

ANNUAL FINANCIAL REPORT

of the

**CITY OF
LIBERTY HILL, TEXAS**

For the Year Ended
September 30, 2016

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CITY OF LIBERTY HILL, TEXAS

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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, schedule of changes in net pension liability and related ratios, and schedule of contributions, 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 23, 2017

***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, 2016

The Statement of Net Position and the Statement of Activities divide the City's financials 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 street maintenance fund, which are considered to be major funds for reporting purposes. While the Liberty Hill Economic Development Corporation (LHEDC) fund did not technically meet the criteria of being reported as a major fund, the City has elected to present this fund as a major fund due to its significance.

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 one type of proprietary fund, an enterprise fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, wastewater treatment, and sewer operations. The proprietary fund

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

financial statements provide separate information for the 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 budgetary comparison schedules for the general fund, LHEDC fund, and street maintenance fund and the schedule of changes in net position liability and related ratios and a schedule of contributions 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. Assets and deferred outflows of resources exceed liabilities and deferred inflows by \$16,488,616 as of September 30, 2016. A portion of the City's net position (49 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.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

September 30, 2016				
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 5,406,266	\$ 13,271,182	\$ -	\$ 18,677,448
Capital assets, net	1,966,963	20,192,537	-	22,159,500
Total Assets	<u>7,373,229</u>	<u>33,463,719</u>	<u>-</u>	<u>40,836,948</u>
Deferred outflows - pensions				
Total Deferred Outflows of Resources	<u>88,581</u>	<u>-</u>	<u>-</u>	<u>88,581</u>
Long-term liabilities	6,413,224	16,740,000	-	23,153,224
Other liabilities	183,961	1,091,961	-	1,275,922
Total Liabilities	<u>6,597,185</u>	<u>17,831,961</u>	<u>-</u>	<u>24,429,146</u>
Deferred outflows - pensions				
Total Deferred Outflows of Resources	<u>7,767</u>	<u>-</u>	<u>-</u>	<u>7,767</u>
Net Position:				
Net investment in capital assets	1,966,963	11,268,733	(5,195,000)	8,040,696
Restricted	1,173,475	815,922	-	1,989,397
Unrestricted	(2,283,580)	3,547,103	5,195,000	6,458,523
Total Net Position	<u>\$ 856,858</u>	<u>\$ 15,631,758</u>	<u>\$ -</u>	<u>\$ 16,488,616</u>
September 30, 2015				
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 2,691,592	\$ 15,577,058	\$ -	\$ 18,268,650
Capital assets, net	1,248,543	15,688,885	-	16,937,428
Total Assets	<u>3,940,535</u>	<u>31,265,543</u>	<u>-</u>	<u>35,206,078</u>
Deferred outflows - pensions				
Total Deferred Outflows of Resources	<u>33,908</u>	<u>-</u>	<u>-</u>	<u>33,908</u>
Long-term liabilities	5,610,057	17,640,000	-	23,250,057
Other liabilities	176,740	1,020,599	-	1,197,339
Total Liabilities	<u>5,786,797</u>	<u>18,660,599</u>	<u>-</u>	<u>24,447,396</u>
Net Position:				
Net investment in capital assets	1,248,543	9,518,635	(5,570,000)	5,197,178
Restricted	1,292,172	346,055	-	1,638,227
Unrestricted	(4,353,069)	2,740,254	5,570,000	3,957,185
Total Net Position	<u>\$ (1,812,354)</u>	<u>\$ 12,604,944</u>	<u>\$ -</u>	<u>\$ 10,792,590</u>

A portion of the City's net position, \$1,989,397, represents resources restricted to a specific purpose. The balance of unrestricted net position, \$6,458,523, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by \$5,696,026 during the current fiscal year, an increase of 53

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

percent over the prior year. The overall condition of the City improved during the year primarily due to increases in revenue for charges for services during the current fiscal year.

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 \$5,195,000, 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.

Statement of Activities

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

	<u>For the Year Ended September 30, 2016</u>			<u>For the Year Ended September 30, 2015</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Revenues						
Program revenues:						
Charges for services	\$ 755,675	\$ 6,897,855	\$ 7,653,530	\$ 697,683	\$ 3,937,514	\$ 4,635,197
Capital grants and contributions	402,142	-	402,142	72,698	-	72,698
General revenues:						
Property taxes	728,112	-	728,112	659,661	-	659,661
Sales taxes	1,048,171	-	1,048,171	947,098	-	947,098
Franchise and local taxes	110,463	-	110,463	106,269	-	106,269
Other	1,051,759	7,401	1,059,160	121,579	397	121,976
Total Revenues	<u>4,096,322</u>	<u>6,905,256</u>	<u>11,001,578</u>	<u>2,604,988</u>	<u>3,937,911</u>	<u>6,542,899</u>
Expenses						
General government	798,649	-	798,649	689,482	-	689,482
Municipal court	157,435	-	157,435	141,855	-	141,855
Public safety	466,737	-	466,737	388,893	-	388,893
Public works	605,480	-	605,480	146,314	-	146,314
Water, sewer, and wastewater collections	-	2,578,564	2,578,564	-	2,330,658	2,330,658
Interest and fiscal agent fees on long-term debt	144,669	554,018	698,687	154,565	297,821	452,386
Total Expenses	<u>2,172,970</u>	<u>3,132,582</u>	<u>5,305,552</u>	<u>1,521,109</u>	<u>2,628,479</u>	<u>4,149,588</u>
Increase (Decrease) in Net Position Before Transfers	1,923,352	3,772,674	5,696,026	1,083,879	1,309,432	2,393,311
Transfers in (out)	745,860	(745,860)	-	162,366	(162,366)	-
Change in Net Position	2,669,212	3,026,814	5,696,026	1,246,245	1,147,066	2,393,311
Beginning net position	(1,812,354)	12,604,944	10,792,590	(3,058,599)	11,457,878	8,399,279
Ending Net Position	<u>\$ 856,858</u>	<u>\$ 15,631,758</u>	<u>\$ 16,488,616</u>	<u>\$ (1,812,354)</u>	<u>\$ 12,604,944</u>	<u>\$ 10,792,590</u>

Overall, governmental activities revenue increased. Sales taxes revenue increased by \$101,073 or 11 percent due to an increase in activity in the City and population growth. Charges for services also increased over the prior year by \$57,992 due primarily to an increase in permit fees due to more development in the City. Governmental expenses increased by \$651,861 from the prior year due primarily to increases in the public works department for various infrastructure repair and maintenance projects.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

Revenue for business-type activities increased by \$2,967,345 or 75 percent from the prior year mainly due to increases in wastewater treatment revenues along with contributions from developers for new housing growth in the City. Similarly, business-type expenses increased by \$504,103 or 19 percent as a result of the increases in operating costs due to additional consumption and interest expense on revenue bonds.

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 \$5,208,515. At the end of the current year, \$4,035,040 was unassigned. Total restricted fund balance for various purposes is \$1,173,475.

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 \$4,035,040, while total fund balance reached \$4,121,274. Of this amount, \$42,350 is restricted for municipal court security and technology and \$43,884 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 201 percent of total general fund expenditures, while total fund balance represents 205 percent of the same amount. The general fund in total demonstrated an overall increase of \$2,820,530 due to the issuance of tax notes in the fiscal year.

The debt service fund balance of \$146,616 is restricted for future debt payments of principal and interest. Fund balance in the debt service fund increased by \$48,353.

The economic development corporation fund balance increased \$88,132 as a result of more sales tax revenue than expenditures during the year. The ending fund balance of \$822,198 is restricted for economic development.

The street maintenance fund reported a fund balance of \$118,427, which was a decrease of \$262,139. The street maintenance fund balance is restricted for repair and maintenance expenditures on streets in the City.

Proprietary Funds – 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 \$27,176 during the year. The net negative variance is primarily due to less revenue from intergovernmental activities than expected. General fund expenditures were under the final budget by \$345,026 mainly due to positive variances of \$118,605 in municipal court expenditures and \$127,914 in expenses for the police department. These positive variances come from less spending on payroll and operation costs than expected.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$22,159,500 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$5,222,072 from the prior year.

Major capital asset events during the year included the following:

- Construction in progress of \$667,783 in governmental activities and \$4,801,793 in business-type activities
- Purchase of police vehicles and equipment of \$77,612

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 had total certificates of obligation and revenue bonds outstanding of \$21,935,000. The City issued series 2016 tax notes in the amount of \$1,135,000 with the first payment to be made next year.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

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, 2016

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 5,175,133	\$ 12,471,341	\$ -	\$ 17,646,474
Receivables, net	231,133	799,841	-	1,030,974
	5,406,266	13,271,182	-	18,677,448
Capital assets:				
Nondepreciable capital assets	1,078,133	9,695,612	-	10,773,745
Net depreciable capital assets	888,830	10,496,925	-	11,385,755
	1,966,963	20,192,537	-	22,159,500
Total Assets	7,373,229	33,463,719	-	40,836,948
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	88,581	-	-	88,581
	88,581	-	-	88,581
<u>Liabilities</u>				
Accounts payable and accrued liabilities	172,959	982,372	-	1,155,331
Customer deposits	-	69,000	-	69,000
Accrued interest	11,002	40,589	-	51,591
	183,961	1,091,961	-	1,275,922
Noncurrent liabilities:				
Long-term liabilities due within one year	575,146	960,000	-	1,535,146
Long-term liabilities due in more than one year	5,838,078	15,780,000	-	21,618,078
	6,413,224	16,740,000	-	23,153,224
Total Liabilities	6,597,185	17,831,961	-	24,429,146
<u>Deferred Inflows of Resources</u>				
Deferred Inflows - pensions	7,767	-	-	7,767
	7,767	-	-	7,767
<u>Net Position</u>				
Net investment in capital assets	1,966,963	11,268,733	(5,195,000)	8,040,696
Restricted	1,173,475	815,922	-	1,989,397
Unrestricted	(2,283,580)	3,547,103	5,195,000	6,458,523
	1,966,963	11,268,733	(5,195,000)	8,040,696
Total Net Position	\$ 856,858	\$ 15,631,758	\$ -	\$ 16,488,616

See Notes to Financial Statements.

CITY OF LIBERTY HILL, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 798,649	\$ 617,460	\$ -
Municipal court	157,435	-	-
Public safety	466,737	138,215	-
Public works	605,480	-	402,142
Interest and fiscal agent fees on long-term debt	144,669	-	-
Total Governmental Activities	2,172,970	755,675	402,142
Business-Type Activities			
Water, sewer, and wastewater collections	2,578,564	6,897,855	-
Interest and fiscal agent fees on long-term debt	554,018	-	-
Total Business-Type Activities	3,132,582	6,897,855	-
Total Primary Government	\$ 5,305,552	\$ 7,653,530	\$ 402,142

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
\$ (181,189)	\$ -	\$ (181,189)
(157,435)	-	(157,435)
(328,522)	-	(328,522)
(203,338)	-	(203,338)
<u>(144,669)</u>	<u>-</u>	<u>(144,669)</u>
<u>(1,015,153)</u>	<u>-</u>	<u>(1,015,153)</u>
-	4,319,291	4,319,291
-	(554,018)	(554,018)
<u>-</u>	<u>3,765,273</u>	<u>3,765,273</u>
<u>(1,015,153)</u>	<u>3,765,273</u>	<u>2,750,120</u>
728,112	-	728,112
1,048,171	-	1,048,171
110,463	-	110,463
1,051,759	7,401	1,059,160
745,860	(745,860)	-
<u>3,684,365</u>	<u>(738,459)</u>	<u>2,945,906</u>
2,669,212	3,026,814	5,696,026
<u>(1,812,354)</u>	<u>12,604,944</u>	<u>10,792,590</u>
<u>\$ 856,858</u>	<u>\$ 15,631,758</u>	<u>\$ 16,488,616</u>

CITY OF LIBERTY HILL, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Liberty Hill Economic Development Corporation</u>	<u>Street Maintenance</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 4,151,541	\$ 146,616	\$ 784,010	\$ 92,966
Receivables, net	144,564	9,421	51,625	25,523
Total Assets	<u>\$ 4,296,105</u>	<u>\$ 156,037</u>	<u>\$ 835,635</u>	<u>\$ 118,489</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 159,460	\$ -	\$ 13,437	\$ 62
Total Liabilities	<u>159,460</u>	<u>-</u>	<u>13,437</u>	<u>62</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	15,371	9,421	-	-
<u>Fund Balances</u>				
Restricted:				
Municipal court	42,350	-	-	-
Communication equipment	43,884	-	-	-
Street maintenance	-	-	-	118,427
Debt service	-	146,616	-	-
LHEDC	-	-	822,198	-
Unassigned	4,035,040	-	-	-
Total Fund Balances	<u>4,121,274</u>	<u>146,616</u>	<u>822,198</u>	<u>118,427</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 4,296,105</u>	<u>\$ 156,037</u>	<u>\$ 835,635</u>	<u>\$ 118,489</u>

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	5,175,133
	231,133
\$	<u>5,406,266</u>

\$	172,959
	<u>172,959</u>

	<u>24,792</u>
--	---------------

	42,350
	43,884
	118,427
	146,616
	822,198
	<u>4,035,040</u>
	<u>5,208,515</u>
\$	<u>5,406,266</u>

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CITY OF LIBERTY HILL, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2016

Total fund balances for governmental funds		\$	5,208,515
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.			
Capital assets - non-depreciable			1,078,133
Capital assets - net depreciable			888,830
			1,966,963
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
			24,792
Deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental funds.			
Deferred inflows- pensions			(7,767)
Deferred outflows- pensions			88,581
			80,814
Some liabilities, including bonds payable, compensated absences, accrued interest, and net pension liability, are not reported as liabilities in the governmental funds.			
Accrued interest			(11,002)
Non current liabilities due in more than one year			(575,146)
Non current liabilities due in one year			(5,838,078)
			(6,424,226)
Net Position of Governmental Activities			\$ 856,858

See Notes to Financial Statements.

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

For the Year Ended September 30, 2016

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Liberty Hill Economic Development Corporation</u>	<u>Street Maintenance</u>
Property taxes	\$ 148,545	\$ 568,708	\$ -	\$ -
Sales taxes	603,241	-	296,660	148,270
Franchise and local taxes	110,463	-	-	-
Fines and forfeitures	138,215	-	-	-
Licenses and permits	617,460	-	-	-
Intergovernmental	284,256	-	-	117,886
Other	1,046,864	632	4,263	-
Total Revenues	2,949,044	569,340	300,923	266,156
<u>Expenditures</u>				
Current:				
General administration	1,309,053	-	162,791	-
Municipal court	154,845	-	-	-
Police department	470,186	-	-	-
Parks and recreation and street maintenance	75,290	-	50,000	528,295
Debt service:				
Principal	-	375,000	-	-
Interest expense	-	145,987	-	-
Total Expenditures	2,009,374	520,987	212,791	528,295
Excess (Deficiency) of Revenues Over (Under) Expenditures	939,670	48,353	88,132	(262,139)
<u>Other Financing Sources (Uses)</u>				
Issuance of debt	1,135,000	-	-	-
Transfers in	745,860	-	-	-
Total Other Financing Sources	1,880,860	-	-	-
Net Change in Fund Balances	2,820,530	48,353	88,132	(262,139)
Beginning fund balances	1,300,744	98,263	734,066	380,566
Ending Fund Balances	\$ 4,121,274	\$ 146,616	\$ 822,198	\$ 118,427

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 717,253
1,048,171
110,463
138,215
617,460
402,142
1,051,759
4,085,463

1,471,844
154,845
470,186

653,585

375,000

145,987

3,271,447

814,016

1,135,000

745,860

1,880,860

2,694,876

2,513,639

\$ 5,208,515

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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, 2016

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

Net change in fund balances - total governmental funds	\$	2,694,876
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		764,261
Depreciation expense		(45,841)
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		10,859
Change in pension activity does not affect the fund balance on the statement of revenues, expenditures, and changes in fund balance for the governmental funds. Changes in pension activity that affect the City's net position are as follows:		
Net pension liability		(51,902)
Deferred outflows- pensions		54,673
Deferred inflows- pensions		(7,767)
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.		
Principal paid on long-term debt		375,000
Accrued interest expense		
Debt issued		(1,135,000)
Accrued interest expense		1,318
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		8,735
Change in Net Position of Governmental Activities	\$	<u><u>2,669,212</u></u>

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2016

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
Assets				
Current Assets				
Cash and cash equivalents	\$ 933,278	\$ 11,010,331	\$ 527,732	\$ 12,471,341
Receivables, net	31,958	681,280	86,603	799,841
Total Current Assets	965,236	11,691,611	614,335	13,271,182
Noncurrent Assets				
Capital assets:				
Land	521,486	393,700	129,483	1,044,669
Construction in progress	2,544,450	3,243,838	2,862,655	8,650,943
Wastewater treatment facility	-	4,228,801	-	4,228,801
Water system	-	-	1,694,908	1,694,908
Sewer system	6,284,046	-	-	6,284,046
Less accumulated depreciation	(1,045,778)	(459,310)	(205,742)	(1,710,830)
Total Net Depreciable Assets	8,304,204	7,407,029	4,481,304	10,496,925
Total Noncurrent Assets	8,304,204	7,407,029	4,481,304	20,192,537
Total Assets	9,269,440	19,098,640	5,095,639	33,463,719
Liabilities				
Current Liabilities				
Accounts payable	18,477	907,332	56,563	982,372
Customer deposits	100	12,600	56,300	69,000
Accrued interest	-	29,185	11,404	40,589
Total Current Liabilities	18,577	949,117	124,267	1,091,961
Noncurrent Liabilities				
Long-term liabilities due within one year	-	235,000	725,000	960,000
Long-term liabilities due in more than one year	-	12,495,000	3,285,000	15,780,000
Total Noncurrent Liabilities	-	12,730,000	4,010,000	16,740,000
Total Liabilities	18,577	13,679,117	4,134,267	17,831,961
Net Position				
Net investment in capital assets	8,304,204	1,942,439	1,022,090	11,268,733
Restricted for:				
Debt service	-	308,222	507,700	815,922
Unrestricted	946,659	3,168,862	(568,418)	3,547,103
Total Net Position	\$ 9,250,863	\$ 5,419,523	\$ 961,372	\$ 15,631,758

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, 2016

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<u>Operating Revenues</u>				
Water charges	\$ -	\$ -	\$ 780,400	\$ 780,400
Sewer revenue	502,005	-	-	502,005
Wastewater treatment	-	2,546,188	-	2,546,188
Impact fees	205,306	2,731,100	132,856	3,069,262
Total Operating Revenues	707,311	5,277,288	913,256	6,897,855
<u>Operating Expenses</u>				
Water operations	-	-	472,146	472,146
Sewer operations	247,582	-	-	247,582
Wastewater collection operations	-	1,527,915	-	1,527,915
Depreciation	158,752	130,345	41,824	330,921
Total Operating Expenses	406,334	1,658,260	513,970	2,578,564
Operating Income (Loss)	300,977	3,619,028	399,286	4,319,291
<u>Nonoperating Revenues (Expenses)</u>				
Interest expense and fiscal agent fees	-	(415,806)	(138,212)	(554,018)
Investment income	813	5,594	994	7,401
Total Nonoperating Revenues (Expenses)	813	(410,212)	(137,218)	(546,617)
Income (Loss) Before Transfers	301,790	3,208,816	262,068	3,772,674
Transfers in	-	10,073	-	10,073
Transfers out	(531,258)	(224,675)	-	(755,933)
Change in Net Position	(229,468)	2,994,214	262,068	3,026,814
Beginning net position	9,480,331	2,425,309	699,304	12,604,944
Ending Net Position	\$ 9,250,863	\$ 5,419,523	\$ 961,372	\$ 15,631,758

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, 2016

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 703,178	\$ 4,717,469	\$ 930,751	\$ 6,351,398
Payments to suppliers and service providers	(688,217)	(527,954)	(549,153)	(1,765,325)
Payments to employees for salaries and benefits	(28,728)	(319,175)	(72,904)	(420,806)
Net Cash Provided (Used) by Operating Activities	(13,767)	3,870,340	308,694	4,165,267
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers in (out) to other funds	(531,258)	(214,602)	-	(745,860)
Net Cash Provided (Used) by Noncapital Financing Activities	(531,258)	(214,602)	-	(745,860)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(78,436)	(2,622,474)	(2,133,663)	(4,834,573)
Principal paid on capital debt	-	(665,000)	(235,000)	(900,000)
Interest and fiscal agent fees paid	-	(415,806)	(138,212)	(554,018)
Net Cash (Used) by Capital and Related Financing Activities	(78,436)	(3,703,280)	(2,506,875)	(6,288,591)
<u>Cash Flows from Investing Activities</u>				
Interest received	813	5,594	994	7,401
Net Cash Provided by Investing Activities	813	5,594	994	7,401
Net (Decrease) in Cash and Cash Equivalents	(622,648)	(41,948)	(2,197,187)	(2,861,783)
Beginning cash and cash equivalents	1,555,926	11,052,279	2,724,919	15,333,124
Ending Cash and Cash Equivalents	\$ 933,278	\$ 11,010,331	\$ 527,732	\$ 12,471,341
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (Loss)	\$ 300,977	\$ 3,619,028	\$ 399,286	\$ 4,319,291
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	158,752	130,345	41,824	330,921
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(4,233)	(561,719)	10,045	(555,907)
Increase (Decrease) in:				
Accounts payable	(468,963)	694,898	(155,710)	70,225
Accrued interest	-	(8,550)	237	(8,313)
Due to other funds	(400)	(5,562)	-	(5,962)
Customer deposits	100	1,900	7,450	9,450
Net Cash Provided (Used) by Operating Activities	\$ (13,767)	\$ 3,870,340	\$ 308,694	\$ 4,165,267

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

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. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City’s reporting entity. 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 (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, 2016

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 funds. 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 general fund is always considered a major fund for reporting purposes.

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.

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 LHEDC and street maintenance funds. The street and maintenance fund is considered a major fund for reporting purposes. The LHEDC fund is considered a nonmajor fund, however, the City has elected to present it as a major fund due to its significance.

The City reports the following enterprise funds:

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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. 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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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.

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest-bearing accounts and other investments are displayed on the combined balance sheet as "cash and cash equivalents."

2. Investments

Investments for the City except for certain investment pools, investment contracts, and money market accounts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or net asset value. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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, 2016

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 four items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the City's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

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 one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows have been recognized as a result of differences in actuarial expectations and actual economic experience. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *deferred 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.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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 property tax revenues instead of water system revenues.

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 to have been depleted before using any of the components of unrestricted fund balance. Further,

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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. 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, 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.

12. Pensions

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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 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, economic development corporation, and the debt service 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. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2016.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
State pool (TexPool)	\$ 1,609,651	0.00
Certificate of deposit	225,000	0.32
Total Investments	\$ 1,834,651	
Portfolio Weighted Average Maturity		0.32

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. The City’s policy requires that investment pools must be rated no lower than ‘AAA’ or ‘AAA-m’. Bankers’ acceptances must be issued in the United States and carry a rating of ‘A1’/‘P1’ as provided by two of the top nationally recognized rating agencies. As of September 30, 2016, the City’s investments in TexPool was rated ‘AAAm’ by Standard & Poor’s.

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, 2016, 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.

Investment pools are measured at amortized cost or net asset value and are exempt from fair value reporting.

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 rates TexPool “AAAm”. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

The TexPool investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification per share, have weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects the pool's liquidity.

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	\$ 15,850	\$ 10,145	\$ -	\$ -
Other taxes	129,193	-	51,625	25,523
Less allowance	(479)	(724)	-	-
Total	<u>\$ 144,564</u>	<u>\$ 9,421</u>	<u>\$ 51,625</u>	<u>\$ 25,523</u>
	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>	
Accounts	\$ 35,519	\$ 686,845	\$ 94,768	
Less allowance	(3,561)	(5,565)	(8,165)	
Total	<u>\$ 31,958</u>	<u>\$ 681,280</u>	<u>\$ 86,603</u>	

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

C. Capital Assets

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 368,321	\$ -	\$ -	\$ 368,321
Construction in progress	42,029	667,783	-	709,812
	410,350	667,783	-	1,078,133
Other capital assets:				
Building and improvements	846,614	-	-	846,614
Machinery and equipment	14,878	18,866	-	33,744
Police equipment	499,322	77,612	-	576,934
	1,360,814	96,478	-	1,457,292
Less accumulated depreciation for:				
Building and improvements	(139,722)	(23,004)	-	(162,726)
Machinery and equipment	(14,616)	(4,035)	-	(18,651)
Police equipment	(368,283)	(18,802)	-	(387,085)
	(522,621)	(45,841)	-	(568,462)
Other capital assets, net	838,193	50,637	-	888,830
Governmental Activities Capital Assets, Net	\$ 1,248,543	\$ 718,420	\$ -	\$ 1,966,963
		Net Investment in Capital Assets		\$ 1,966,963

Depreciation was charged to governmental functions as follows:

General government	\$ 19,823
Public safety	7,216
Public works	18,802
Total Governmental Activities Depreciation Expense	\$ 45,841

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 1,044,669	\$ -	\$ -	\$ 1,044,669
Construction in progress	3,849,150	4,801,793	-	8,650,943
	4,893,819	4,801,793	-	9,695,612
Other capital assets:				
Wastewater treatment facility	4,196,021	32,780	-	4,228,801
Water system	1,694,908	-	-	1,694,908
Sewer system	6,284,046	-	-	6,284,046
	12,174,975	32,780	-	12,207,755
Less accumulated depreciation for:				
Wastewater treatment facility	(328,965)	(131,425)	-	(460,390)
Water system	(163,918)	(42,395)	-	(206,313)
Sewer system	(887,026)	(157,101)	-	(1,044,127)
	(1,379,909)	(330,921)	-	(1,710,830)
Other capital assets, net	10,795,066	(298,141)	-	10,496,925
Business-Type Activities Capital Assets, Net	\$ 15,688,885	\$ 4,503,652	\$ -	20,192,537
			Plus unspent proceeds	7,816,196
			Less associated debt	(16,740,000)
			Net Investment in Capital Assets	\$ 11,268,733

Depreciation was charged to business-type functions as follows:

Water operations	\$ 42,395
Sewer operations	157,101
Wastewater collection operations	131,425
Total Business-Type Activities Depreciation Expense	\$ 330,921

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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	\$ 920,000	\$ -	\$ (60,000)	\$ 860,000	* \$ 65,000
2006B certificates of obligation	4,650,000	-	(315,000)	4,335,000	* 325,000
2016 tax notes	-	1,135,000	-	1,135,000	* 164,000
Net pension liability	7,826	51,902	-	59,728	-
Compensated absences	32,231	46,604	(55,339)	23,496	21,146
Total Governmental Activities	<u>\$ 5,610,057</u>	<u>\$ 1,233,506</u>	<u>\$ (430,339)</u>	<u>\$ 6,413,224</u>	<u>\$ 575,146</u>
			Long-term liabilities due in more than one year	<u>\$ 5,838,078</u>	
			*Debt associated with business-type capital assets	<u>\$ 6,330,000</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 bonds	\$ 1,895,000	\$ -	\$ (95,000)	\$ 1,800,000	\$ 95,000
2012 wastewater treatment facility revenue bonds	3,395,000	-	(145,000)	3,250,000	150,000
2014 water system revenue bonds	2,350,000	-	(140,000)	2,210,000	140,000
2015 wastewater treatment facility revenue bonds	10,000,000	-	(520,000)	9,480,000	575,000
Total Business-Type Activities	<u>\$ 17,640,000</u>	<u>\$ -</u>	<u>\$ (900,000)</u>	<u>\$ 16,740,000</u>	<u>* \$ 960,000</u>
			Long-term liabilities due in more than one year	<u>\$ 15,780,000</u>	
			*Debt associated with business-type capital assets	<u>\$ 16,740,000</u>	

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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%	\$ 860,000
Series 2006B	2.00-2.65%	4,335,000
Tax Notes		
Tax notes 2016	2.00-2.52%	1,135,000
Total Governmental Activities Long-Term Debt		\$ 6,330,000

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%	\$ 1,800,000
2012 Wastewater Treatment Facility	3.85%	3,250,000
2014 Water System Revenue Bond	3.01%	2,210,000
2015 Wastewater Treatment Facility	2.52%	9,480,000
Total Revenue Bonds		16,740,000
Total Business-Type Activities Long-Term Debt		\$ 16,740,000

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
2017	\$ 554,000	\$ 150,580	\$ 960,000	\$ 497,164
2018	562,000	140,088	985,000	470,768
2019	579,000	128,252	1,015,000	443,326
2020	595,000	115,839	1,050,000	414,671
2021	618,000	102,599	1,075,000	384,773
2022-2026	2,857,000	297,404	5,845,000	1,439,542
2027-2031	565,000	15,923	5,545,000	523,968
2032-2036	-	-	265,000	10,203
Total	\$ 6,330,000	\$ 950,685	\$ 16,740,000	\$ 4,184,415

Federal Arbitrage

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, a substantial liability to the City could

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

E. Interfund Transactions

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

Transfer In	Transfer Out	Amount
General Fund	Wastewater Fund	\$ 224,675
General Fund	Sewer Fund	521,185
Wastewater Fund	Sewer Fund	10,073
	Total	\$ 755,933

Amounts transferred between funds were related to operating activities.

F. Fund Equity

Funds restricted by enabling legislation are \$86,234, which are related to municipal court security and technology fees and Public Education Government fees.

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 that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

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.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

C. Pension Plan

Texas Municipal Retirement System

Plan Description

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

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

Benefits Provided

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

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

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>2016</u>	<u>2015</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 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	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees Covered by Benefit Terms

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

Inactive employees entitled to, but not yet receiving, benefits	6
Active employees	<u>16</u>
Total	<u><u>22</u></u>

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.56 percent and 7.25 percent in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were \$55,391, which were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

The TPL in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.00 percent to 6.75 percent. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

Discount Rate

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 74,045	\$ -	\$ 74,045
Interest	24,957	-	24,957
Change of benefit terms	26,977	-	26,977
Difference between expected and actual experience	(9,369)	-	(9,369)
Changes of assumptions	9,730	-	9,730
Contributions - employer	-	19,891	(19,891)
Contributions - employee	-	54,387	(54,387)
Net investment income	-	442	(442)
Benefit payments, including refunds of employee contributions	(29,298)	(29,298)	-
Administrative expense	-	(269)	269
Other changes	-	(13)	13
Net Changes	97,042	45,140	51,902
Balance at December 31, 2014	307,174	299,348	7,826
Balance at December 31, 2015	\$ 404,216	\$ 344,488	\$ 59,728

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 117,483	\$ 59,728	\$ 11,389

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$60,333.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 12,596	\$ (7,767)
Changes in actuarial assumptions	8,067	-
Difference between projected and actual investment earnings	18,328	-
Contributions subsequent to the measurement date	49,550	-
Total	\$ 88,541	\$ (7,767)

\$49,550 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30:	Pension Expense
2017	\$ 9,413
2018	9,413
2019	8,177
2020	4,165
2021	56
Thereafter	-
Total	\$ 31,224

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, 2016, the City offered the supplemental death benefit to both active and retired employees.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

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 2016, 2015, and 2014 were \$269, \$220, and \$144, respectively, which equaled the required contributions each year. The City's contribution rates for the past three years are shown below:

	<u>2016</u>	<u>2015</u>	<u>2014</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%

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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, 2016

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Property taxes	\$ 122,286	\$ 147,000	\$ 148,545	\$ 1,545
Sales taxes	551,620	551,620	603,241	51,621
Franchise and local taxes	100,000	100,000	110,463	10,463
Fines and forfeitures	165,900	120,900	138,215	17,315
Licenses and permits	418,200	488,200	617,460	129,260
Intergovernmental	288,800	815,985	284,256	(531,729)
Other	808,950	752,515	1,046,864	294,349
Total Revenues	<u>2,455,756</u>	<u>2,976,220</u>	<u>2,949,044</u>	<u>(27,176)</u>
<u>Expenditures</u>				
General administration	1,292,350	1,309,550	1,309,053	497
Municipal court	270,950	273,450	154,845	118,605
Police department	590,600	598,100	470,186	127,914
Parks and recreation	157,300	173,300	75,290	98,010
Total Expenditures	<u>2,311,200</u>	<u>2,354,400</u>	<u>2,009,374</u>	<u>345,026</u>
Excess of Revenues Over Expenditures	<u>144,556</u>	<u>621,820</u>	<u>939,670</u>	<u>317,850</u>
<u>Other Financing Sources (Uses)</u>				
Transfers	-	-	745,860	745,860
Debt issued	-	-	1,135,000	1,135,000
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>1,880,860</u>	<u>1,880,860</u>
Net Change in Fund Balance	<u>\$ 144,556</u>	<u>\$ 621,820</u>	<u>2,820,530</u>	<u>\$ 2,198,710</u>
Beginning fund balance			<u>1,300,744</u>	
Ending Fund Balance			<u>\$ 4,121,274</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, 2016

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Sales taxes	\$ 253,500	\$ 253,500	\$ 296,660	\$ 43,160
Other	3,000	3,000	4,263	1,263
Total Revenues	<u>256,500</u>	<u>256,500</u>	<u>300,923</u>	<u>44,423</u>
<u>Expenditures</u>				
General government	678,350	588,176	162,791	425,385
Street maintenance	415,000	415,000	50,000	365,000
Total Expenditures	<u>678,350</u>	<u>588,176</u>	<u>212,791</u>	<u>375,385</u>
Net Change in Fund Balance	<u>\$ (421,850)</u>	<u>\$ (331,676)</u>	88,132	<u>\$ 419,808</u>
Beginning fund balance			<u>734,066</u>	
Ending Fund Balance			<u>\$ 822,198</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Sales taxes	\$ 151,000	\$ 151,000	\$ 148,270	\$ (2,730)
Other	85	117,085	117,886	801
Total Revenues	<u>151,085</u>	<u>268,085</u>	<u>266,156</u>	<u>(1,929)</u>
<u>Expenditures</u>				
Street maintenance	442,300	607,300	528,295	79,005
Total Expenditures	<u>442,300</u>	<u>607,300</u>	<u>528,295</u>	<u>79,005</u>
Net Change in Fund Balance	<u>\$ (291,215)</u>	<u>\$ (339,215)</u>	(262,139)	<u>\$ 77,076</u>
Beginning fund balance			<u>380,566</u>	
Ending Fund Balance			<u>\$ 118,427</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 CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM

September 30, 2016

	Measurement Year*	
	2014	2015
Total Pension Liability		
Service cost	\$ 40,516	\$ 74,045
Interest (on the total pension liability)	17,896	24,957
Changes in benefit terms	-	26,977
Difference between expected and actual experience	21,818	(9,369)
Changes of assumptions	-	9,730
Benefit payments, including refunds of employee contributions	(16,899)	(29,298)
Net Change in Total Pension Liability	63,331	97,042
Beginning total pension liability	243,843	307,174
Ending Total Pension Liability	\$ 307,174	\$ 404,216
Plan Fiduciary Net Position		
Contributions - employer	\$ 12,443	\$ 19,891
Contributions - employee	39,026	54,387
Net investment income	14,346	442
Benefit payments, including refunds of employee contributions	(16,899)	(29,298)
Administrative expense	(150)	(269)
Other	(12)	(13)
Net Change in Plan Fiduciary Net Position	48,754	45,140
Beginning plan fiduciary net position	250,594	299,348
Ending Plan Fiduciary Net Position	\$ 299,348	\$ 344,488
Net Pension Liability	\$ 7,826	\$ 59,728
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.45%	85.22%
Covered Employee Payroll	\$ 557,512	\$ 776,963
Net Pension Liability as a Percentage of Covered Employee Payroll	1.40%	7.69%

*Only two years of information is currently available. The City will build this schedule over the next eight year period.

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CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2016

	Fiscal Year*	
	2015	2016
Actuarially determined contribution	\$ 18,067	\$ 55,391
Contributions in relation to the actuarially determined contribution	18,067	55,391
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 733,664	\$ 910,042
Contributions as a percentage of covered employee payroll	2.46%	6.09%

*Only two years of information is currently available. The City will build this schedule over the next eight-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	23 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

Increased municipal matching ratio from 1-1 to 2-1.

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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, 2016

	Final Budget	Actual	Variance Positive (Negative)
<u>Revenues</u>			
Property taxes	\$ 519,633	\$ 568,708	\$ 49,075
Other	-	632	632
Total Revenues	519,633	569,340	49,707
<u>Expenditures</u>			
Principal	375,000	375,000	-
Interest expense	146,185	145,987	198
Total Expenditures	521,185	520,987	198
Net Change in Fund Balance	\$ (1,552)	48,353	\$ 49,905
Beginning fund balance		98,263	
Ending Fund Balance		\$ 146,616	

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