

ANNUAL FINANCIAL REPORT

of the

**CITY OF
LIBERTY HILL, TEXAS**

For the Year Ended
September 30, 2014

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CITY OF LIBERTY HILL, TEXAS

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September 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Liberty Hill, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Liberty Hill, Texas (the "City"), as of and for the year ended September 30, 2014, 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.

Auditors' 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 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 the City'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 City'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, and each major fund of the City as of September 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on 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 Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 11, 2015

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities – Most of the City's basic services are reported here, which include general government, public safety, and public works. Interest payments on the City's governmental debt are also reported here. Sales taxes, property taxes, franchise taxes, and other revenue finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's water, wastewater, and sewer operations. Interest payments on the City's business-type debt are also reported here.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains four governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and Liberty Hill Economic Development Corporation (LHEDC) fund which are considered to be major funds, as well as the street maintenance fund, which the City has elected to present as a major fund.

The City adopts an annual appropriated budget for each of its four governmental funds. Budgetary comparison schedules have been provided for each fund to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains three proprietary funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City reports a water, wastewater treatment, and sewer funds which are considered to be major funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds account for

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

water, sewer and wastewater operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedules for the general fund, LHEDC fund, street maintenance fund and the schedule of funding progress for the Texas Municipal Retirement System. RSI can be found after the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities by \$8,384,520 as of September 30, 2014. A portion of the City's net position (18 percent) reflects its investment in capital assets (e.g., land and City hall, as well as the public works facilities). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	September 30, 2014			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 2,081,048	\$ 5,008,508	\$ -	\$ 7,089,556
Capital assets, net	889,465	12,108,719	-	12,998,184
Total Assets	2,970,513	17,117,227	-	20,087,740
Long-term liabilities	5,956,215	5,520,000	-	11,476,215
Other liabilities	87,656	139,349	-	227,005
Total Liabilities	6,043,871	5,659,349	-	11,703,220
Net Position:				
Net investment in capital assets	884,765	6,588,719	(5,935,000)	1,538,484
Restricted	1,228,973	3,107,747	-	4,336,720
Unrestricted	(5,187,096)	1,761,412	5,935,000	2,509,316
Total Net Position	\$ (3,073,358)	\$ 11,457,878	\$ -	\$ 8,384,520

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

	September 30, 2013			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 1,487,129	\$ 4,208,295	\$ -	\$ 5,695,424
Capital assets, net	695,903	12,351,495	-	13,047,398
Total Assets	2,183,032	16,559,790	-	18,742,822
Long-term liabilities	6,317,283	5,745,000	-	12,062,283
Other liabilities	60,761	160,407	-	221,168
Total Liabilities	6,378,044	5,905,407	-	12,283,451
Net Position:				
Net investment in capital assets	673,057	6,606,495	(6,285,000)	994,552
Restricted	1,311,046	3,489,206	-	4,800,252
Unrestricted	(6,179,115)	558,682	6,285,000	664,567
Total Net Position	\$ (4,195,012)	\$ 10,654,383	\$ -	\$ 6,459,371

A portion of the City's net position, \$4,336,720, represents resources restricted to a specific purpose. The balance of unrestricted net position, \$2,509,316, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by \$1,925,149 during the current fiscal year, an increase of 30 percent over the prior year. The overall condition of the City improved during the year primarily due to lower operating expenses to revenues for charges for service.

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities, in the amount of \$5,935,000, is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

Statement of Activities

The following table provides a summary of the City's changes in net position.

	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 299,387	\$ 2,935,049	\$ 3,234,436	\$ 272,599	\$ 1,832,304	\$ 2,104,903
Operating grants and contributions	52,556	12,110	64,666	98,085	828,093	926,178
General revenues:						
Property taxes	623,844	-	623,844	625,291	-	625,291
Sales taxes	760,999	-	760,999	677,514	-	677,514
Franchise and local taxes	106,154	-	106,154	101,931	-	101,931
Other	235,609	393	236,002	8,518	38,023	46,541
Total Revenues	<u>2,078,549</u>	<u>2,947,552</u>	<u>5,026,101</u>	<u>1,783,938</u>	<u>2,698,420</u>	<u>4,482,358</u>
Expenses						
General government	534,045	-	534,045	462,100	-	462,100
Municipal court	124,265	-	124,265	131,268	-	131,268
Public safety	342,284	-	342,284	348,719	-	348,719
Public works	80,218	-	80,218	99,135	-	99,135
Water, sewer, and wastewater collections	-	1,646,855	1,646,855	-	1,280,771	1,280,771
Interest and fiscal agent fees on long-term debt	161,946	211,339	373,285	169,406	265,018	434,424
Total Expenses	<u>1,242,758</u>	<u>1,858,194</u>	<u>3,100,952</u>	<u>1,210,628</u>	<u>1,545,789</u>	<u>2,756,417</u>
Increase (Decrease) in Net Position Before Transfers	835,791	1,089,358	1,925,149	573,310	1,152,631	1,725,941
Transfers in (out)	285,863	(285,863)	-	163,681	(163,681)	-
Change in Net Position	1,121,654	803,495	1,925,149	736,991	988,950	1,725,941
Beginning net position	(4,195,012)	10,654,383	6,459,371	(4,932,003)	9,665,433	4,733,430
Ending Net Position	<u>\$ (3,073,358)</u>	<u>\$ 11,457,878</u>	<u>\$ 8,384,520</u>	<u>\$ (4,195,012)</u>	<u>\$ 10,654,383</u>	<u>\$ 6,459,371</u>

Overall, governmental activities revenue increased. Sales taxes revenue increased by \$83,485 or 12 percent due to a rising economy. Other revenues also increased over the prior year by \$227,091 due primarily to fees from master development agreements with developers. Governmental expenses were comparable to the prior year and increased by \$32,130.

Revenue for business-type activities increased by \$249,132 or nine percent from the prior year mainly due to a higher volume of usage of the City's wastewater treatment plant. Similarly, business-type expenses increased by \$312,405 or 20 percent as a result of the increases in operating the wastewater treatment plant.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The City's governmental funds reflect a combined fund balance of \$1,993,034. At the end of the current year, \$764,061 was unassigned. Total restricted fund balance for various purposes is \$1,195,913.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$764,061, while total fund balance reached \$832,758. Of this amount, \$35,637 is restricted for municipal court security and technology and \$33,060 is restricted for communication equipment that is related to Public Education Government fees collected from cable companies. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 79 percent of total general fund expenditures, while total fund balance represents 86 percent of the same amount. The general fund in total demonstrated an overall increase of \$540,364 due to a transfer in from the enterprise fund and revenue received from master development agreements with unincorporated entities.

The debt service fund balance of \$82,231 is restricted for future debt payments of principal and interest. The debt service fund slightly increased by \$14,918.

The economic development corporation fund balance increased \$35,675 as a result of more sales tax revenue than expenditures during the year. The ending fund balance of \$710,348 is restricted for economic development.

The street maintenance fund reported a fund balance of \$367,697 which was a decrease in fund balance of \$30,167. The street maintenance fund is restricted for repair and maintenance expenditures on streets in the City.

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgeted general fund revenues exceeded actual revenues by \$152,210 during the year. This net negative variance includes the positive variance of \$2,582 for property tax revenues due to a better collections rate than expected. The net negative variance is primarily due to less revenue from fines and forfeitures which was the result of less citations being written during the year. General fund expenditures were under the final budget by \$347,433 mainly due to a positive variance of \$251,725 in general administration expenditures. This positive variance comes from less spending on payroll than expected.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds had invested \$889,465 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$193,562 from the prior year. The City's business-type activities funds had invested \$12,108,719 in capital assets and infrastructure (net of accumulated depreciation). This represents a decrease of \$301,522 from the prior year.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

Major capital asset events during the year included the following:

- Public park for paving and fence of \$79,144
- Repair of roads that added life and value to infrastructure of \$157,633
- Construction in progress related to the Phase 3B wastewater and sewer system for \$58,746

More detailed information about the City's capital assets is presented in note III. C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City's governmental funds had total certificates of obligation outstanding of \$5,935,000. Business-type activities had total revenue bonds outstanding of \$5,520,000 at year end. More detailed information about the City's long-term liabilities is presented in note III.D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved a \$1.8 million budget for the 2014/2015 year. The total property tax rate for 2015 remains the same at \$0.536426. The maintenance and operation rate will decrease to \$0.099007 and debt service rate will increase to \$0.437419.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Amber Lewis, City Finance Director, City Hall, 1120 Loop 332, Liberty Hill, Texas, 78642; telephone (512) 778-5449.

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BASIC FINANCIAL STATEMENTS

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

September 30, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Assets				
Cash and cash equivalents	\$ 1,900,683	\$ 4,723,936	\$ -	\$ 6,624,619
Receivables, net	180,365	284,572	-	464,937
	2,081,048	5,008,508	-	7,089,556
Capital assets:				
Nondepreciable capital assets	209,987	1,103,416	-	1,313,403
Net depreciable capital assets	679,478	11,005,303	-	11,684,781
	889,465	12,108,719	-	12,998,184
Total Assets	2,970,513	17,117,227	-	20,087,740
Liabilities				
Accounts payable and accrued liabilities	75,268	30,829	-	106,097
Customer deposits	-	92,055	-	92,055
Accrued interest	12,388	16,465	-	28,853
	87,656	139,349	-	227,005
Noncurrent liabilities:				
Long-term liabilities due within one year	379,864	235,000	-	614,864
Long-term liabilities due in more than one year	5,576,351	5,285,000	-	10,861,351
	5,956,215	5,520,000	-	11,476,215
Total Liabilities	6,043,871	5,659,349	-	11,703,220
Net Position				
Net investment in capital assets	884,765	6,588,719	(5,935,000)	1,538,484
Restricted	1,228,973	3,107,747	-	4,336,720
Unrestricted	(5,187,096)	1,761,412	5,935,000	2,509,316
Total Net Position	\$ (3,073,358)	\$ 11,457,878	\$ -	\$ 8,384,520

See Notes to Financial Statements.

CITY OF LIBERTY HILL, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 534,045	\$ 217,916	\$ -
Municipal court	124,265	-	-
Public safety	342,284	81,471	-
Public works	80,218	-	52,556
Interest and fiscal agent fees on long-term debt	161,946	-	-
Total Governmental Activities	1,242,758	299,387	52,556
Business-Type Activities			
Water, sewer, and wastewater collections	1,646,855	2,935,049	12,110
Interest and fiscal agent fees on long-term debt	211,339	-	-
Total Business-Type Activities	1,858,194	2,935,049	12,110
Total Primary Government	\$ 3,100,952	\$ 3,234,436	\$ 64,666

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and local taxes

Other

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (316,129)	\$ -	\$ (316,129)
(124,265)	-	(124,265)
(260,813)	-	(260,813)
(27,662)	-	(27,662)
(161,946)	-	(161,946)
<u>(890,815)</u>	<u>-</u>	<u>(890,815)</u>
-	1,300,304	1,300,304
-	(211,339)	(211,339)
<u>-</u>	<u>1,088,965</u>	<u>1,088,965</u>
<u>(890,815)</u>	<u>1,088,965</u>	<u>198,150</u>
623,844	-	623,844
760,999	-	760,999
106,154	-	106,154
235,609	393	236,002
285,863	(285,863)	-
<u>2,012,469</u>	<u>(285,470)</u>	<u>1,726,999</u>
1,121,654	803,495	1,925,149
<u>(4,195,012)</u>	<u>10,654,383</u>	<u>6,459,371</u>
<u>\$ (3,073,358)</u>	<u>\$ 11,457,878</u>	<u>\$ 8,384,520</u>

CITY OF LIBERTY HILL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2014

	General	Debt Service	Liberty Hill Economic Development Corporation	Street Maintenance
<u>Assets</u>				
Cash and cash equivalents	\$ 871,086	\$ 30,361	\$ 648,239	\$ 350,997
Receivables, net	110,422	10,448	39,663	19,832
Due from other funds	-	51,870	22,446	2,228
Total Assets	\$ 981,508	\$ 92,679	\$ 710,348	\$ 373,057
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 69,908	\$ -	\$ -	\$ 5,360
Due to other funds	76,544	-	-	-
Total Liabilities	146,452	-	-	5,360
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	2,298	10,448	-	-
<u>Fund Balances</u>				
Restricted:				
Municipal court	35,637	-	-	-
Communication equipment	33,060	-	-	-
Street maintenance	-	-	-	367,697
Debt service	-	82,231	-	-
LHEDC	-	-	710,348	-
Unassigned	764,061	-	-	-
Total Fund Balances	832,758	82,231	710,348	367,697
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 981,508	\$ 92,679	\$ 710,348	\$ 373,057

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

Nondepreciable capital assets

Net depreciable capital assets

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Unavailable revenue related to property taxes

Some liabilities, including bonds payable and accrued interest payable, are not reported as liabilities in the governmental funds.

Accrued interest

Long-term liabilities due within one year

Long-term liabilities due in more than one year

Net Position of Governmental Activities

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 1,900,683
180,365
76,544
\$ 2,157,592

\$ 75,268
76,544
151,812

12,746

35,637
33,060
367,697
82,231
710,348
764,061
1,993,034

209,987
679,478

12,746

(12,388)
(379,864)
(5,576,351)
\$ (3,073,358)

CITY OF LIBERTY HILL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Liberty Hill Economic Development Corporation</u>	<u>Street Maintenance</u>
Property taxes	\$ 90,892	\$ 527,355	\$ -	\$ -
Sales taxes	438,521	-	214,985	107,493
Franchise and local taxes	106,154	-	-	-
Fines and forfeitures	81,471	-	-	-
Licenses and permits	217,916	-	-	-
Intergovernmental	52,556	-	-	-
Other	231,623	146	3,718	122
Total Revenues	<u>1,219,133</u>	<u>527,501</u>	<u>218,703</u>	<u>107,615</u>
<u>Expenditures</u>				
Current:				
General administration	382,430	-	183,028	-
Municipal court	124,265	-	-	-
Police department	356,493	-	-	-
Parks and recreation and street maintenance	101,444	-	-	137,782
Debt service:				
Principal	-	350,000	-	-
Interest expense	-	162,583	-	-
Total Expenditures	<u>964,632</u>	<u>512,583</u>	<u>183,028</u>	<u>137,782</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>254,501</u>	<u>14,918</u>	<u>35,675</u>	<u>(30,167)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	285,863	-	-	-
Total Other Financing Sources	<u>285,863</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	540,364	14,918	35,675	(30,167)
Beginning fund balances	292,394	67,313	674,673	397,864
Ending Fund Balances	<u>\$ 832,758</u>	<u>\$ 82,231</u>	<u>\$ 710,348</u>	<u>\$ 367,697</u>

See Notes to Financial Statements.

Total Governmental Funds	
\$	618,247
	760,999
	106,154
	81,471
	217,916
	52,556
	235,609
	<u>2,072,952</u>
	565,458
	124,265
	356,493
	239,226
	350,000
	162,583
	<u>1,798,025</u>
	274,927
	<u>285,863</u>
	<u>285,863</u>
	560,790
	1,432,244
\$	<u><u>1,993,034</u></u>

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CITY OF LIBERTY HILL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

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

Net change in fund balances - total governmental funds	\$	560,790
--	----	---------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset acquisitions and retirements		236,777
Depreciation expense		(43,215)

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

Net change in unavailable revenue - property taxes		5,597
--	--	-------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Principal paid on long-term debt		368,146
Accrued interest expense		637

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences		(7,078)
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Change in Net Position of Governmental Activities	\$	<u>1,121,654</u>
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See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2014

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,858,215	\$ 1,029,269	\$ 836,452	\$ 4,723,936
Receivables, net	15,014	181,866	87,692	284,572
Due from other funds	-	-	5,562	5,562
Total Current Assets	2,873,229	1,211,135	929,706	5,014,070
Noncurrent Assets				
Capital assets:				
Land	521,486	393,700	129,484	1,044,670
Construction in progress	34,504	24,242	-	58,746
Wastewater treatment facility	-	4,081,917	-	4,081,917
Water system	-	-	1,694,907	1,694,907
Sewer system	6,284,046	-	-	6,284,046
Less accumulated depreciation	(729,925)	(204,097)	(121,545)	(1,055,567)
Total Net Depreciable Assets	5,554,121	3,877,820	1,573,362	11,005,303
Total Noncurrent Assets	6,110,111	4,295,762	1,702,846	12,108,719
Total Assets	8,983,340	5,506,897	2,632,552	17,122,789
Liabilities				
Current Liabilities				
Accounts payable	-	30,829	-	30,829
Customer deposits	-	7,900	84,155	92,055
Due to other funds	-	5,562	-	5,562
Accrued interest	-	10,903	5,562	16,465
Total Current Liabilities	-	55,194	89,717	144,911
Noncurrent Liabilities				
Long-term liabilities due within one year	-	140,000	95,000	235,000
Long-term liabilities due in more than one year	-	3,395,000	1,890,000	5,285,000
Total Noncurrent Liabilities	-	3,535,000	1,985,000	5,520,000
Total Liabilities	-	3,590,194	2,074,717	5,664,911
Net Position				
Net investment in capital assets	6,110,111	760,762	(282,154)	6,588,719
Restricted for:				
Debt service	-	160,324	141,933	302,257
TWDB capital projects	1,463,948	-	-	1,463,948
WWTF capital projects	-	201,823	-	201,823
Water and sewer capital projects	770,675	-	369,044	1,139,719
Unrestricted	638,606	793,794	329,012	1,761,412
Total Net Position	\$ 8,983,340	\$ 1,916,703	\$ 557,835	\$ 11,457,878

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended September 30, 2014

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<u>Operating Revenues</u>				
Water charges	\$ -	\$ -	\$ 693,421	\$ 693,421
Sewer revenue	536,724	-	-	536,724
Wastewater treatment	-	1,704,904	-	1,704,904
Regional wastewater contributions	-	12,110	-	12,110
Total Operating Revenues	536,724	1,717,014	693,421	2,947,159
<u>Operating Expenses</u>				
Water operations	-	-	416,677	416,677
Sewer operations	130,102	-	-	130,102
Wastewater collection operations	-	798,554	-	798,554
Depreciation	157,101	102,048	42,373	301,522
Total Operating Expenses	287,203	900,602	459,050	1,646,855
Operating Income	249,521	816,412	234,371	1,300,304
<u>Nonoperating Revenues (Expenses)</u>				
Interest expense and fiscal agent fees	-	(141,295)	(70,044)	(211,339)
Investment income	50	343	-	393
	<u>50</u>	<u>(140,952)</u>	<u>(70,044)</u>	<u>(210,946)</u>
Income Before Transfers	249,571	675,460	164,327	1,089,358
Transfers (out)	-	(285,863)	-	(285,863)
Change in Net Position	249,571	389,597	164,327	803,495
Beginning net position	8,733,769	1,527,106	393,508	10,654,383
Ending Net Position	\$ 8,983,340	\$ 1,916,703	\$ 557,835	\$ 11,457,878

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2014

	Sewer	Wastewater Treatment	Water	Business-Type Activities
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 521,710	\$ 1,626,877	\$ 687,997	\$ 2,836,584
Payments for costs of services	(337,965)	(721,807)	(317,375)	(1,377,147)
Net Cash Provided by Operating Activities	183,745	905,070	370,622	1,459,437
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers (out) to other funds	-	(285,863)	-	(285,863)
Net Cash (Used) by Noncapital Financing Activities	-	(285,863)	-	(285,863)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(34,504)	(24,242)	-	(58,746)
Principal paid on capital debt	-	(135,000)	(90,000)	(225,000)
Interest and fiscal agent fees paid	-	(141,295)	(70,044)	(211,339)
Net Cash (Used) by Capital and Related Financing Activities	(34,504)	(300,537)	(160,044)	(495,085)
<u>Cash Flows from Investing Activities</u>				
Interest received	50	343	-	393
Net Cash Provided by Investing Activities	50	343	-	393
Net Increase in Cash and Cash Equivalents	149,291	319,013	210,578	678,882
Beginning cash and cash equivalents	2,708,924	710,256	625,874	4,045,054
Ending Cash and Cash Equivalents	\$ 2,858,215	\$ 1,029,269	\$ 836,452	\$ 4,723,936
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income	\$ 249,521	\$ 816,412	\$ 234,371	\$ 1,300,304
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	157,101	102,048	42,373	301,522
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(15,014)	(91,060)	(15,256)	(121,330)
Due from other funds	-	108,561	93,740	202,301
Increase (Decrease) in:				
Accounts payable	-	(31,308)	-	(31,308)
Accrued interest	-	(6,068)	5,562	(506)
Due to other funds	(207,863)	5,562	-	(202,301)
Customer deposits	-	923	9,832	10,755
Net Cash Provided by Operating Activities	\$ 183,745	\$ 905,070	\$ 370,622	\$ 1,459,437

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Liberty Hill, Texas (the “City”) was incorporated under the laws of the State of Texas in January 1999. The City operates as a “General Law” City, which provides for a “Mayor-Council” form of government.

The City provides the following services: public safety, highways and streets, sanitation, water and sewer services, and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. They present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operation. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Blended Component Unit

Liberty Hill Economic Development Corporation

The Liberty Hill Economic Development Corporation (the “LHEDC”) is a non profit corporation organized under the Development Corporation Act of 1979 and covered by Section 4B of the Act. The LHEDC was organized exclusively for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City; and for the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The LHEDC is governed by a board of directors appointed by the City Council. The LHEDC is responsible for managing a one-half percent sales tax for its economic development activities on behalf of the City. The LHEDC’s budget requires approval from City Council.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component unit. Governmental activities, which are normally 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.

C. Basis of Presentation – Government-Wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water, wastewater, and sewer operation functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including the blended component unit. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, municipal court, police department, and parks and recreation.

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include the Liberty Hill Economic Development Corporation (LHEDC) which is considered a major fund for reporting purposes. The City also has a street and maintenance fund which is considered a nonmajor fund; however, the City has elected to present this fund as a major fund due to its significance.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The City reports the following enterprise fund:

The *enterprise funds* are used to account for the operations that provide water, sewer operations, and wastewater treatment. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The sewer, wastewater treatment, and water funds are considered major funds for reporting purposes.

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term, highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Mutual funds of a specific type
- Statewide investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) and are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and fixtures	4-8 years
Infrastructure	40 years
Machinery and equipment	4-8 years
Water and sewer system	20-40 years
Buildings and improvements	10-40 years

5. 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 no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of 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, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation. Accumulated amounts, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. The long-term debt consists primarily of bonds payable and accrued compensated absences. Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements, as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Post Employment Healthcare Benefits

The City does not provide post employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by the employees who elect coverage under COBRA and the City incurs no direct costs.

12. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. Penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services and operating contributions. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined in the approved budget is at the department level. The original and final budget are presented for the general and major special revenue fund. The City presents the final budget for the debt service fund. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2014.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2014, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
State Pool (TexPool)	\$ 515,504	0.00
Government Money Market Fund	1,090,398	0.00
Total Investments	\$ 1,605,902	
Portfolio Weighted Average Maturity		0.00

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. State law and the City’s investment policy limit investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent. Further, commercial paper must be rated not less than “A-1” or “P-1” or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2014, the City’s investments in TexPool were rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2014, market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rate TexPool “AAAm”. As a requirement to maintain the rating, weekly

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

B. Receivables

The following comprises receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>LHEDC</u>	<u>Street Maintenance</u>
Property taxes	\$ 2,576	\$ 11,253	\$ -	\$ -
Other taxes	108,123	-	39,663	19,832
Less allowance	(277)	(805)	-	-
Total	<u>\$ 110,422</u>	<u>\$ 10,448</u>	<u>\$ 39,663</u>	<u>\$ 19,832</u>

	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>
Accounts	\$ 21,530	\$ 218,147	\$ 119,282
Less allowance	(6,516)	(36,281)	(31,590)
Total	<u>\$ 15,014</u>	<u>\$ 181,866</u>	<u>\$ 87,692</u>

C. Capital Assets

A summary of changes in capital assets for the year is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 209,987	\$ -	\$ -	\$ 209,987
	<u>209,987</u>	<u>-</u>	<u>-</u>	<u>209,987</u>
Other capital assets:				
Building and improvements	557,705	236,777	-	794,482
Machinery and equipment	461,882	-	-	461,882
	<u>1,019,587</u>	<u>236,777</u>	<u>-</u>	<u>1,256,364</u>
Less accumulated depreciation for:				
Building and improvements	(96,320)	(21,701)	-	(118,021)
Machinery and equipment	(437,351)	(21,514)	-	(458,865)
	<u>(533,671)</u>	<u>(43,215)</u>	<u>-</u>	<u>(576,886)</u>
Other capital assets, net	<u>485,916</u>	<u>193,562</u>	<u>-</u>	<u>679,478</u>
Governmental Activities Capital Assets, Net	<u>\$ 695,903</u>	<u>\$ 193,562</u>	<u>\$ -</u>	<u>\$ 889,465</u>
			Less associated debt	(4,700)
			Net investment in capital assets	<u>\$ 884,765</u>

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

Depreciation was charged to governmental functions as follows:

General government	\$	19,140
Public safety		3,937
Public works		<u>20,138</u>
Total Governmental Activities Depreciation Expense	\$	<u>43,215</u>

The following is a summary of changes in capital assets for business-type activities for the year:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 1,044,670	\$ -	\$ -	\$ 1,044,670
Construction in progress	-	58,746	-	58,746
	<u>1,044,670</u>	<u>58,746</u>	<u>-</u>	<u>1,103,416</u>
Other capital assets:				
Wastewater treatment facility	4,081,916	-	-	4,081,916
Water system	1,694,907	-	-	1,694,907
Sewer system	6,284,046	-	-	6,284,046
	<u>12,060,869</u>	<u>-</u>	<u>-</u>	<u>12,060,869</u>
Less accumulated depreciation for:				
Wastewater treatment facility	(102,048)	(102,048)	-	(204,096)
Water system	(79,172)	(42,373)	-	(121,545)
Sewer system	(572,824)	(157,101)	-	(729,925)
	<u>(754,044)</u>	<u>(301,522)</u>	<u>-</u>	<u>(1,055,566)</u>
Other capital assets, net	<u>11,306,825</u>	<u>(301,522)</u>	<u>-</u>	<u>11,005,303</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,351,495</u>	<u>\$ (242,776)</u>	<u>\$ -</u>	<u>\$ 12,108,719</u>
			Less associated debt	<u>(5,520,000)</u>
			Net Investment in Capital Assets	<u>\$ 6,588,719</u>

Depreciation was charged to business-type functions as follows:

Water operations	\$	42,373
Sewer operations		157,101
Wastewater collection operations		102,048
Total Business-Type Activities Depreciation Expense	\$	<u>301,522</u>

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

D. Long-Term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
2006A Certificates of Obligation	\$ 1,040,000	\$ -	\$ (60,000)	\$ 980,000	* \$ 60,000
2006B Certificates of Obligation	5,245,000	-	(290,000)	4,955,000	* 305,000
Capital leases	22,846	-	(18,146)	4,700	** -
Compensated absences	9,437	27,972	(20,894)	16,515	14,864
Total Governmental Activities	<u>\$ 6,317,283</u>	<u>\$ 27,972</u>	<u>\$ (389,040)</u>	<u>\$ 5,956,215</u>	<u>\$ 379,864</u>
				<u>Long-term liabilities due in more than one year</u>	<u>\$ 5,576,351</u>
				<u>*Debt associated with business-type capital assets</u>	<u>\$ 5,935,000</u>
				<u>**Debt associated with the governmental capital assets</u>	<u>\$ 4,700</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The following is a summary of changes in the City's total business-type long-term liabilities for the year. The City uses the water and wastewater service revenues to liquidate business-type long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
2012 Water Revenue Bond	\$ 2,075,000	\$ -	\$ (90,000)	\$ 1,985,000	* \$ 95,000
2012 Wastewater Treatment Facility Revenue Bond	3,670,000	-	(135,000)	3,535,000	* 140,000
Total Business-Type Activities	<u>\$ 5,745,000</u>	<u>\$ -</u>	<u>\$ (225,000)</u>	<u>\$ 5,520,000</u>	<u>\$ 235,000</u>
				<u>Long-term liabilities due in more than one year</u>	<u>\$ 5,285,000</u>
				<u>*Debt associated with business-type capital assets</u>	<u>\$ 5,520,000</u>

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

Governmental activities long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Certificates of Obligation		
Series 2006A	3.00-3.65%	\$ 980,000
Series 2006B	2.00-2.65%	4,955,000
Total Certificates of Obligation		<u>5,935,000</u>
Capital Leases		
Dodge charger	5.80%	4,700
Total Capital Leases		<u>4,700</u>
Total Governmental Activities Long-Term Debt		<u>\$ 5,939,700</u>

Business-type activities long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Revenue Bonds		
2012 Water Revenue Bond	1.00-4.85%	\$ 1,985,000
Wastewater Treatment Facility		
Series 2012	3.85%	3,535,000
Total Revenue Bonds		<u>5,520,000</u>
Total Business-Type Activities Long-Term Debt		<u>\$ 5,520,000</u>

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sep. 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 365,000	\$ 154,632	\$ 235,000	\$ 205,523
2016	375,000	146,186	240,000	198,707
2017	390,000	137,335	245,000	191,463
2018	405,000	127,910	255,000	183,787
2019	320,000	117,945	265,000	175,470
2020-2024	2,450,000	406,405	1,455,000	731,880
2025-2029	1,630,000	79,493	1,755,000	317,538
2030-2033	-	-	1,070,000	81,760
Total	<u>\$ 5,935,000</u>	<u>\$ 1,169,906</u>	<u>\$ 5,520,000</u>	<u>\$ 2,086,128</u>

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

Capital Leases

The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending Sep. 30	<u>Governmental Activities</u>	
2015	<u>Principal</u>	<u>Interest</u>
	\$ 4,700	\$ 68

The assets acquired through capital leases are as follows:

Assets:	<u>Governmental Activities</u>
Machinery and equipment	\$ 40,898
Less: Accumulated depreciation	(33,400)
Total	<u>\$ 7,498</u>

Federal Arbitrage

The City borrowed \$8,130,000 in 2007 from the Texas Water Development Board (TWDB) Clean Water Service Revolving Fund Program for the purpose of constructing wastewater collection facilities and purchasing treatment capacity to serve all residents and businesses within the City's limits. The project was to be constructed in four phases. The first three phases of the collection system were designed by another engineer that is no longer contracted with the City. The first two phases were constructed. In 2009, the City hired a new engineer, Steger Bizzell, to redesign the remaining unconstructed phases as a gravity sewer system. The City and Steger Bizzell spent the next 12 months working with the TWDB on the superiority and lower cost associated with the gravity system. After that time, the City was approved to redesign the final two phases as gravity sewer. The final phase has been designed and publicly bid, and was awarded in July 2014 for construction. Construction should be complete by the end of fiscal year 2015 and all TWDB loan proceeds will have been expended.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, could result in a substantial liability to the City. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

E. Interfund Transactions

Transfers between the primary government funds during the year were as follows:

Transfer In	Transfer Out	Amount
General Fund	Wastewater Fund	\$ 285,863

Amounts transferred between funds were related to operating activities.

The composition of interfund balances was as follows:

Receivable Fund	Payable Fund	Amount
Street Maintenance Fund	General Fund	\$ 2,228
LHEDC Fund	General Fund	22,446
Debt Service Fund	General Fund	51,870
	Total	\$ 76,544

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

F. Fund Equity

Funds restricted by enabling legislation are \$68,697, which are related to municipal court security and technology fees and Public Education Government fees.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

G. Restatement of Net Position/Fund Balance

Beginning net position and fund balance have been restated to separate the street maintenance, sewer, wastewater, and water funds. The restatements are as follows:

	<u>Governmental Funds</u>		<u>Business-Type Activities</u>			
	<u>General</u>	<u>Street Maintenance</u>	<u>Enterprise</u>	<u>Sewer</u>	<u>Wastewater Treatment</u>	<u>Water</u>
	Beginning fund balance as reported	\$ 690,258	-	\$ 10,654,383	-	-
Establishing cash accounts	(494,846)	494,846	(4,045,054)	2,708,924	710,256	625,874
Accounts receivables	(16,876)	16,876	(12,351,496)	6,232,708	4,373,569	1,745,219
Due to/from other fund	113,858	(113,858)	-	(207,863)	108,561	99,302
Accounts receivables			(163,242)	-	90,806	72,436
Accounts payable			62,138	-	(62,138)	-
Customer deposits			81,300	-	(6,977)	(74,323)
Accrued interest			16,971	-	(16,971)	-
Long term debt and related costs			5,745,000	-	(3,670,000)	(2,075,000)
Restated beginning fund balances/net position	<u>\$ 292,394</u>	<u>\$ 397,864</u>	<u>\$ -</u>	<u>\$ 8,733,769</u>	<u>\$ 1,527,106</u>	<u>\$ 393,508</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at www.TMRS.com.

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

	<u>2014</u>	<u>2013</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The City contributes to TMRS at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and the net pension obligation (asset) are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Req. Contrib. (ARC)	\$ 10,962	\$ 8,360	\$ 10,077
Contributions Made	10,962	8,360	10,077
Total Net Pension Obligation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	25 Years - Closed period	29.2 Years - Closed period	21.1 Years - Closed period
Amortization Period for			
New Gains and Losses	16 years	16 years	18 Years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost of Living Adjustments	0.00%	0.00%	0.00%

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report.

The funded status as of December 31, 2013, the most recent valuation date, is presented as follows:

	<u>2014</u>
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 238,826
Actuarial Accrued Liability	\$ 243,843
Percentage Funded	97.9%
Unfunded Actuarial Accrued	
Liability (UAAL)	\$ 5,017
Annual Covered Payroll	\$ 404,134
UAAL as a Percentage of	
Covered Payroll	1.2%

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

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. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Other Post Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. For the year ended September 30, 2014, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2014, 2013, and 2012 were \$124, \$120, and \$144, respectively, which equaled the required contributions each year. The City's contribution rates for the past three years are shown below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Req. Contrib. (Rate)	0.00%	0.00%	0.00%
Actual Contribution Made	0.00%	0.00%	0.00%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2014

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Property taxes	\$ 88,310	\$ 88,310	\$ 90,892	\$ 2,582
Sales taxes	408,000	454,024	438,521	(15,503)
Franchise and local taxes	101,500	124,569	106,154	(18,415)
Fines and forfeitures	180,720	148,273	81,471	(66,802)
Licenses and permits	51,100	241,381	217,916	(23,465)
Intergovernmental	78,915	52,556	52,556	-
Other	170,460	262,230	231,623	(30,607)
Total Revenues	<u>1,079,005</u>	<u>1,371,343</u>	<u>1,219,133</u>	<u>(152,210)</u>
Expenditures				
General administration	450,287	634,155	382,430	251,725
Municipal court	170,892	173,113	124,265	48,848
Police department	388,107	387,153	356,493	30,660
Parks and recreation	79,819	117,644	101,444	16,200
Total Expenditures	<u>1,089,105</u>	<u>1,312,065</u>	<u>964,632</u>	<u>347,433</u>
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>(10,100)</u>	<u>59,278</u>	<u>254,501</u>	<u>195,223</u>
Other Financing Sources (Uses)				
Transfers	-	-	285,863	285,863
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>285,863</u>	<u>285,863</u>
Net Change in Fund Balance	<u>\$ (10,100)</u>	<u>\$ 59,278</u>	<u>540,364</u>	<u>\$ 481,086</u>
Beginning fund balance			<u>292,394</u>	
Ending Fund Balance			<u>\$ 832,758</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LIBERTY HILL ECONOMIC DEVELOPMENT CORPORATION FUND
For the Year Ended September 30, 2014

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Sales taxes	\$ 150,000	\$ 214,985	\$ 214,985	\$ -
Other	3,000	2,506	3,718	1,212
Total Revenues	<u>153,000</u>	<u>217,491</u>	<u>218,703</u>	<u>1,212</u>
<u>Expenditures</u>				
General government	153,000	183,028	183,028	-
Total Expenditures	<u>153,000</u>	<u>183,028</u>	<u>183,028</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 153,000</u>	<u>\$ 34,463</u>	35,675	<u>\$ 1,212</u>
Beginning fund balance			<u>674,673</u>	
Ending Fund Balance			<u>\$ 710,348</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET MAINTENANCE FUND
For the Year Ended September 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Sales taxes	\$ 84,000	\$ 113,954	\$ 107,493	\$ (6,461)
Other	160,450	133	122	(11)
Total Revenues	<u>244,450</u>	<u>114,087</u>	<u>107,615</u>	<u>(6,472)</u>
<u>Expenditures</u>				
Street maintenance	196,621	240,000	137,782	102,218
Total Expenditures	<u>196,621</u>	<u>240,000</u>	<u>137,782</u>	<u>102,218</u>
Net Change in Fund Balance	<u>\$ 196,621</u>	<u>\$ (125,913)</u>	(30,167)	<u>\$ 95,746</u>
Beginning fund balance			<u>397,864</u>	
Ending Fund Balance			<u>\$ 367,697</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF LIBERTY HILL, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2014

Fiscal Year	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Value of Assets	\$ 238,826	\$ 190,274	\$ 161,746
Actuarial Accrued Liability	\$ 243,843	\$ 191,023	\$ 168,937
Percentage Funded	97.9%	99.6%	95.7%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 5,017	\$ 749	\$ 7,191
Annual Covered Payroll	\$ 404,134	\$ 417,732	\$ 414,660
UAAL % of Covered Payroll	1.2%	0.2%	1.7%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost (APC)	10,962	8,360	10,077
Contributions Made	10,962	8,360	10,077
NPO at the End of Period	\$ -	\$ -	\$ -

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OTHER SUPPLEMENTARY INFORMATION

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CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2014

	Final Budget	Actual	Variance Positive (Negative)
<u>Revenues</u>			
Property taxes	\$ 513,383	\$ 527,355	\$ 13,972
Other	-	146	146
Total Revenues	513,383	527,501	14,118
<u>Expenditures</u>			
Principal	350,000	350,000	-
Interest expense	162,583	162,583	-
Total Expenditures	512,583	512,583	-
Net Change in Fund Balance	\$ 800	14,918	\$ 14,118
Beginning fund balance		67,313	
Ending Fund Balance		\$ 82,231	

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