

ANNUAL FINANCIAL REPORT

of the

**CITY OF
LIBERTY HILL, TEXAS**

**For the Year Ended
September 30, 2017**

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CITY OF LIBERTY HILL, TEXAS

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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, 2017, 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 supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 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
July 5, 2018



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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

***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, 2017

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, municipal court, and public works. Interest payments on the City's governmental debt are also reported here. Property taxes, sales 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, sewer, and wastewater operations. Interest payments on the City's business-type activities 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 seven governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and Liberty Parke Public Improvement District which are considered to be major funds for reporting purposes. While the Liberty Hill Economic Development Corporation (LHEDC) fund, street maintenance fund, Summerlyn West Public Improvement District, and capital improvement funds did not technically meet the criteria to be reported as major, the City has elected to present these funds as major due to their significance.

The City adopts an annual appropriated budget for four of its seven 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

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

enterprise funds to account for its water, sewer, and wastewater treatment operations. The proprietary fund 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 as well as the schedule of changes in net pension 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 \$20,956,311 as of September 30, 2017. A portion of the City's net position, 56 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, 2017

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	September 30, 2017			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 10,106,323	\$ 8,155,819	\$ -	\$ 18,262,142
Capital assets, net	2,971,534	26,588,014	-	29,559,548
Total Assets	13,077,857	34,743,833	-	47,821,690
Deferred outflows - pensions				
Total Deferred Outflows of Resources	105,118	-	-	105,118
Long-term liabilities	9,837,885	15,780,000	-	25,617,885
Other liabilities	651,038	693,589	-	1,344,627
Total Liabilities	10,488,923	16,473,589	-	26,962,512
Deferred inflows - pensions				
Total Deferred Inflows of Resources	7,986	-	-	7,986
Net Position:				
Net investment in capital assets	2,971,534	14,528,610	(5,776,000)	11,724,144
Restricted	6,948,086	1,651,588	-	8,599,674
Unrestricted	(7,233,553)	2,090,046	5,776,000	632,493
Total Net Position	\$ 2,686,067	\$ 18,270,244	\$ -	\$ 20,956,311
	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	7,373,229	33,463,719	-	40,836,948
Deferred outflows - pensions				
Total Deferred Outflows of Resources	88,581	-	-	88,581
Long-term liabilities	6,413,224	16,740,000	-	23,153,224
Other liabilities	183,961	1,091,961	-	1,275,922
Total Liabilities	6,597,185	17,831,961	-	24,429,146
Deferred inflows - pensions				
Total Deferred Inflows of Resources	7,767	-	-	7,767
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	\$ 856,858	\$ 15,631,758	\$ -	\$ 16,488,616

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

A portion of the City's net position, \$8,599,674, represents resources restricted to a specific purpose. The balance of unrestricted net position, \$632,493, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by \$4,467,695 during the current fiscal year, an increase of 27 percent over the prior year. The overall condition of the City improved during the year primarily due to increases in property tax and sales tax revenue as a result of increased growth and consumer activity.

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 \$5,776,000, 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:

	For the Year Ended September 30, 2017			For the Year Ended September 30, 2016		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,076,465	\$ 6,218,108	\$ 7,294,573	\$ 755,675	\$ 6,897,855	\$ 7,653,530
Capital grants and contributions	4,544	-	4,544	402,142	-	402,142
General revenues:						
Property taxes	977,801	-	977,801	728,112	-	728,112
Sales taxes	1,160,139	-	1,160,139	1,048,171	-	1,048,171
Franchise and local taxes	115,005	-	115,005	110,463	-	110,463
Other	1,517,757	67,148	1,584,905	1,051,759	7,401	1,059,160
Total Revenues	4,851,711	6,285,256	11,136,967	4,096,322	6,905,256	11,001,578
Expenses						
General government	1,496,686	-	1,496,686	798,649	-	798,649
Municipal court	176,662	-	176,662	157,435	-	157,435
Public safety	600,663	-	600,663	466,737	-	466,737
Public works	234,606	-	234,606	605,480	-	605,480
Water, sewer, and wastewater collections	-	3,490,770	3,490,770	-	2,578,564	2,578,564
Interest and fiscal agent fees on long-term debt	669,886	-	669,886	144,669	554,018	698,687
Total Expenses	3,178,502	3,490,770	6,669,272	2,172,970	3,132,582	5,305,552
Increase (Decrease) in Net Position Before Transfers	1,673,209	2,794,486	4,467,695	1,923,352	3,772,674	5,696,026
Transfers in (out)	156,000	(156,000)	-	745,860	(745,860)	-
Change in Net Position	1,829,209	2,638,486	4,467,695	2,669,212	3,026,814	5,696,026
Beginning net position	856,858	15,631,758	16,488,616	(1,812,354)	12,604,944	10,792,590
Ending Net Position	\$ 2,686,067	\$ 18,270,244	\$ 20,956,311	\$ 856,858	\$ 15,631,758	\$ 16,488,616

Overall, governmental activities revenue increased. Sales taxes revenue increased by \$111,968 or 11 percent due to an increase in activity in the City and population growth.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

Revenue for business-type activities decreased by \$620,000 or 9 percent from the prior year mainly due to decreases in contributions from developers of subdivisions within the City. Business-type expenses increased by \$358,188 or 11 percent as a result of the increases in new connections related to all of the additional residential growth within the City.

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 \$9,453,940. At the end of the current year, \$2,505,854 was unassigned. Total restricted fund balance for various purposes is \$6,948,086.

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 \$2,505,854, while total fund balance reached \$2,601,650. Of this amount, \$42,350 is restricted for municipal court security and technology and \$53,446 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 88 percent of total general fund expenditures, while total fund balance represents 92 percent of the same amount.

The debt service fund balance of \$212,908 is restricted for future debt payments of principal and interest. Fund balance in the debt service fund increased by \$66,292.

The LHEDC fund balance increased \$121,796 as a result of more sales tax revenue than expenditures during the year. The ending fund balance of \$943,994 is restricted for economic development.

The street maintenance fund reported a fund balance of \$167,593, which was an increase of \$49,166. The street maintenance fund balance is restricted for repair and maintenance expenditures on streets in the City.

The Summerlyn West Public Improvement District was a new fund created in fiscal year 2017 and does not currently have a fund balance. The City is going to use this fund to track the use of developer funds related to the creation and administration of the Public Improvement District.

The Liberty Parke Public Improvement District (the "PID") was a new fund created in fiscal year 2017 and reported an ending fund balance of \$3,759,911. This was primarily due to the issuance of debt by the PID to be repaid by special assessments on residents within the PID.

The capital improvement fund was a new fund created in fiscal year 2017 and reported a fund balance \$1,767,616 as of year end. The increase in fund balance was due to a transfer in from the general fund in order to improve many of the facilities and parks throughout 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.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgeted general fund revenues exceeded actual revenues by \$1,101,092 during the year. The net negative variance is primarily due to less revenue from development agreements and other sources than anticipated. General fund expenditures were under the final budget by \$1,072,047 mainly due to positive variances of \$929,165 in general administration and \$83,344 in the police department. These positive variances come from less spending on payroll and operation costs than expected.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$29,559,548 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$7,400,048 from the prior year.

Major capital asset events during the year included the following:

- Construction in progress additions related to Wastewater Treatment Plant Phase 3B expansion of \$6,627,270
- Construction in progress for downtown renovation project of \$658,905
- Purchase of Fowler Building for \$223,123
- Two new vehicles for the Wastewater Treatment Facility for \$83,018

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, tax notes, special assessment revenue bonds, and revenue bonds outstanding of \$25,531,000.

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 Michel Sorrell, 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, 2017

Primary Government

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Reconciliation</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 9,819,125	\$ 7,327,251	\$ -	\$ 17,146,376
Investments	-	606,392	-	606,392
Receivables, net	287,198	222,176	-	509,374
	<u>10,106,323</u>	<u>8,155,819</u>	<u>-</u>	<u>18,262,142</u>
Capital assets:				
Nondepreciable capital assets	1,737,038	16,322,883	-	18,059,921
Net depreciable capital assets	1,234,496	10,265,131	-	11,499,627
	<u>2,971,534</u>	<u>26,588,014</u>	<u>-</u>	<u>29,559,548</u>
Total Assets	<u>13,077,857</u>	<u>34,743,833</u>	<u>-</u>	<u>47,821,690</u>
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	105,118	-	-	105,118
	<u>105,118</u>	<u>-</u>	<u>-</u>	<u>105,118</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	611,721	572,825	-	1,184,546
Customer deposits	-	83,050	-	83,050
Accrued interest	39,317	37,714	-	77,031
	<u>651,038</u>	<u>693,589</u>	<u>-</u>	<u>1,344,627</u>
Noncurrent liabilities:				
Long-term liabilities due within one year	604,486	985,000	-	1,589,486
Long-term liabilities due in more than one year	9,233,399	14,795,000	-	24,028,399
	<u>9,837,885</u>	<u>15,780,000</u>	<u>-</u>	<u>25,617,885</u>
Total Liabilities	<u>10,488,923</u>	<u>16,473,589</u>	<u>-</u>	<u>26,962,512</u>
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions	7,986	-	-	7,986
	<u>7,986</u>	<u>-</u>	<u>-</u>	<u>7,986</u>
<u>Net Position</u>				
Net investment in capital assets	2,971,534	14,528,610	(5,776,000)	11,724,144
Restricted	6,948,086	1,651,588	-	8,599,674
Unrestricted	<u>(7,233,553)</u>	<u>2,090,046</u>	<u>5,776,000</u>	<u>632,493</u>
Total Net Position	<u>\$ 2,686,067</u>	<u>\$ 18,270,244</u>	<u>\$ -</u>	<u>\$ 20,956,311</u>

See Notes to Financial Statements.

CITY OF LIBERTY HILL, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 1,496,686	\$ 895,316	\$ -
Municipal court	176,662	-	-
Public safety	600,663	181,149	-
Public works	234,606	-	4,544
Interest and fiscal agent fees on long-term debt	669,886	-	-
Total Governmental Activities	3,178,502	1,076,465	4,544
Business-Type Activities			
Water, sewer, and wastewater collections	3,490,770	6,218,108	-
Total Business-Type Activities	3,490,770	6,218,108	-
Total Primary Government	\$ 6,669,272	\$ 7,294,573	\$ 4,544
General Revenues:			
Taxes:			
Property taxes			
Sales taxes			
Franchise and local taxes			
Investment income			
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
\$ (601,370)	\$ -	\$ (601,370)
(176,662)	-	(176,662)
(419,514)	-	(419,514)
(230,062)	-	(230,062)
<u>(669,886)</u>	<u>-</u>	<u>(669,886)</u>
<u>(2,097,493)</u>	<u>-</u>	<u>(2,097,493)</u>
<u>-</u>	<u>2,727,338</u>	<u>2,727,338</u>
<u>-</u>	<u>2,727,338</u>	<u>2,727,338</u>
<u>(2,097,493)</u>	<u>2,727,338</u>	<u>629,845</u>
977,801	-	977,801
1,160,139	-	1,160,139
115,005	-	115,005
16,052	-	16,052
1,501,705	67,148	1,568,853
156,000	(156,000)	-
<u>3,926,702</u>	<u>(88,852)</u>	<u>3,837,850</u>
1,829,209	2,638,486	4,467,695
<u>856,858</u>	<u>15,631,758</u>	<u>16,488,616</u>
<u>\$ 2,686,067</u>	<u>\$ 18,270,244</u>	<u>\$ 20,956,311</u>

CITY OF LIBERTY HILL, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2017

	<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	\$ 3,026,770	\$ 213,308	\$ 888,313	\$ 137,940
Receivables, net	164,711	32,998	59,663	29,826
Total Assets	<u>\$ 3,191,481</u>	<u>\$ 246,306</u>	<u>\$ 947,976</u>	<u>\$ 167,766</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 582,166	\$ 400	\$ 3,982	\$ 173
Total Liabilities	<u>582,166</u>	<u>400</u>	<u>3,982</u>	<u>173</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	<u>7,665</u>	<u>32,998</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>				
Restricted:				
Municipal court	42,350	-	-	-
Communication equipment	53,446	-	-	-
Street maintenance	-	-	-	167,593
Capital projects	-	-	-	-
Debt service	-	212,908	-	-
Economic development	-	-	943,994	-
Unassigned	2,505,854	-	-	-
Total Fund Balances	<u>2,601,650</u>	<u>212,908</u>	<u>943,994</u>	<u>167,593</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,191,481</u>	<u>\$ 246,306</u>	<u>\$ 947,976</u>	<u>\$ 167,766</u>

See Notes to Financial Statements.

Summerlyn West Public Improvement District	Liberty Parke Public Improvement District	Capital Improvement	Total Governmental Funds
\$ 25,000	\$ 3,760,178	\$ 1,767,616	\$ 9,819,125
-	-	-	287,198
<u>\$ 25,000</u>	<u>\$ 3,760,178</u>	<u>\$ 1,767,616</u>	<u>\$ 10,106,323</u>
\$ 25,000	\$ -	\$ -	\$ 611,721
<u>25,000</u>	<u>-</u>	<u>-</u>	<u>611,721</u>
-	-	-	40,663
-	-	-	42,350
-	-	-	53,446
-	-	-	167,593
-	3,760,179	1,767,616	5,527,795
-	-	-	212,908
-	-	-	943,994
-	-	-	2,505,854
<u>-</u>	<u>3,760,179</u>	<u>1,767,616</u>	<u>9,453,940</u>
<u>\$ 25,000</u>	<u>\$ 3,760,179</u>	<u>\$ 1,767,616</u>	<u>\$ 10,106,324</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, 2017

Total fund balances for governmental funds		\$	9,453,940
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.			
Capital assets - nondepreciable			1,737,038
Capital assets - net depreciable			1,234,496
			2,971,534
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
			40,663
Deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental funds.			
Deferred outflows- pensions			105,118
Deferred inflows- pensions			(7,986)
			97,132
Some liabilities, including bonds payable, compensated absences, accrued interest, and net pension liability, are not reported as liabilities in the governmental funds.			
Accrued interest			(39,317)
Noncurrent liabilities due in more than one year			(604,486)
Noncurrent liabilities due in one year			(9,233,399)
			(9,877,202)
Net Position of Governmental Activities		\$	2,686,067

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, 2017

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Liberty Hill Economic Development Corporation</u>	<u>Street Maintenance</u>
Property taxes	\$ 194,237	\$ 767,693	\$ -	\$ -
Sales taxes	668,671	-	327,680	163,788
Franchise and local taxes	115,005	-	-	-
Fines and forfeitures	181,149	-	-	-
Licenses and permits	895,316	-	-	-
Development agreements	542,500	-	-	-
Investment income	363	3,579	5,136	2,397
Intergovernmental	4,544	-	-	-
Other	331,048	-	-	6,200
Total Revenues	2,932,833	771,272	332,816	172,385
<u>Expenditures</u>				
Current:				
General administration	1,908,693	-	211,020	-
Municipal court	176,478	-	-	-
Police department	671,111	-	-	-
Parks and recreation and street maintenance	84,559	-	-	123,219
Debt service:				
Principal	-	554,000	-	-
Interest and fiscal charges	-	150,980	-	-
Bond Issuance costs	-	-	-	-
Total Expenditures	2,840,841	704,980	211,020	123,219
Excess (Deficiency) of Revenues Over (Under) Expenditures	91,992	66,292	121,796	49,166
<u>Other Financing Sources (Uses)</u>				
Issuance of debt	-	-	-	-
Transfers in	156,000	-	-	-
Transfers out	(1,767,616)	-	-	-
Total Other Financing Sources (Uses)	(1,611,616)	-	-	-
Net Change in Fund Balances	(1,519,624)	66,292	121,796	49,166
Beginning fund balances	4,121,274	146,616	822,198	118,427
Ending Fund Balances	\$ 2,601,650	\$ 212,908	\$ 943,994	\$ 167,593

See Notes to Financial Statements.

Summerlyn West Public Improvement District	Liberty Parke Public Improvement District	Capital Improvement	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 961,930
-	-	-	1,160,139
-	-	-	115,005
-	-	-	181,149
-	-	-	895,316
-	621,957	-	1,164,457
-	4,577	-	16,052
-	-	-	4,544
-	-	-	337,248
<u>-</u>	<u>626,534</u>	<u>-</u>	<u>4,835,840</u>
-	350,764	-	2,470,477
-	-	-	176,478
-	-	-	671,111
-	-	-	207,778
-	-	-	554,000
-	-	-	150,980
-	490,591	-	490,591
<u>-</u>	<u>841,355</u>	<u>-</u>	<u>4,721,415</u>
-	(214,821)	-	114,425
-	3,975,000	-	3,975,000
-	-	1,767,616	1,923,616
-	-	-	(1,767,616)
<u>-</u>	<u>3,975,000</u>	<u>1,767,616</u>	<u>4,131,000</u>
-	3,760,179	1,767,616	4,245,425
-	-	-	5,208,515
<u>\$ -</u>	<u>\$ 3,760,179</u>	<u>\$ 1,767,616</u>	<u>\$ 9,453,940</u>

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CITY OF LIBERTY HILL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

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

Net change in fund balances - total governmental funds	\$	4,245,425
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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		1,103,255
Depreciation expense		(98,684)

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		15,871
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Change in pension activity does not affect fund balances on the statement of revenues, expenditures, and changes in fund balances for the governmental funds.

Changes in pension activity that affect the City's net position are as follows:

Net pension liability		14,494
Deferred outflows- pensions		16,537
Deferred inflows- pensions		(219)

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		554,000
Debt issued		(3,975,000)
Accrued interest expense		(28,315)

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		(18,155)
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Change in Net Position of Governmental Activities	\$	<u>1,829,209</u>
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See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2017

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,719,278	\$ 4,418,862	\$ 1,189,111	\$ 7,327,251
Investments	-	606,392	-	606,392
Receivables, net	44,076	97,239	80,861	222,176
Total Current Assets	1,763,354	5,122,493	1,269,972	8,155,819
Noncurrent Assets				
Capital assets:				
Land	521,486	393,700	129,483	1,044,669
Construction in progress	2,544,450	9,871,109	2,862,655	15,278,214
Wastewater treatment facility	-	4,311,819	-	4,311,819
Water system	-	-	1,694,908	1,694,908
Sewer system	6,324,909	-	-	6,324,909
Less accumulated depreciation	(1,211,052)	(607,338)	(248,115)	(2,066,505)
Total Net Depreciable Assets	8,179,793	13,969,290	4,438,931	10,265,131
Total Noncurrent Assets	8,179,793	13,969,290	4,438,931	26,588,014
Total Assets	9,943,147	19,091,783	5,708,903	34,743,833
Liabilities				
Current Liabilities				
Accounts payable	3,682	460,096	109,047	572,825
Customer deposits	100	13,575	69,375	83,050
Accrued interest	-	27,560	10,154	37,714
Total Current Liabilities	3,782	501,231	188,576	693,589
Noncurrent Liabilities				
Long-term liabilities due within one year	-	245,000	740,000	985,000
Long-term liabilities due in more than one year	-	11,760,000	3,035,000	14,795,000
Total Noncurrent Liabilities	-	12,005,000	3,775,000	15,780,000
Total Liabilities	3,782	12,506,231	3,963,576	16,473,589
Net Position				
Net investment in capital assets	10,248,801	3,037,967	1,241,842	14,528,610
Restricted for:				
Debt service	-	1,073,677	577,911	1,651,588
Unrestricted	(309,436)	2,473,908	(74,426)	2,090,046
Total Net Position	\$ 9,939,365	\$ 6,585,552	\$ 1,745,327	\$ 18,270,244

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, 2017

	<u>Sewer</u>	<u>Wastewater Treatment</u>	<u>Water</u>	<u>Total Business-Type Activities</u>
<u>Operating Revenues</u>				
Charges for services	\$ 1,133,701	\$ 3,010,429	\$ 1,528,378	\$ 5,672,508
Impact fees	-	545,600	-	545,600
Total Operating Revenues	<u>1,133,701</u>	<u>3,556,029</u>	<u>1,528,378</u>	<u>6,218,108</u>
<u>Operating Expenses</u>				
Water operations	-	-	573,632	573,632
Sewer operations	281,901	-	-	281,901
Wastewater collection operations	-	1,784,513	-	1,784,513
Depreciation	165,274	148,028	42,373	355,675
Total Operating Expenses	<u>447,175</u>	<u>1,932,541</u>	<u>616,005</u>	<u>2,995,721</u>
Operating Income	<u>686,526</u>	<u>1,623,488</u>	<u>912,373</u>	<u>3,222,387</u>
<u>Nonoperating Revenues (Expenses)</u>				
Interest expense and fiscal agent fees	-	(362,681)	(132,368)	(495,049)
Investment income	1,976	61,222	3,950	67,148
Total Nonoperating Revenues (Expenses)	<u>1,976</u>	<u>(301,459)</u>	<u>(128,418)</u>	<u>(427,901)</u>
Income (Loss) Before Transfers	688,502	1,322,029	783,955	2,794,486
Transfers (out)	-	(156,000)	-	(156,000)
Change in Net Position	688,502	1,166,029	783,955	2,638,486
Beginning net position	<u>9,250,863</u>	<u>5,419,523</u>	<u>961,372</u>	<u>15,631,758</u>
Ending Net Position	<u>\$ 9,939,365</u>	<u>\$ 6,585,552</u>	<u>\$ 1,745,327</u>	<u>\$ 18,270,244</u>

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, 2017

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,121,583	\$ 4,141,045	\$ 1,541,633	\$ 6,804,261
Payments to suppliers and service providers	(263,166)	(1,782,294)	(431,024)	(2,476,484)
Payments to employees for salaries and benefits	(33,530)	(451,080)	(85,812)	(570,422)
Net Cash Provided by Operating Activities	824,887	1,907,671	1,024,797	3,757,355
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers (out) to other funds	-	(156,000)	-	(156,000)
Net Cash (Used) by Noncapital Financing Activities	-	(156,000)	-	(156,000)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(40,863)	(6,710,289)	-	(6,751,152)
Principal paid on capital debt	-	(725,000)	(235,000)	(960,000)
Interest and fiscal agent fees paid	-	(362,681)	(132,368)	(495,049)
Net Cash (Used) by Capital and Related Financing Activities	(40,863)	(7,797,970)	(367,368)	(8,206,201)
<u>Cash Flows from Investing Activities</u>				
Interest received	1,976	61,222	3,950	67,148
Purchase of investments	-	(606,392)	-	(606,392)
Net Cash Provided by Investing Activities	1,976	(545,170)	3,950	(539,244)
Net Increase (Decrease) in Cash and Cash Equivalents	786,000	(6,591,469)	661,379	(5,144,090)
Beginning cash and cash equivalents	933,278	11,010,331	527,732	12,471,341
Ending Cash and Cash Equivalents	\$ 1,719,278	\$ 4,418,862	\$ 1,189,111	\$ 7,327,251
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income	\$ 686,526	\$ 1,623,488	\$ 912,373	\$ 3,222,387
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	165,274	148,028	42,373	355,675
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(12,118)	584,041	180	572,103
Increase (Decrease) in:				
Accounts payable	(14,795)	(447,236)	52,484	(409,547)
Accrued interest	-	(1,625)	(1,250)	(2,875)
Customer deposits	-	975	13,075	14,050
Net Cash Provided by Operating Activities	\$ 824,887	\$ 1,907,671	\$ 1,024,797	\$ 3,757,355

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

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, municipal court, 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 Units

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.

Summerlyn West Public Improvement District

The Summerlyn West Public Improvement District (the “PID”) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the maintenance of water lines, sanitary sewer lines, streets, sidewalks, parks, public landscaping, recreational activity amenities, contingency provisions, financing costs, and administrative and legal

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against the property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

Liberty Parke Public Improvement District

The Liberty Parke Public Improvement District (the “PID”) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the maintenance of water lines, sanitary sewer lines, streets, sidewalks, parks, public landscaping, recreational activity amenities, contingency provisions, financing costs, and administrative and legal services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against the property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City. The PID issued \$3,975,000 in special assessment revenue bonds during fiscal year 2017 to cover reimbursement costs to developers currently working within the boundaries of the PID. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

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.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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 *capital projects fund* is used to account for the expenditures of resources accumulated from the sale of long-term debt as well as resources from other funds and related interest earnings for capital improvement projects. The capital projects fund is considered a nonmajor 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, street maintenance, Summerlyn West PID, and Liberty Parke PID. The Liberty Parke PID is considered a major fund for reporting purposes. The LHEDC, street maintenance, and Summerlyn West PID funds are considered nonmajor for reporting purposes but due to their significance the City has elected to present them as major.

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 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.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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 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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, 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 or U.S. Government agencies
- Fully collateralized certificates of deposit

- Money market mutual funds that meet certain criteria
- Bankers’ acceptances
- 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 purchased or constructed. Donated capital assets are recorded at acquisition 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.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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.

6. Compensated Employee Absences

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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, 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).

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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.

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.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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, LHEDC, street maintenance, 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, 2017.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2017, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Statewide investment pool (TexPool)	\$ 1,861,059	0.00
Certificate of deposit	835,152	0.98
Total Investments	\$ 2,696,211	

Portfolio Weighted Average Maturity 0.98

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, 2017, 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, 2017, market values of pledged securities and FDIC exceeded bank balances with the exception of certificates of deposit held at Classic bank.

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

TexPool

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

TexPool 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, weighted average

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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. Texpool'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	\$ 8,144	\$ 33,721	\$ -	\$ -
Other taxes	157,046	-	59,663	29,826
Less allowance	(479)	(723)	-	-
Total	<u><u>\$ 164,711</u></u>	<u><u>\$ 32,998</u></u>	<u><u>\$ 59,663</u></u>	<u><u>\$ 29,826</u></u>

	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>
Accounts	\$ 46,069	\$ 112,803	\$ 135,400
Less allowance	(1,993)	(15,564)	(54,539)
Total	<u><u>\$ 44,076</u></u>	<u><u>\$ 97,239</u></u>	<u><u>\$ 80,861</u></u>

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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	709,812	658,905	-	1,368,717
	1,078,133	658,905	-	1,737,038
Other capital assets:				
Building and improvements	846,614	358,477	-	1,205,091
Machinery and equipment	33,744	-	-	33,744
Police equipment	576,934	85,873	(32,846)	629,961
	1,457,292	444,350	(32,846)	1,868,796
Less accumulated depreciation for:				
Building and improvements	(162,726)	(35,350)	-	(198,076)
Machinery and equipment	(18,651)	(3,773)	-	(22,424)
Police equipment	(387,085)	(59,561)	32,846	(413,800)
	(568,462)	(98,684)	32,846	(634,300)
Other capital assets, net	888,830	345,666	-	1,234,496
Governmental Activities Capital Assets, Net	\$ 1,966,963	\$ 1,004,571	\$ -	\$ 2,971,534
		Net Investment in Capital Assets		\$ 2,971,534

Depreciation was charged to governmental functions as follows:

General government	\$ 57,237
Public safety	14,803
Public works	26,645
Total Governmental Activities Depreciation Expense	\$ 98,684

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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	8,650,943	6,627,271	-	15,278,214
	9,695,612	6,627,271	-	16,322,883
Other capital assets:				
Wastewater treatment facility	4,228,801	83,018	-	4,311,819
Water system	1,694,908	-	-	1,694,908
Sewer system	6,284,046	40,863	-	6,324,909
	12,207,755	123,881	-	12,331,636
Less accumulated depreciation for:				
Wastewater treatment facility	(460,390)	(131,426)	-	(591,816)
Water system	(206,313)	(58,976)	-	(265,289)
Sewer system	(1,044,127)	(165,273)	-	(1,209,400)
	(1,710,830)	(355,675)	-	(2,066,505)
Other capital assets, net	10,496,925	(231,794)	-	10,265,131
Business-Type Activities Capital Assets, Net	\$ 20,192,537	\$ 6,395,477	\$ -	26,588,014
			Less associated debt	(15,780,000)
			Plus unspent proceeds	3,720,596
			Net Investment in Capital Assets	\$ 14,528,610

Depreciation was charged to business-type functions as follows:

Water operations	\$ 131,426
Sewer operations	165,273
Wastewater collection operations	58,976
Total Business-Type Activities Depreciation Expense	\$ 355,675

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

D. Long-Term Debt

The following is a summary of changes in the City's total governmental activities 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	\$ 860,000	\$ -	\$ (65,000)	\$ 795,000	* \$ 65,000
2006B certificates of obligation	4,335,000	-	(325,000)	4,010,000	* 340,000
2016 tax notes	1,135,000	-	(164,000)	971,000	* 157,000
2017 special assessment revenue bonds	-	3,975,000	-	3,975,000	5,000
Net pension liability	59,728	-	(14,494)	45,234	-
Compensated absences	23,496	46,604	(28,449)	41,651	37,486
Total Governmental Activities	<u>\$ 6,413,224</u>	<u>\$ 4,021,604</u>	<u>\$ (596,943)</u>	<u>\$ 9,837,885</u>	<u>\$ 604,486</u>
			Long-term liabilities due in more than one year	<u>\$ 9,233,399</u>	
			*Debt associated with business-type activities capital assets	<u>\$ 5,776,000</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	\$ 1,800,000	\$ -	\$ (95,000)	\$ 1,705,000	\$ 100,000
2012 wastewater treatment facility revenue bonds	3,250,000	-	(150,000)	3,100,000	155,000
2014 water system revenue bonds	2,210,000	-	(140,000)	2,070,000	145,000
2015 wastewater treatment facility revenue bonds	9,480,000	-	(575,000)	8,905,000	585,000
Total Business-Type Activities	<u>\$ 16,740,000</u>	<u>\$ -</u>	<u>\$ (960,000)</u>	<u>\$ 15,780,000</u>	<u>* \$ 985,000</u>
			Long-term liabilities due in more than one year	<u>\$ 14,795,000</u>	
			*Debt associated with business-type activities capital assets	<u>\$ 15,780,000</u>	

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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%	\$ 795,000
Series 2006B	2.00-2.65%	4,010,000
Tax Notes		
Tax notes 2016	1.56-1.65%	971,000
Special Assessment Revenue Bonds		
Series 2017 MIA	5.125-6.000%	2,825,000
Series 2017 NIA	5.375%	1,150,000
Total Governmental Activities Long-Term Debt		\$ 9,751,000

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%	\$ 1,705,000
2012 Wastewater Treatment Facility	3.85%	3,100,000
2014 Water System Revenue Bond	3.01%	2,070,000
2015 Wastewater Treatment Facility	2.52%	8,905,000
Total Revenue Bonds		15,780,000
Total Business-Type Activities Long-Term Debt		\$ 15,780,000

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
2018	\$ 567,000	\$ 428,135	\$ 985,000	\$ 470,768
2019	654,000	354,395	1,015,000	443,326
2020	670,000	338,159	1,050,000	414,671
2021	703,000	320,955	1,075,000	384,773
2022	720,000	302,504	1,105,000	353,943
2023-2027	3,252,000	1,226,104	6,015,000	1,268,370
2028-2032	575,000	862,719	4,535,000	351,400
2033-2037	740,000	677,100	-	-
2038-2042	935,000	440,544	-	-
2043-2046	935,000	139,048	-	-
Total	\$ 9,751,000	\$ 4,510,072	\$ 15,780,000	\$ 3,687,251

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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 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
Capital improvement	General fund	\$ 1,767,616
General fund	Wastewater fund	156,000
	Total	\$ 1,923,616

Amounts transferred between funds were related to capital and operating activities.

F. Fund Equity

Funds restricted by enabling legislation are \$95,796, 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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 872 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>2017</u>	<u>2016</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0% Repeating, Transfers	0% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI Repeating	0% of CPI Repeating

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees entitled to, but not yet receiving, benefits	10	
Active employees	21	
	31	Total

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 7.25 percent and 7.55 percent in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were \$83,387, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016 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, 2016 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, 2016 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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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. 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). 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%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

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, 2017

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 131,717	\$ -	\$ 131,717
Interest	31,221	-	31,221
Change in current period benefits	-	-	-
Difference between expected and actual experience	(16,343)	-	(16,343)
Changes in assumptions	-	-	-
Contributions - employer	-	69,655	(69,655)
Contributions - employee	-	68,385	(68,385)
Net investment income	-	23,326	(23,326)
Benefit payments, including refunds of employee contributions	(15,090)	(15,090)	-
Administrative expense	-	(263)	263
Other changes	-	(14)	14
Net Changes	131,505	145,999	(14,494)
Balance at December 31, 2015	404,216	344,488	59,728
Balance at December 31, 2016	\$ 535,721	\$ 490,487	\$ 45,234

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 (Asset)	\$ 121,593	\$ 45,234	\$ (18,314)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$78,381.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

At September 30, 2017, 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	\$ 19,915	\$ 7,986
Changes in actuarial assumptions	6,404	-
Difference between projected and actual investment earnings	13,527	-
Contributions subsequent to the measurement date	65,272	-
Total	\$ 105,118	\$ 7,986

\$65,272 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, 2018. 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
2018	\$ 6,804
2019	5,568
2020	1,556
2021	(2,551)
2022	(2,594)
Thereafter	(781)
Total	\$ 8,002

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, 2017, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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 2017, 2016, and 2015 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:

	2017	2016	2015
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%

E. Subsequent Event

On October 17, 2017, the City issued \$1,856,000 in tax notes, series 2017 to be used for capital projects and improvements within the City. The interest rate on this debt is between one and two percent and the debt will mature on March 1st of 2024.

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, 2017

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Property taxes	\$ 356,000	\$ 356,000	\$ 194,237	\$ (161,763)
Sales taxes	562,500	684,000	668,671	(15,329)
Franchise and local taxes	100,000	105,000	115,005	10,005
Fines and forfeitures	195,900	185,768	181,149	(4,619)
Licenses and permits	471,280	1,096,880	895,316	(201,564)
Development agreements	-	792,500	542,500	(250,000)
Investment income	5,000	1,000	363	(637)
Intergovernmental	26,000	26,000	4,544	(21,456)
Other	759,037	786,777	331,048	(455,729)
Total Revenues	<u>2,475,717</u>	<u>4,033,925</u>	<u>2,932,833</u>	<u>(1,101,092)</u>
Expenditures				
General administration	2,540,250	2,837,858	1,908,693	929,165
Municipal court	194,900	206,075	176,478	29,597
Police department	735,500	754,455	671,111	83,344
Parks and recreation	499,300	114,500	84,559	29,941
Total Expenditures	<u>3,969,950</u>	<u>3,912,888</u>	<u>2,840,841</u>	<u>1,072,047</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,494,233)</u>	<u>121,037</u>	<u>91,992</u>	<u>(29,045)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	156,000	156,000
Transfers out	-	(1,767,616)	(1,767,616)	-
Total Other Financing (Uses)	<u>-</u>	<u>(1,767,616)</u>	<u>(1,611,616)</u>	<u>156,000</u>
Net Change in Fund Balance	<u>\$ (1,494,233)</u>	<u>\$ (1,646,579)</u>	<u>(1,519,624)</u>	<u>\$ 126,955</u>
Beginning fund balance			<u>4,121,274</u>	
Ending Fund Balance			<u>\$ 2,601,650</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, 2017

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Sales taxes	\$ 280,629	\$ 360,000	\$ 327,680	\$ (32,320)
Other	34,100	4,200	5,136	936
Total Revenues	<u>314,729</u>	<u>364,200</u>	<u>332,816</u>	<u>(31,384)</u>
<u>Expenditures</u>				
General administration	319,850	399,250	211,020	188,230
Capital outlay	310,000	310,000	-	310,000
Total Public Works	<u>629,850</u>	<u>709,250</u>	<u>211,020</u>	<u>498,230</u>
Total Expenditures	<u>1,259,700</u>	<u>709,250</u>	<u>211,020</u>	<u>498,230</u>
Net Change in Fund Balance	<u>\$ (944,971)</u>	<u>\$ (345,050)</u>	121,796	<u>\$ 466,846</u>
Beginning fund balance			<u>822,198</u>	
Ending Fund Balance			<u>\$ 943,994</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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Sales taxes	\$ 155,000	\$ 175,000	\$ 163,788	\$ (11,212)
Other	85	12,200	8,597	(3,603)
Total Revenues	<u>155,085</u>	<u>187,200</u>	<u>172,385</u>	<u>(14,815)</u>
<u>Expenditures</u>				
Street maintenance	174,000	161,800	123,219	38,581
Total Expenditures	<u>174,000</u>	<u>161,800</u>	<u>123,219</u>	<u>38,581</u>
Net Change in Fund Balance	<u>\$ (18,915)</u>	<u>\$ 25,400</u>	49,166	<u>\$ 23,766</u>
Beginning fund balance			<u>118,427</u>	
Ending Fund Balance			<u>\$ 167,593</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, 2017

	Measurement Year*		
	2014	2015	2016
Total Pension Liability			
Service cost	\$ 40,516	\$ 74,045	\$ 131,717
Interest (on the total pension liability)	17,896	24,957	31,221
Changes in benefit terms	-	26,977	-
Difference between expected and actual experience	21,818	(9,369)	(16,343)
Changes of assumptions	-	9,730	-
Benefit payments, including refunds of employee contributions	(16,899)	(29,298)	(15,090)
Net Change in Total Pension Liability	<u>63,331</u>	<u>97,042</u>	<u>131,505</u>
Beginning total pension liability	<u>243,843</u>	<u>307,174</u>	<u>404,216</u>
Ending Total Pension Liability	<u><u>\$ 307,174</u></u>	<u><u>\$ 404,216</u></u>	<u><u>\$ 535,721</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 12,443	\$ 19,891	\$ 69,655
Contributions - employee	39,026	54,387	68,385
Net investment income	14,346	442	23,326
Benefit payments, including refunds of employee contributions	(16,899)	(29,298)	(15,090)
Administrative expense	(150)	(269)	(263)
Other	(12)	(13)	(14)
Net Change in Plan Fiduciary Net Position	<u>48,754</u>	<u>45,140</u>	<u>145,999</u>
Beginning plan fiduciary net position	<u>250,594</u>	<u>299,348</u>	<u>344,488</u>
Ending Plan Fiduciary Net Position	<u><u>\$ 299,348</u></u>	<u><u>\$ 344,488</u></u>	<u><u>\$ 490,487</u></u>
Net Pension Liability	<u><u>\$ 7,826</u></u>	<u><u>\$ 59,728</u></u>	<u><u>\$ 45,234</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.45%	85.22%	91.56%
Covered Employee Payroll	\$ 557,512	\$ 776,963	\$ 938,822
Net Pension Liability as a Percentage of Covered Employee Payroll	1.40%	7.69%	4.82%

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

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CITY OF LIBERTY HILL, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2017

	Fiscal Year*		
	2015	2016	2017
Actuarially determined contribution	\$ 18,067	\$ 55,391	\$ 83,387
Contributions in relation to the actuarially determined contribution	18,067	55,391	83,387
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 Covered employee payroll	 \$ 733,664	 \$ 910,042	 \$ 1,115,988
 Contributions as a percentage of covered employee payroll	 2.46%	 6.09%	 7.47%

*Only three years of information is currently available. The City will build this schedule over the next seven-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	22 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.

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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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Property taxes	\$ 527,335	\$ 527,335	\$ 767,693	\$ 240,358
Other	250	250	3,579	3,329
Total Revenues	<u>527,585</u>	<u>527,585</u>	<u>771,272</u>	<u>243,687</u>
<u>Expenditures</u>				
Principal	137,335	554,000	554,000	-
Interest expense	390,000	150,980	150,980	-
Total Expenditures	<u>527,335</u>	<u>704,980</u>	<u>704,980</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 250</u>	<u>\$ (177,395)</u>	66,292	<u>\$ 243,687</u>
Beginning fund balance			<u>146,616</u>	
Ending Fund Balance			<u>\$ 212,908</u>	

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