools	58,095	53,479	4,616
Transmission access	5,867	8,716	(2,849)
Truck expenses	1,541	2,990	(1,449)
Trustee fees-bonds	19,750	19,750	-
Water, sewer and garbage pickup	<u>11,202</u>	<u>8,063</u>	<u>3,139</u>
	<u>\$ 1,143,600</u>	<u>\$ 1,074,891</u>	<u>\$ 68,709</u>

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

COMPARATIVE SCHEDULES OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Working capital provided from:		
Net income	\$ 4,158,854	\$ 3,307,391
Add items not affecting working capital:		
Depreciation expense	3,085,278	2,938,678
Net increase in net pension liability	283,668	255,223
Amortization of bond discount (premium)	<u>36,530</u>	<u>49,700</u>
Working capital provided from operations	<u>7,564,330</u>	<u>6,550,992</u>
Capitalized depreciation	160,955	170,144
Net bond proceeds	-	6,565,000
New bond premium on issuance	-	108,899
Decrease in certificates of deposit	550,000	-
Decrease in bond retirement funds	12,065	-
Decrease in construction fund	1,462,369	3,081,251
Decrease in customer utility deposit fund cash	16,900	-
Decrease in repair and replacement fund	<u>455,000</u>	<u>-</u>
Total working capital provided	<u>10,221,619</u>	<u>16,476,286</u>
Working capital used for:		
Capital expenditures:		
Utility distribution system	4,610,122	5,488,212
Automotive equipment	261,128	301,013
Office equipment	9,556	2,481
Computer equipment and software	64,356	102,104
Large tools	8,283	8,577
Land, buildings and improvements	<u>44,173</u>	<u>55,669</u>
	<u>4,997,618</u>	<u>5,958,056</u>
Cash distributions from retained earnings	1,097,519	1,162,235
Increase in certificates of deposit	-	550,000
Bond payments	1,615,000	8,155,000
Increase in customer utility deposit fund cash	-	9,875
Increase in bond retirement funds	-	261,257
Increase in bond reserve funds	<u>136,165</u>	<u>92,370</u>
Total working capital used	<u>7,846,302</u>	<u>16,188,793</u>
Increase in working capital	<u>\$ 2,375,317</u>	<u>\$ 287,493</u>

See accompanying notes and independent auditors' report

(Continued)

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

COMPARATIVE SCHEDULES OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 2016 and 2015  
 (Continued)

	<u>2016</u>	<u>2015</u>
Changes in working capital:		
Increase (decrease) in current assets:		
Cash and cash equivalents	\$ 2,678,938	\$ (105,400)
Accounts receivable and other	100,133	(589,311)
Accrued interest receivable	(3,017)	3,504
Inventory	50,784	(187,118)
Prepaid expenses	<u>16,988</u>	<u>49,757</u>
	<u>2,843,826</u>	<u>(828,568)</u>
Increase (decrease) in current liabilities:		
Accounts payable	466,462	(945,971)
Accrued liabilities	12,831	(153,575)
Bond interest payable	6,116	(26,390)
Customer deposits and advances	<u>(16,900)</u>	<u>9,875</u>
	<u>468,509</u>	<u>(1,116,061)</u>
Increase in working capital	<u>\$ 2,375,317</u>	<u>\$ 287,493</u>

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

SUMMARY OF PROPERTY AND EQUIPMENT AND ACCUMULATED DEPRECIATION

Year Ended December 31, 2016

	<u>Property and Equipment</u>			
	Balance 1/1/2016	Additions	Deductions	Balance 12/31/2016
Utility plant:				
1943-1993 additions	\$ 17,728,886	\$ -	\$ 353,313	\$ 17,375,573
1994	1,304,734	-	-	1,304,734
1995	1,791,689	-	-	1,791,689
1996	2,997,285	-	-	2,997,285
1997	1,913,611	-	-	1,913,611
1998	2,185,461	-	-	2,185,461
1999	2,729,859	-	-	2,729,859
2000	2,525,074	-	-	2,525,074
2001	2,507,848	-	-	2,507,848
2002	2,920,220	-	-	2,920,220
2003	3,268,584	-	-	3,268,584
2004	2,588,017	-	-	2,588,017
2005	2,497,690	-	-	2,497,690
2006	2,837,742	-	-	2,837,742
2007	3,063,539	-	-	3,063,539
2008	2,652,785	-	-	2,652,785
2009	4,207,408	-	-	4,207,408
2010	3,622,436	-	-	3,622,436
2011	3,291,682	-	-	3,291,682
2012	4,640,951	-	-	4,640,951
2013	3,813,927	-	-	3,813,927
2014	3,621,029	-	-	3,621,029
2015	5,488,212	-	-	5,488,212
2016	-	4,610,122	-	4,610,122
	84,198,669	4,610,122	353,313	88,455,478
Land, buildings and improvements	1,979,951	44,173	25,173	1,998,951
Automobiles and trucks	4,112,691	261,128	305,883	4,067,936
Office furniture and equipment	211,799	9,556	1	221,354
Computer equipment and software	927,985	64,356	-	992,341
Large tools	542,268	8,283	1,575	548,976
	<u>\$ 91,973,363</u>	<u>\$ 4,997,618</u>	<u>\$ 685,945</u>	<u>\$ 96,285,036</u>

Accumulated Depreciation

Balance 1/1/2016	Additions	Deductions	Balance 12/31/2016
\$ 16,018,516	336,565	353,313	\$ 16,001,768
936,064	43,423	-	979,487
1,200,214	59,723	-	1,259,937
1,947,160	99,881	-	2,047,041
1,176,784	63,721	-	1,240,505
1,262,027	71,944	-	1,333,971
1,532,525	88,096	-	1,620,621
1,301,119	83,195	-	1,384,314
1,198,309	82,389	-	1,280,698
1,324,036	97,591	-	1,421,627
1,387,625	110,072	-	1,497,697
1,024,653	85,285	-	1,109,938
869,632	83,501	-	953,133
914,606	94,413	-	1,009,019
867,978	102,488	-	970,466
668,809	88,064	-	756,873
943,237	136,276	-	1,079,513
673,347	120,336	-	793,683
507,284	110,793	-	618,077
541,784	156,087	-	697,871
322,215	129,439	-	451,654
178,608	120,538	-	299,146
71,784	185,470	-	257,254
-	72,735	-	72,735
 36,868,316	 2,622,025	 353,313	 39,137,028
 1,780,460	 70,751	 25,173	 1,826,038
 3,383,879	 344,423	 305,883	 3,422,419
 197,179	 11,758	 1	 208,936
 671,177	 173,140	 -	 844,317
 <u>497,770</u>	 <u>24,136</u>	 <u>1,575</u>	 <u>520,331</u>
 <u>\$ 43,398,781</u>	 <u>\$ 3,246,233</u>	 <u>\$ 685,945</u>	 <u>\$ 45,959,069</u>

See accompanying notes and independent auditors' report

## CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

## SCHEDULE OF REVENUE BOND DEBT SERVICE REQUIREMENTS TO MATURITY

Year Ended December 31, 2016

Calendar Year	Series 2009			Series 2011			Series 2014 Jr. Lien		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 130,000	\$ 143,256	\$ 273,256	\$ 320,000	\$ 351,084	\$ 671,084	\$ 135,000	\$ 57,700	\$ 192,700
2018	130,000	138,706	268,706	330,000	341,484	671,484	135,000	53,650	188,650
2019	135,000	134,156	269,156	340,000	331,584	671,584	140,000	49,600	189,600
2020	140,000	129,431	269,431	350,000	321,384	671,384	150,000	45,400	195,400
2021	145,000	123,832	268,832	360,000	310,884	670,884	150,000	40,900	190,900
2022	155,000	118,031	273,031	375,000	296,484	671,484	160,000	36,400	196,400
2023	160,000	111,831	271,831	390,000	281,484	671,484	170,000	31,600	201,600
2024	165,000	105,231	270,231	405,000	265,884	670,884	165,000	26,500	191,500
2025	170,000	98,425	268,425	420,000	249,684	669,684	175,000	20,725	195,725
2026	180,000	90,987	270,987	440,000	232,884	672,884	180,000	14,600	194,600
2027	190,000	83,113	273,113	455,000	215,284	670,284	185,000	7,400	192,400
2028	195,000	74,562	269,562	475,000	197,084	672,084			
2029	205,000	65,788	270,788	495,000	177,609	672,609			
2030	215,000	56,050	271,050	515,000	157,190	672,190			
2031	225,000	45,838	270,838	535,000	135,303	670,303			
2032	235,000	35,150	270,150	560,000	112,565	672,565			
2033	245,000	23,988	268,988	585,000	86,245	671,245			
2034	260,000	12,350	272,350	610,000	58,750	668,750			
2035	-	-	-	640,000	30,080	670,080			
2036	-	-	-	-	-	-			
2037	-	-	-	-	-	-			
2038	-	-	-	-	-	-			
2039	-	-	-	-	-	-			
	<u>\$ 3,280,000</u>	<u>\$ 1,590,725</u>	<u>\$ 4,870,725</u>	<u>\$ 8,600,000</u>	<u>\$ 4,152,950</u>	<u>\$ 12,752,950</u>	<u>\$ 1,745,000</u>	<u>\$ 384,475</u>	<u>\$ 2,129,475</u>

Series 2014			Series 2015			Total		
Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
\$ 250,000	\$ 324,462	\$ 574,462	\$ 790,000	\$ 144,750	\$ 934,750	\$ 1,625,000	\$ 1,021,252	\$ 2,646,252
255,000	319,463	574,463	805,000	128,950	933,950	1,655,000	982,253	2,637,253
260,000	314,362	574,362	830,000	112,850	942,850	1,705,000	942,552	2,647,552
265,000	309,163	574,163	840,000	96,250	936,250	1,745,000	901,628	2,646,628
275,000	301,212	576,212	850,000	79,450	929,450	1,780,000	856,278	2,636,328
285,000	292,963	577,963	355,000	62,450	417,450	1,330,000	806,328	2,136,328
290,000	284,412	574,412	360,000	51,800	411,800	1,370,000	761,127	2,131,127
300,000	275,713	575,713	120,000	37,400	157,400	1,155,000	710,728	1,865,728
310,000	266,712	576,712	120,000	32,600	152,600	1,195,000	668,146	1,863,146
320,000	254,313	574,313	130,000	27,800	157,800	1,250,000	620,584	1,870,584
335,000	241,512	576,512	130,000	22,600	152,600	1,295,000	569,909	1,864,909
350,000	228,113	578,113	140,000	17,400	157,400	1,160,000	517,159	1,677,159
360,000	214,112	574,112	145,000	11,800	156,800	1,205,000	469,309	1,674,309
375,000	199,713	574,713	150,000	6,000	156,000	1,255,000	418,953	1,673,953
390,000	184,712	574,712	-	-	-	1,150,000	365,853	1,515,853
405,000	169,113	574,113	-	-	-	1,200,000	316,828	1,516,828
425,000	152,912	577,912	-	-	-	1,255,000	263,145	1,518,145
440,000	135,913	575,913	-	-	-	1,310,000	207,013	1,517,013
460,000	118,312	578,312	-	-	-	1,100,000	148,392	1,248,392
480,000	97,613	577,613	-	-	-	480,000	97,613	577,613
500,000	74,812	574,812	-	-	-	500,000	74,812	574,812
525,000	51,063	576,063	-	-	-	525,000	51,063	576,063
550,000	26,125	576,125	-	-	-	550,000	26,125	576,125
<b>\$ 8,405,000</b>	<b>\$ 4,836,800</b>	<b>\$ 13,241,800</b>	<b>\$ 5,765,000</b>	<b>\$ 832,100</b>	<b>\$ 6,597,100</b>	<b>\$ 27,795,000</b>	<b>\$ 11,797,050</b>	<b>\$ 39,592,050</b>

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

COMPARATIVE SCHEDULES OF POWER SOLD

Years Ended December 31, 2016 and 2015

	Average number of security lights			Average number of customers		
	<u>2016</u>	<u>2015</u>	Increase (Decrease)	<u>2016</u>	<u>2015</u>	Increase (Decrease)
Residential	-	-	-	4,312	4,267	45
Residential - rural	-	-	-	8,529	8,255	274
Commercial	-	-	-	1,035	1,078	(43)
Commercial - rural	-	-	-	1,492	1,617	(125)
Street lighting	675	671	4	-	-	-
Security lighting	3,443	3,482	(39)	-	-	-
	<u>4,118</u>	<u>4,153</u>	<u>(35)</u>	<u>15,368</u>	<u>15,217</u>	<u>151</u>

	KWH consumed			Revenue		
	<u>2016</u>	<u>2015</u>	Increase (Decrease)	<u>2016</u>	<u>2015</u>	Increase (Decrease)
Residential	59,050,592	61,603,615	(2,553,023)	6,854,403	6,526,500	\$ 327,903
Residential - rural	146,622,310	151,796,752	(5,174,442)	16,623,266	15,673,567	949,699
Commercial	76,203,011	76,617,546	(414,535)	9,078,232	8,465,272	612,960
Commercial - rural	41,308,331	44,388,884	(3,080,553)	5,429,685	5,440,209	(10,524)
Street lighting	498,406	496,500	1,906	90,130	85,160	4,970
Security lighting	2,079,748	2,107,437	(27,689)	389,719	393,274	(3,555)
	<u>325,762,398</u>	<u>337,010,734</u>	<u>(11,248,336)</u>	<u>38,465,435</u>	<u>36,583,982</u>	<u>\$ 1,881,453</u>

See accompanying notes and independent auditors' report

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

FLORESVILLE, TEXAS

SCHEDULE OF POWER PURCHASED AND SOLD

Year Ended December 31, 2016

	KWH Purchased	Gross KWH Consumed**	No charge KWH Consumed	KWH loss	Percentage of loss based on 24 month averaging*
January	30,171,586	27,087,052	34,404	3,118,938	4.2128
February	23,168,124	26,147,813	34,496	(2,945,193)	4.6931
March	22,510,116	21,588,774	31,839	953,181	5.3148
April	23,560,057	21,903,376	37,340	1,694,021	4.2913
May	28,223,994	22,703,081	39,908	5,560,821	4.5457
June	33,623,694	26,203,918	40,190	7,459,966	5.3966
July	39,201,289	32,979,157	50,927	6,273,059	4.3520
August	36,231,722	37,136,887	45,122	(860,043)	4.2549
September	32,696,563	32,785,375	45,210	(43,602)	3.5573
October	28,054,652	28,760,581	41,980	(663,949)	3.8269
November	22,626,951	27,878,062	42,131	(5,208,980)	4.1112
December	<u>28,418,798</u>	<u>20,588,322</u>	<u>29,766</u>	<u>7,860,242</u>	<u>5.1986</u>
	<u>348,487,546</u>	<u>325,762,398</u>	<u>473,313</u>	<u>23,198,461</u>	<u>4.4796 ***</u>

\* - Total KWH lost during 24 month period ended the current month divided by total KWH purchased during the same period.

\*\* - Represents total KWH billed plus no-charge KWH consumed

\*\*\* - Represents the average of the twelve monthly calculations

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CHANGES IN FELPS' NET  
PENSION LIABILITY AND RELATED RATIOS

	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>		
Service cost	\$ 495,522	\$ 481,089
Interest	1,372,330	1,315,357
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	(445,415)	696,030
Benefit payments, including refunds, of member contributions	<u>(1,001,982)</u>	<u>(868,856)</u>
Net change in pension liability	420,455	1,623,620
Total pension liability - beginning	<u>21,806,374</u>	<u>20,182,754</u>
Total pension liability - ending	<u>\$ 22,226,829</u>	<u>\$ 21,806,374</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 580,600	\$ 572,455
Contributions - employee	190,865	172,470
Net investment income	(218,140)	374,546
Benefit payments, including refunds of member contributions	(1,001,982)	(868,856)
Administrative expenses	(40,616)	-
Other	-	-
Net change in plan fiduciary net positions	(489,273)	250,615
Plan fiduciary net position-beginning	<u>9,982,034</u>	<u>9,731,419</u>
Plan fiduciary net position-ending	<u>\$ 9,492,761</u>	<u>\$ 9,982,034</u>
Sponsor's net position liability-ending	<u>\$ 12,734,068</u>	<u>\$ 11,824,340</u>
Plan fiduciary net position as a percentage of the total pension liability	42.71%	45.78%
Covered employee payroll	\$ 3,992,920	\$ 3,846,500
Sponsor's net pension liability as a percentage of covered employee payroll	318.92%	307.41%

Note: January 1, 2015 was the measurement date used for the 2016 and 2015 balances.

CITY OF FLORESVILLE ELECTRIC LIGHT AND POWER SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS TO PENSION PLAN

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 580,600	\$ 572,455
Contributions in relation to the actuarially determined contribution	598,938	576,975
Total pension liability - ending	<u>\$ (18,338)</u>	<u>\$ (4,520)</u>
Covered employee payroll	\$ 3,992,921	\$ 3,846,500
Contributions as a percentage of covered employee payroll	15.00%	15.00%

**Notes to schedule:**

Although the plan is not subject to minimum funding requirements, the Sponsor is currently and expects to continue to fund at the rate of 15% of payroll, in addition to employee contributions. Based on the current plan participants and assuming that future employees have similar characteristics to current employees and that payroll increases 5% per year, expected future contributions and investment earnings on the fund, fund assets are expected to be sufficient to make benefit payments in all future years. However, this projection also shows that there is no margin for error in this calculation.

**Methods and assumptions used to help determine contribution rates:**

Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	5 - year smoothed market
Inflation	3.00%
Salary increases	5.00%
Investment rate of return	6.50%
Retirement age	First of month coincident with or next following the 65th birthday.
Mortality	The mortality table for active and retired lives changed to the RP-2014 Employee and Annuitant Blue Collar Table for males and females with generational projections from 2014 using scale MP-2014. The disable retiree mortality table changed to the RP-2014 Disabled Retiree Mortality with no projection.

Note: January 1, 2015 was the measurement date used for the 2016 and 2015 balances.

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 Board of Trustees  
City of Floresville Electric Light  
and Power System  
Floresville, Texas

We have audited the statements of net position of City of Floresville Electric Light and Power System, as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2017. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Floresville Electric Light and Power System's financial statements are free of 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.

We noted certain matters that we have reported to management of City of Floresville Electric Light and Power System, in a separate letter dated January 31, 2017.

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.

*Haass, Lindow & Campsey,*

A Professional Corporation

January 31, 2017

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