

**CITY OF LOCKHART, TEXAS**

*ANNUAL FINANCIAL REPORT*

*For the fiscal year ended September 30, 2016*

**CITY OF LOCKHART, TEXAS**

*ANNUAL FINANCIAL REPORT*

*For the year ended September 30, 2016*

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*ANNUAL FINANCIAL REPORT*

*For the year ended September 30, 2016*

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## **FINANCIAL SECTION**



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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members  
of the City Council  
City of Lockhart, Texas

Mayor and Members of Council:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lockhart, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Lockhart Economic Development Corporation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

The Honorable Mayor and Members  
of the City Council

### 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of changes in net pension liability and related ratios and the schedule of employer contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the compliance schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Honorable Mayor and Members  
of the City Council

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Harrison, Waldrop & Uherek, LLP*

HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

March 15, 2017

**CITY OF LOCKHART, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS*  
*September 30, 2016*

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As management of the City of Lockhart, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ended September 30, 2016, by \$42,357,091. Of this amount, \$10,117,300 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- At September 30, 2016, the City's governmental funds reported combined ending fund balances of \$11,947,862, a decrease of \$1,376,859 in comparison with the prior year.
- At September 30, 2016, unassigned fund balance for the General Fund was \$3,423,228 or 42.31% of total General Fund expenditures.
- The total cost of all City activities was \$27,794,804 for the fiscal year which is a decrease of \$457,251 from the prior year.
- During the year, the City's general revenues exceeded net expenses of all City activities by \$1,280,131. This represents a 3.12% increase in net position from the previous fiscal year as a result of operations.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component unit financial statements, and 4) notes to financial statements.

**Organization and Flow of Financial Section Information**

**Independent Auditors' Report**

*Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.*

**Management's Discussion and Analysis**

*This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.*

Pages 4 to 11

**Government-wide Financial Statements**

*Provides information on governmental and business-type activities of the primary government.*

Pages 12 to 15

**Fund Financial Statements**

*Provides information on the financial position of specific funds of the primary governments.*

Pages 16 to 27

**Notes to Financial Statements**

*Provides a summary of significant accounting policies and related disclosures.*

Pages 28 to 59



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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, and interest on long-term debt. The business-type activities of the City include electric, water, wastewater, solid waste services, and an airport fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component unit of Lockhart Economic Development Corporation, Inc.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 a government'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 government funds and governmental activities.

The City maintained numerous individual governmental funds during the 2015-2016 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund and 2015 Capital Project Fund which are considered major funds. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Fund Financial Statements - (Continued)**

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. A Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, has been provided for the General Fund and Debt Service Fund to demonstrate compliance with this budget.

The City maintains only one type of *proprietary fund*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its electric, water, wastewater utility services, EMS, solid waste operations, and the airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The City has four major proprietary funds. They are the electric fund, the water fund, the wastewater fund, and EMSfund. Separate financial statements are presented for the major funds. Individual fund data for each of the nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs/operations. The accounting used for fiduciary funds is similar to proprietary funds.

The basic fiduciary fund financial statements can be found on pages 26 through 27 of this report.

### **Notes to Financial Statements**

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

### **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$42,357,991 at the close of the 2016 fiscal year.

By far, the largest portion of the City's net position, 69.07%, reflects its investment in capital assets (i.e., land, buildings, infrastructure, and machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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 capital assets themselves cannot be used to liquidate these liabilities.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**City of Lockhart, Texas**

**Net Position**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 13,316,330	\$ 14,473,795	\$ 19,587,889	\$ 18,324,349	\$ 32,904,219	\$ 32,798,144
Capital assets (net)	23,313,097	23,627,695	21,912,245	21,661,958	45,225,342	45,289,653
Other noncurrent assets	-	-	253,469	492,172	253,469	492,172
Total assets	<u>36,629,427</u>	<u>38,101,490</u>	<u>41,753,603</u>	<u>40,478,479</u>	<u>78,383,030</u>	<u>78,579,969</u>
Deferred outflow of resources	<u>2,305,609</u>	<u>421,035</u>	<u>714,842</u>	<u>107,108</u>	<u>3,020,451</u>	<u>528,143</u>
Current and other liabilities	1,769,474	1,339,867	2,978,855	1,952,838	4,748,329	3,292,705
Noncurrent liabilities	<u>18,831,300</u>	<u>18,265,030</u>	<u>15,334,368</u>	<u>17,010,062</u>	<u>34,165,668</u>	<u>35,275,092</u>
Total liabilities	<u>20,600,774</u>	<u>19,604,897</u>	<u>18,313,223</u>	<u>18,962,900</u>	<u>38,913,997</u>	<u>38,567,797</u>
Deferred outflow of resources	<u>101,900</u>	<u>-</u>	<u>29,593</u>	<u>-</u>	<u>131,493</u>	<u>-</u>
Net position:						
Net investment in						
capital assets	15,001,030	16,376,825	15,074,665	15,283,769	30,075,695	31,660,594
Restricted	1,093,907	1,211,989	1,071,089	1,023,082	2,164,996	2,235,071
Unrestricted, as restated	<u>2,137,425</u>	<u>1,328,814</u>	<u>7,979,875</u>	<u>5,315,836</u>	<u>10,117,300</u>	<u>6,644,650</u>
Total net position	<u>\$ 18,232,362</u>	<u>\$ 18,917,628</u>	<u>\$ 24,125,629</u>	<u>\$ 21,622,687</u>	<u>\$ 42,357,991</u>	<u>\$ 40,540,315</u>

An additional portion of the City's net position, 5.11%, represents resources that are subject to external restrictions on how they may be used (i.e., debt service). The remaining balance of unrestricted net position, \$10,117,300, may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the primary government as a whole.

**Governmental activities.** Governmental activities decreased the City's net position by \$992,995. Key elements of this decrease are as follows:

- Decrease in public safety charges for services of \$1,200,827 as a result of the EMS activity now being accounted for in a business type activity fund.

**Business-type activities.** Business-type activities increased the City's net position by \$2,273,126, accounting for 100.00% of the total growth in the City's net position. Key elements of this increase are as follows:

- Charges for services were \$821,475 higher due to the EMS activity now being accounted for as a business type activity.
- Capital grants and contributions also increased by \$1,042,796.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**City of Lockhart, Texas**

**Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 1,279,684	\$ 2,692,508	\$ 19,617,335	\$ 18,795,860	\$ 20,897,019	\$ 21,488,368
Operating grants and contributions	615,542	391,200	-	11,821	615,542	403,021
Capital grants and contributions	-	-	1,042,796	-	1,042,796	-
General revenues:						
Property taxes	3,704,494	3,536,997	-	-	3,704,494	3,536,997
Sales taxes	1,478,065	1,484,020	-	-	1,478,065	1,484,020
Franchise taxes	316,353	325,911	-	-	316,353	325,911
Other taxes	132,234	106,712	-	-	132,234	106,712
Impact fees	-	-	263,817	255,462	263,817	255,462
Investment earnings	59,851	23,881	61,357	21,733	121,208	45,614
Miscellaneous	239,590	493,852	263,817	6,858	503,407	500,710
<b>Total revenues</b>	<b>7,825,813</b>	<b>9,055,081</b>	<b>21,249,122</b>	<b>19,091,734</b>	<b>29,074,935</b>	<b>28,146,815</b>
<b>EXPENSES</b>						
General government	1,879,383	2,476,203	-	-	1,879,383	2,476,203
Public safety	5,230,470	5,626,336	-	-	5,230,470	5,626,336
Public works	2,586,206	2,448,572	-	-	2,586,206	2,448,572
Health	17,068	13,489	-	-	17,068	13,489
Culture and recreation	933,135	964,757	-	-	933,135	964,757
Interest on long-term debt	621,121	612,529	-	-	621,121	612,529
Electric system	-	-	8,664,234	9,753,464	8,664,234	9,753,464
Water systems	-	-	3,257,979	3,258,446	3,257,979	3,258,446
Wastewater system	-	-	2,089,407	1,849,338	2,089,407	1,849,338
EMS operation	-	-	1,230,254	-	1,230,254	-
Sanitation	-	-	1,215,636	1,166,275	1,215,636	1,166,275
Airport	-	-	69,911	82,646	69,911	82,646
<b>Total expenses</b>	<b>11,267,383</b>	<b>12,141,886</b>	<b>16,527,421</b>	<b>16,110,169</b>	<b>27,794,804</b>	<b>28,252,055</b>
Change in net position before transfers	(3,441,570)	(3,086,805)	4,721,701	2,981,565	1,280,131	(105,240)
Transfers	2,448,575	2,356,889	(2,448,575)	(2,356,889)	-	-
Change in net position	(992,995)	(729,916)	2,273,126	624,676	1,280,131	(105,240)
Net position - beginning, as restated	19,225,357	19,955,273	21,852,503	21,227,827	41,077,860	41,183,100
Net position - ending	\$ 18,232,362	\$ 19,225,357	\$ 24,125,629	\$ 21,852,503	\$ 42,357,991	\$ 41,077,860

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## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate 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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,947,862, a decrease of \$1,376,859 from the prior year.

Approximately 28.65% of this total amount, \$3,423,228, constitutes unassigned fund balance, which is available for spending at the government's discretion. The City also has \$604,252 of fund balance that is committed for specific projects. In addition, there is \$7,886,443 of fund balance that is restricted for specific purposes and \$33,939 that is classified as nonspendable; being that it is not available for new spending because it has already been committed: 1) for prepaid expenditures \$20,240; and 2) for inventory \$13,699.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$3,423,228. Unassigned fund balance represents 42.31% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$239,426 during the current fiscal year.

The primary reason for the decrease in the governmental fund balance was due to the amounts expended for capital asset acquisitions during the year.

### **Proprietary Funds**

The City's proprietary funds, the Electric Fund, the Water Fund, the Wastewater Fund, the EMS Fund, the Sanitation Fund and the Airport Fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds at the end of the current fiscal year amounted to \$7,979,875. The total growth for the funds was \$2,273,126 as a result of a increase in revenues from the prior year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual fiscal year revenues in the General Fund were \$173,734 more than the final budgeted amounts. The increase over the anticipated amount is comprised of the following items.

- \$76,544 increase in property tax revenues.
- \$57,759 increase in sales and other tax revenues.

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## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$45,225,342 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, infrastructure, and construction in progress. The net decrease in the City's investment in capital assets was .47%.

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### **City of Lockhart, Texas**

#### **Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,484,604	\$ 1,383,270	\$ 574,710	\$ 574,710	\$ 2,059,314	\$ 1,957,980
Construction in progress	1,510,342	213,543	495,736	3,512,433	2,006,078	3,725,976
Bldgs. and improvements	7,612,641	7,860,675	1,574,507	1,616,191	9,187,148	9,476,866
Infrastructure	11,420,888	1,416,598	18,763,492	15,103,359	30,184,380	16,519,957
Machinery and equipment	1,284,622	12,753,609	503,800	1,002,664	1,788,422	13,756,273
<b>Total</b>	<b><u>\$ 23,313,097</u></b>	<b><u>\$ 23,627,695</u></b>	<b><u>\$ 21,912,245</u></b>	<b><u>\$ 21,809,357</u></b>	<b><u>\$ 45,225,342</u></b>	<b><u>\$ 45,437,052</u></b>

Additional information on the City's capital assets can be found in Note 6 of this report.

### Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$26,556,376. Of this amount, \$6,764,995 represents General Obligation Tax and Revenue Bonds. The remainder of the City's bonded debt is comprised of \$19,791,381 of Combination Tax and Revenue Certificates of Obligation. The City's bonded debt had a net decrease of \$438,624 during the fiscal year ended September 30, 2016. Additional information on the long-term debt can be found in Note 9.

The City maintains a bond rating of "A" from Standard & Poor's.

As a Home Rule City, the City is not limited by law in the amount of debt it may issue; however, all new local bond issues must be approved by the State Attorney General.

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## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Interest rates are remaining at lower levels and should result in decreased interest earnings.
- The City continues to experience economic growth with the construction of new businesses in the retail and manufacturing sectors.

All of these factors were considered in preparing the City's budget for the 2016-2017 fiscal year.

The certified assessed taxable property valuations for the 2016 tax roll total \$545,217,170 with a tax rate of \$0.7333 per \$100 valuation. \$0.6033 was allocated for maintenance and operations, and \$0.1300 was allocated for interest and sinking (debt service). The projected total property tax due is \$3,896,845 for the 2016 tax year.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 308 W. San Antonio Street, Lockhart, Texas 78644.

## **Basic Financial Statements**



**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lockhart Economic Development Corporation
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 12,314,169	\$ 14,750,068	\$ 27,064,237	\$ 1,232,591
Receivables (net)	717,004	4,234,234	4,951,238	125,609
Contractual settlement	-	238,703	238,703	-
Due from other governments	251,218	-	251,218	-
Inventory	13,699	364,884	378,583	674,522
Prepaid expenses	20,240	-	20,240	17,750
Total current assets	<u>13,316,330</u>	<u>19,587,889</u>	<u>32,904,219</u>	<u>2,050,472</u>
Noncurrent assets (net)				
Contractual settlement	-	253,469	253,469	-
Capital assets	<u>23,313,097</u>	<u>21,912,245</u>	<u>45,225,342</u>	<u>2,158,618</u>
Total noncurrent assets	<u>23,313,097</u>	<u>22,165,714</u>	<u>45,478,811</u>	<u>2,158,618</u>
<b>Total assets</b>	<u>36,629,427</u>	<u>41,753,603</u>	<u>78,383,030</u>	<u>4,209,090</u>
<b>DEFERRED OUTFLOWS</b>				
Deferred amount on refunding	304,745	213,823	518,568	-
Deferred outflow related to TMRS	<u>2,000,864</u>	<u>501,019</u>	<u>2,501,883</u>	<u>-</u>
<b>Total deferred outflow of resources</b>	<u>2,305,609</u>	<u>714,842</u>	<u>3,020,451</u>	<u>-</u>

The accompanying notes are an integral part of this statement.

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lockhart Economic Development Corporation
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 873,007	\$ 1,373,302	\$ 2,246,309	\$ 2,081
Payroll related payables	77,588	105,040	182,628	-
Accrued interest payable	83,233	92,963	176,196	-
Due to other governments	18,310	90,428	108,738	-
Customer deposits	-	339,625	339,625	-
Unearned revenue	30,650	3,413	34,063	-
Accrued compensated absences	108,689	55,349	164,038	-
Current portion of long-term liabilities	577,997	922,363	1,500,360	57,662
Total current liabilities	<u>1,769,474</u>	<u>2,982,483</u>	<u>4,751,957</u>	<u>59,743</u>
Noncurrent liabilities				
Accrued compensated absences	326,068	-	326,068	-
Noncurrent portion of long-term liabilities	14,526,606	14,339,497	28,866,103	1,056,942
Net pension liability	3,978,626	994,656	4,973,282	-
Total noncurrent liabilities	<u>18,831,300</u>	<u>15,334,153</u>	<u>34,165,453</u>	<u>1,056,942</u>
<b>Total liabilities</b>	<u>20,600,774</u>	<u>18,316,636</u>	<u>38,917,410</u>	<u>1,116,685</u>
<b>DEFERRED INFLOWS</b>				
Deferred inflow related to TMRS	<u>101,900</u>	<u>26,180</u>	<u>128,080</u>	<u>-</u>
<b>Total deferred inflows</b>	<u>101,900</u>	<u>26,180</u>	<u>128,080</u>	<u>-</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	15,001,030	15,074,665	30,075,695	1,044,014
Restricted	1,093,907	1,071,089	2,164,996	-
Unrestricted	<u>2,137,425</u>	<u>7,979,875</u>	<u>10,117,300</u>	<u>2,048,391</u>
<b>Total net position</b>	<u>\$ 18,232,362</u>	<u>\$ 24,125,629</u>	<u>\$ 42,357,991</u>	<u>\$ 3,092,405</u>

**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2016

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 1,879,383	\$ 191,100	\$ 431,104	\$ -
Public safety	5,230,470	330,826	184,438	-
Public works	2,586,206	723,832	-	-
Health	17,068	-	-	-
Culture and recreation	933,135	33,926	-	-
Interest on long-term debt	621,121	-	-	-
Total governmental activities	<u>11,267,383</u>	<u>1,279,684</u>	<u>615,542</u>	<u>-</u>
Business-type activities				
Electric	8,664,234	10,974,720	-	-
Water	3,257,979	3,100,239	-	275,000
Wastewater	2,089,407	2,265,298	-	-
EMS	1,230,254	2,007,847	-	767,796
Other	<u>1,285,547</u>	<u>1,533,048</u>	-	-
Total business-type activities	<u>16,527,421</u>	<u>19,881,152</u>	<u>-</u>	<u>1,042,796</u>
Total primary government	<u>\$ 27,794,804</u>	<u>\$ 21,160,836</u>	<u>\$ 615,542</u>	<u>\$ 1,042,796</u>
<b>Component Unit</b>				
Lockhart Economic Development Corporation	<u>\$ 533,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Impact fees

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			Component Unit
Primary Government			
Governmental Activities	Business- type Activities	Total	Lockhart Economic Development Corporation
\$ (1,257,179)	\$ -	\$ (1,257,179)	\$ -
(4,715,206)	-	(4,715,206)	-
(1,862,374)	-	(1,862,374)	-
(17,068)	-	(17,068)	-
(899,209)	-	(899,209)	-
(621,121)	-	(621,121)	-
<u>(9,372,157)</u>	<u>-</u>	<u>(9,372,157)</u>	<u>-</u>
-	2,310,486	2,310,486	-
-	117,260	117,260	-
-	175,891	175,891	-
-	1,545,389	1,545,389	-
-	247,501	247,501	-
-	4,396,527	4,396,527	-
<u>(9,372,157)</u>	<u>4,396,527</u>	<u>(4,975,630)</u>	<u>-</u>
-	-	-	<u>(533,857)</u>
3,016,649	-	3,016,649	-
687,845	-	687,845	-
1,478,065	-	1,478,065	739,033
316,353	-	316,353	-
132,234	-	132,234	-
-	263,817	263,817	-
59,851	61,357	121,208	4,986
239,590	-	239,590	-
<u>2,448,575</u>	<u>(2,448,575)</u>	<u>-</u>	<u>25,311</u>
<u>8,379,162</u>	<u>(2,123,401)</u>	<u>6,255,761</u>	<u>769,330</u>
(992,995)	2,273,126	1,280,131	235,473
<u>19,225,357</u>	<u>21,852,503</u>	<u>41,077,860</u>	<u>2,856,932</u>
<u>\$ 18,232,362</u>	<u>\$ 24,125,629</u>	<u>\$ 42,357,991</u>	<u>\$ 3,092,405</u>

**CITY OF LOCKHART, TEXAS**

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

*September 30, 2016*

	<u>General</u>	<u>2015 Certificates of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 3,795,440	\$ 7,049,690	\$ 1,469,039	\$ 12,314,169
Receivables (net)	576,467	-	140,537	717,004
Due from other funds	18,483	-	-	18,483
Due from other governments	251,218	-	-	251,218
Prepaid expenditures	15,728	-	4,512	20,240
Inventory	13,699	-	-	13,699
<b>Total assets</b>	<u>\$ 4,671,035</u>	<u>\$ 7,049,690</u>	<u>\$ 1,614,088</u>	<u>\$ 13,334,813</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 212,527	\$ 596,520	\$ 63,960	\$ 873,007
Payroll related payables	76,197	-	-	76,197
Other payables	1,391	-	-	1,391
Due to other funds	-	-	18,483	18,483
Due to other governments	18,310	-	-	18,310
Unearned revenue	-	-	30,650	30,650
<b>Total liabilities</b>	<u>308,425</u>	<u>596,520</u>	<u>113,093</u>	<u>1,018,038</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	305,703	-	63,210	368,913
<b>Total deferred inflows of resources</b>	<u>305,703</u>	<u>-</u>	<u>63,210</u>	<u>368,913</u>
<b>FUND BALANCES</b>				
Nonspendable				
Prepaid expenditures	15,728	-	4,512	20,240
Inventory	13,699	-	-	13,699
Restricted				
General government	-	-	627,417	627,417
Tourism	-	-	8,248	8,248
Public safety	-	-	180,153	180,153
Debt service	-	-	278,089	278,089
Various capital projects	-	6,453,170	339,366	6,792,536
Committed				
Sidewalks	31,618	-	-	31,618
Revolving loan	257,723	-	-	257,723
Industrial park	314,911	-	-	314,911
Unassigned	3,423,228	-	-	3,423,228
<b>Total fund balances</b>	<u>4,056,907</u>	<u>6,453,170</u>	<u>1,437,785</u>	<u>11,947,862</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 4,671,035</u>	<u>\$ 7,049,690</u>	<u>\$ 1,614,088</u>	<u>\$ 13,334,813</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION**

**OF GOVERNMENTAL ACTIVITIES**

September 30, 2016

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**Total governmental fund balances** \$ 11,947,862

*Amounts reported for governmental activities in the statement of net position are different because:*

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.

367,045

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.

1,868

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 93,580,380	
Accumulated depreciation of governmental capital assets	<u>(70,267,283)</u>	23,313,097

Deferred outflows of resources are not reported in the governmental funds:

Deferred amount on refunding	304,745	
Pension contributions after measurement date	423,272	
Change in actuarial assumptions used to determine pension liability	84,414	
Difference in projected and actual earnings on pension assets	<u>1,493,178</u>	2,305,609

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds and certificates payable	(14,268,797)	
Bond premiums	(835,806)	
Net pension liability	(3,978,626)	
Accrued interest payable	(83,233)	
Compensated absences	<u>(434,757)</u>	(19,601,219)

Deferred inflows of resources are not reported in the governmental funds:

Difference in expected and actual pension experience		<u>(101,900)</u>
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**Net position of governmental activities** **\$ 18,232,362**

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended September 30, 2016

	General	2015 Certificates of Obligation	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 3,060,393	\$ -	\$ 696,861	\$ 3,757,254
Sales and other taxes	1,807,777	-	113,648	1,921,425
Fines, fees and forfeitures	370,334	-	744,899	1,115,233
Licenses and permits	173,641	-	-	173,641
Intergovernmental and grants	184,346	-	92	184,438
Investment	19,335	29,746	10,770	59,851
Miscellaneous	199,875	-	350,515	550,390
<b>Total revenues</b>	<u>5,815,701</u>	<u>29,746</u>	<u>1,916,785</u>	<u>7,762,232</u>
<b>EXPENDITURES</b>				
Current				
General government	1,806,338	-	47,147	1,853,485
Public safety	4,378,732	-	301,290	4,680,022
Public works	1,069,441	-	-	1,069,441
Health and welfare	12,138	-	-	12,138
Culture and recreation	823,894	-	10,921	834,815
Capital outlay	-	1,178,987	410,300	1,589,287
Debt service				
Principal retirement	-	-	855,322	855,322
Interest and fiscal charges	-	-	566,342	566,342
Paying agent and issue costs	-	-	151,889	151,889
<b>Total expenditures</b>	<u>8,090,543</u>	<u>1,178,987</u>	<u>2,343,211</u>	<u>11,612,741</u>
Excess (deficiency) of revenues over expenditures	(2,274,842)	(1,149,241)	(426,426)	(3,850,509)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds issued	-	-	4,887,402	4,887,402
Premium on issuance of bonds	-	-	593,157	593,157
Payment to escrow	-	-	(5,455,484)	(5,455,484)
Transfers in	2,949,651	-	502,159	3,451,810
Transfers out	(435,383)	(36,852)	(531,000)	(1,003,235)
<b>Total other financing sources</b>	<u>2,514,268</u>	<u>(36,852)</u>	<u>(3,766)</u>	<u>2,473,650</u>
Net change in fund balances	239,426	(1,186,093)	(430,192)	(1,376,859)
Fund balances - beginning, as restated	<u>3,817,481</u>	<u>7,639,263</u>	<u>1,867,977</u>	<u>13,324,721</u>
<b>Fund balances - ending</b>	<u>\$ 4,056,907</u>	<u>\$ 6,453,170</u>	<u>\$ 1,437,785</u>	<u>\$ 11,947,862</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES*

*For the year ended September 30, 2016*

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**Total net change in fund balances - governmental funds** **\$ (1,376,859)**

*Amounts reported for governmental activities in the statement of activities are different because:*

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$ 1,930,787	
Depreciation expense	<u>(2,097,986)</u>	(167,199)

The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position. (147,399)

Issuance of debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Bonds at par value	(4,887,402)	
(Premium) discount	<u>(593,157)</u>	(5,480,559)

Payment to the escrow agent to refund bonds from refunding proceeds reduces long-term liabilities. 5,455,484

Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:

Bond principal retirement		855,322
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Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	(3,788)	
Other revenues	<u>67,369</u>	63,581

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	(7,419)	
Decrease in accrued interest	97,110	
Net pension costs	<u>(285,057)</u>	<u>(195,366)</u>

**Change in net position of governmental activities** **\$ (992,995)**

The accompanying notes are an integral part of this statement.



**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2016

	Business-type Activities					Total
	Electric	Water	Wastewater	EMS	Other Funds	
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 1,966,134	\$ 9,972,089	\$ 2,042,089	\$ 325,023	\$ 444,733	\$ 14,750,068
Receivables (net)						
Customer accounts	1,842,666	446,490	319,248	1,388,020	220,587	4,217,011
Contractual settlement	-	238,703	-	-	-	238,703
Other receivables	-	17,223	-	-	-	17,223
Inventory	364,884	-	-	-	-	364,884
<b>Total current assets</b>	<b>4,173,684</b>	<b>10,674,505</b>	<b>2,361,337</b>	<b>1,713,043</b>	<b>665,320</b>	<b>19,587,889</b>
Noncurrent assets						
Contractual settlement	-	253,469	-	-	-	253,469
Capital assets (net)						
Land and other assets not being depreciated	375,432	241,312	261,132	-	192,570	1,070,446
Buildings, improvements, and equipment (net)	2,700,978	10,405,696	5,877,285	299,280	1,558,560	20,841,799
<b>Total noncurrent assets</b>	<b>3,076,410</b>	<b>10,900,477</b>	<b>6,138,417</b>	<b>299,280</b>	<b>1,751,130</b>	<b>22,165,714</b>
<b>Total assets</b>	<b>7,250,094</b>	<b>21,574,982</b>	<b>8,499,754</b>	<b>2,012,323</b>	<b>2,416,450</b>	<b>41,753,603</b>
<b>DEFERRED OUTFLOWS</b>						
Deferred amount on refunding	-	185,363	28,460	-	-	213,823
Deferred outflow related to TMRS	299,583	75,929	76,318	-	49,189	501,019
<b>Total deferred outflow of resources</b>	<b>299,583</b>	<b>261,292</b>	<b>104,778</b>	<b>-</b>	<b>49,189</b>	<b>714,842</b>

The accompanying notes are an integral part of this statement.

Business-type Activities

	Electric	Water	Wastewater	EMS	Other Funds	Total
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	\$ 856,430	\$ 199,196	\$ 213,690	\$ 98,282	\$ 5,704	\$ 1,373,302
Payroll related payables	11,871	4,233	3,139	-	85,797	105,040
Accrued interest payable	10,824	68,312	13,827	-	-	92,963
Due to other governments	90,428	-	-	-	-	90,428
Customer deposits	242,625	90,075	-	-	6,925	339,625
Unearned revenue	-	-	-	-	3,413	3,413
Accrued compensated absences	37,558	9,012	6,602	-	2,177	55,349
Current portion of long-term obligations						
Capital leases	249,921	173,674	-	-	-	423,595
Bonds, certificates and notes	46,760	369,038	82,970	-	-	498,768
<b>Total current liabilities</b>	<u>1,546,417</u>	<u>913,540</u>	<u>320,228</u>	<u>98,282</u>	<u>104,016</u>	<u>2,982,483</u>
Noncurrent liabilities						
Net pension liability	596,794	149,198	149,198	-	99,466	994,656
Noncurrent portion of long-term obligations	1,058,643	11,297,979	1,982,875	-	-	14,339,497
<b>Total noncurrent liabilities</b>	<u>1,655,437</u>	<u>11,447,177</u>	<u>2,132,073</u>	<u>-</u>	<u>99,466</u>	<u>15,334,153</u>
<b>Total liabilities</b>	<u>3,201,854</u>	<u>12,360,717</u>	<u>2,452,301</u>	<u>98,282</u>	<u>203,482</u>	<u>18,316,636</u>
<b>DEFERRED INFLOWS</b>						
Deferred inflow related to TMRS	14,805	4,609	4,951	-	1,815	26,180
<b>Total deferred inflows</b>	<u>14,805</u>	<u>4,609</u>	<u>4,951</u>	<u>-</u>	<u>1,815</u>	<u>26,180</u>
<b>NET POSITION</b>						
Invested in capital assets, net of debt	1,710,262	7,255,248	4,058,745	299,280	1,751,130	15,074,665
Restricted	198,151	396,337	476,601	-	-	1,071,089
Unrestricted net position	2,424,605	1,819,363	1,611,934	1,614,761	509,212	7,979,875
<b>Total net position</b>	<u>\$ 4,333,018</u>	<u>\$ 9,470,948</u>	<u>\$ 6,147,280</u>	<u>\$ 1,914,041</u>	<u>\$ 2,260,342</u>	<u>\$ 24,125,629</u>

**CITY OF LOCKHART, TEXAS**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the year ended September 30, 2016

	Business-type Activities		
	Electric	Water	Wastewater
<b>OPERATING REVENUES</b>			
Charges for services	\$ 10,934,813	\$ 3,078,483	\$ 2,255,023
Miscellaneous	39,907	21,756	10,275
Total operating revenues	<u>10,974,720</u>	<u>3,100,239</u>	<u>2,265,298</u>
<b>OPERATING EXPENSES</b>			
Personnel services	1,029,556	328,742	247,577
Contracts and services	287,626	19,234	22,826
Materials and supplies	67,719	30,976	16,241
Maintenance and repairs	300,652	82,331	47,435
Power, water, and water treatment	6,481,809	1,804,593	1,466,159
Depreciation	389,028	576,357	221,273
Miscellaneous	81,645	22,281	441
Total operating expenses	<u>8,638,035</u>	<u>2,864,514</u>	<u>2,021,952</u>
<b>Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers</b>	2,336,685	235,725	243,346
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	6,853	42,498	8,800
Impact fees	-	141,981	121,836
Interest expense	(26,199)	(393,465)	(67,455)
Net nonoperating revenues (expenses)	<u>(19,346)</u>	<u>(208,986)</u>	<u>63,181</u>
Income before transfers and contributions	2,317,339	26,739	306,527
Contributions and transfers			
Capital grants and contributions	-	275,000	-
Transfers in	-	-	-
Transfers out	(1,853,829)	(351,145)	(270,355)
Total contributions and transfers	<u>(1,853,829)</u>	<u>(76,145)</u>	<u>(270,355)</u>
Change in net position	463,510	(49,406)	36,172
Net position - beginning, as restated	<u>3,869,508</u>	<u>9,520,354</u>	<u>6,111,108</u>
<b>Net position - ending</b>	<u>\$ 4,333,018</u>	<u>\$ 9,470,948</u>	<u>\$ 6,147,280</u>

The accompanying notes are an integral part of this statement.

<u>Business-type Activities</u>		
<u>EMS</u>	<u>Other Funds</u>	<u>Total</u>
\$ 2,007,847	\$ 1,522,569	\$ 19,798,735
-	10,479	82,417
<u>2,007,847</u>	<u>1,533,048</u>	<u>19,881,152</u>
-	128,973	1,734,848
1,187,852	1,076,953	2,594,491
-	5,269	120,205
-	10,694	441,112
-	-	9,752,561
42,402	60,485	1,289,545
-	3,173	107,540
<u>1,230,254</u>	<u>1,285,547</u>	<u>16,040,302</u>
777,593	247,501	3,840,850
1,537	1,669	61,357
-	-	263,817
-	-	(487,119)
<u>1,537</u>	<u>1,669</u>	<u>(161,945)</u>
779,130	249,170	3,678,905
767,796	-	1,042,796
255,559	-	255,559
-	(228,805)	(2,704,134)
<u>1,023,355</u>	<u>(228,805)</u>	<u>(1,405,779)</u>
1,802,485	20,365	2,273,126
111,556	2,239,977	21,852,503
<u>\$ 1,914,041</u>	<u>\$ 2,260,342</u>	<u>\$ 24,125,629</u>

**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2016

	Business-type Activities		
	Electric	Water	Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 11,166,620	\$ 3,153,110	\$ 2,509,995
Cash payments to suppliers for goods and services	(7,091,467)	(330,404)	(1,467,812)
Cash payments to employees for services	(1,003,441)	(1,992,704)	(255,809)
<b>Net cash provided by operating activities</b>	<u>3,071,712</u>	<u>830,002</u>	<u>786,374</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Customer deposits	14,410	(3,075)	-
Noncapital grants and contributions	-	275,000	-
Cash received from other funds	-	-	-
Cash paid to other funds	(1,853,829)	(351,145)	(270,355)
<b>Net cash used by noncapital financing activities</b>	<u>(1,839,419)</u>	<u>(79,220)</u>	<u>(270,355)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(356,540)	(624,325)	(171,191)
Impact fees received	-	141,981	121,836
Contractual settlement received	-	224,584	-
Principal paid on capital debt	(321,895)	(727,560)	(240,226)
Interest paid on capital debt	(28,724)	(496,908)	(76,789)
<b>Net cash used by capital financing activities</b>	<u>(707,159)</u>	<u>(1,482,228)</u>	<u>(366,370)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	6,853	42,498	8,800
<b>Net cash provided (used) by investing activities</b>	<u>6,853</u>	<u>42,498</u>	<u>8,800</u>
Net increase (decrease) in cash and cash equivalents	531,987	(688,948)	158,449
Cash and cash equivalents at beginning of year	1,434,147	10,661,037	1,883,640
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,966,134</u>	<u>\$ 9,972,089</u>	<u>\$ 2,042,089</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income	\$ 2,336,685	\$ 235,725	\$ 243,346
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	389,028	576,357	221,273
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	202,883	52,871	244,697
(Increase) decrease in prepaids	355	-	-
(Increase) decrease in inventory	31,539	-	-
Increase (decrease) in accounts and other payables	85,107	(33,289)	85,290
Increase (decrease) in payroll related liabilities	26,115	(1,662)	(8,232)
Increase (decrease) in unearned revenue	-	-	-
<b>Net cash provided by operating activities</b>	<u>\$ 3,071,712</u>	<u>\$ 830,002</u>	<u>\$ 786,374</u>

The accompanying notes are an integral part of this statement.

<u>Business-type Activities</u>		
<u>EMS</u>	<u>Other Funds</u>	<u>Total</u>
\$ 619,827	\$ 1,523,388	\$ 18,972,940
(1,089,570)	(1,094,766)	(11,074,019)
-	(115,763)	(3,367,717)
<u>(469,743)</u>	<u>312,859</u>	<u>4,531,204</u>
-	450	11,785
731,951	-	1,006,951
255,559	-	255,559
-	(237,334)	(2,712,663)
<u>987,510</u>	<u>(236,884)</u>	<u>(1,438,368)</u>
(194,281)	(46,096)	(1,392,433)
-	-	263,817
-	-	224,584
-	-	(1,289,681)
-	-	(602,421)
<u>(194,281)</u>	<u>(46,096)</u>	<u>(2,796,134)</u>
<u>1,537</u>	<u>1,669</u>	<u>61,357</u>
<u>1,537</u>	<u>1,669</u>	<u>61,357</u>
325,023	31,548	358,059
-	413,185	14,392,009
<u>\$ 325,023</u>	<u>\$ 444,733</u>	<u>\$ 14,750,068</u>
\$ 777,593	\$ 247,501	\$ 3,840,850
42,402	60,485	1,289,545
(1,388,020)	(9,935)	(897,504)
-	-	355
-	-	31,539
98,282	14,151	249,541
-	382	16,603
-	275	275
<u>\$ (469,743)</u>	<u>\$ 312,859</u>	<u>\$ 4,531,204</u>

**CITY OF LOCKHART, TEXAS**  
*STATEMENT OF FIDUCIARY NET POSITION*  
*FIDUCIARY FUNDS*  
*September 30, 2016*

---

	Private Purpose Trust	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,699	\$ 16,173
<b>Total assets</b>	<u>1,699</u>	<u>\$ 16,173</u>
<b>LIABILITIES</b>		
Due to others	-	\$ 16,173
<b>Total liabilities</b>	<u>-</u>	<u>\$ 16,173</u>
<b>NET POSITION</b>		
Held for various purposes	<u>\$ 1,699</u>	

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

For the year ended September 30, 2016

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	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>	
Investment income	\$ 4
Miscellaneous	<u>812</u>
<b>Total additions</b>	<u>816</u>
<b>DEDUCTIONS</b>	
Operating expenses	<u>690</u>
Change in net position	126
Net position - beginning	<u>1,573</u>
<b>Net position - ending</b>	<u>\$ 1,699</u>

The accompanying notes are an integral part of this statement.



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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Lockhart, Texas (the "City") is a municipal corporation operating under a home rule charter as authorized in Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government in which all powers of the City are vested in an elective council. The City Council consists of the mayor and six council members. The mayor and two council members are elected at large with the remaining council members elected by district. The City provides services related to the following: public safety, public works, sanitation, health and welfare, culture and recreation, economic development, planning and zoning, and general administrative services.

**A. Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units.

The Lockhart Economic Development Corporation (LEDC) is a nonprofit corporation that was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6 Section (a), to receive and account for the proceeds of a designated sales tax levied to benefit the economic development of Lockhart. The LEDC meets the criteria of a discretely presented component unit and is presented as a governmental fund type. Complete financial statements for the Lockhart Economic Development Corporation may be obtained at City Hall. No other organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2016.

This component unit is discretely presented in the financial statements. Complete financial statements of the individual component unit can be obtained from the Office of the Finance Director, 308 W. San Antonio Street, Lockhart, Texas 78644.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**B. Government-wide and Fund Financial Statements - (Continued)**

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when transactions occur 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.

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.

Property taxes, sales taxes, franchise taxes, fines, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's main operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2015 Certificates of Obligation Fund accounts for the proceeds received and expenditures incurred related to the City's issuance of certificates of obligation in 2015. The proceeds from this issue will be used to fund various projects, the majority of which relate to infrastructure improvements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The City reports the following major enterprise (proprietary) funds:

The Electric Fund accounts for the activities of the City related to its provision of electricity.

The Water Fund is used to account for the establishment and maintenance of water facilities within the municipal boundaries of the City.

The Wastewater Fund is used to account for the establishment and maintenance of sewage and drainage facilities within the municipal boundaries of the City.

The Emergency Medical Services Fund (EMS) is used to account for the activities related to providing ambulance services for the City.

Additionally, the City reports the following fund types:

Special Revenue Funds - Funds of this type account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

Capital Projects Funds - These funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Separate financial statements are provided for governmental funds, proprietary funds, discretely presented component units, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Private Purpose Trust Funds - These funds are used to account for resources legally held in trust for use by organizations that are separate from the City. All resources of these funds, including any earnings on invested resources, may be used to support the organizations' activities. There is no requirement that any portion of these resources be preserved as capital.

Agency Funds - These funds are custodial in nature and are used to account for the receipt, temporary investment, and remittance of resources to third parties. Because of the nature of these funds, they do not present results of operations or have a measurement focus.

The proprietary funds are accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between various City functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

D. Budgets and Budgetary Accounting

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 City's enterprise funds are charges to customers for sales and services. The Water Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost connecting new customers to the water system. Operating expenses for 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between 60 and 90 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them. A budget is prepared for the City's General Fund and Debt Service Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is adopted by City Council through the passage of an ordinance no later than the beginning of each fiscal year, or as soon thereafter as is practical.
4. No funds may be expended or encumbered which will exceed appropriations; however, the City Manager is authorized to transfer budgeted amounts within and among departments of individual funds in amounts not to exceed \$5,000. Any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. The budgets for the City's governmental funds are prepared in accordance with the basis of accounting utilized by those funds. The budgets for the enterprise funds are adopted under a basis consistent with generally accepted accounting principles (GAAP), except that depreciation, certain capital expenses, nonoperating income, and expense items are not considered.
6. Formal budgetary integration is employed as a management control device during the year for all governmental funds and proprietary funds.
7. All appropriations lapse at year-end.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

E. Deposits and Investments

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 Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

Investments for the City, as well as the component unit, are recorded at amortized cost, which as of September 30, 2016, approximates fair value. Because the fair value of the City's investments did not materially differ from cost, no adjustments were made to the City's reporting amounts. See Note 3 for further discussion.

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All receivables are reported net of an applicable allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 4.5% of outstanding property taxes at September 30, 2016.

The Caldwell County Appraisal District bills and collects property taxes for the City. These taxes are levied on October 1<sup>st</sup> of each year and are payable by the following January 31<sup>st</sup>, at which time penalties and interest charges are assessed on unpaid balances. An enforceable lien on property is attached on all ad valorem taxes unpaid as of January 1<sup>st</sup> following the year of levy.

G. Inventories and Prepaid Items

All inventories are valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures in both government-wide and fund financial statements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no construction period interest expense was capitalized by the City's enterprise funds.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-50
Public Domain Infrastructure	10-40
Utility System Infrastructure	30-50
Machinery and Equipment	5-10

I. Compensated Absences

Vested or accumulated vacation and sick pay that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay for it. Amounts of vested or accumulated vacation and sick pay that are not expected to be liquidated with expendable available financial resources are reported in the government wide financial statements. Vested or accumulated vacation and sick pay of the enterprise funds are recorded as an expense and liability of that fund as the benefits accrue to employees. The General Fund is the governmental fund that has typically been used in prior years to liquidate the liability for compensated absences.

J. Long-Term Obligations

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, discounts, and losses on refunding are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable deferred amounts.

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.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)****K. Deferred Outflows/Inflows of Resources**

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. 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 two items that qualify for reporting in this category. One is the deferred amount on refunding reported in the government-wide statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is the deferred amount calculated in the actuarial pension study required by GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" (GASB No. 68) and the current year pension payments reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position also reports 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 two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from a variety of sources and are further defined in Note 4. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB No. 68. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**L. Pensions**

For 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. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68.



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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)****M. Fund Balance Policies**

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory or prepaid items) because they are either not in spendable form, or legally or contractually required to be maintained in-tact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, assigned, or any combination of those classifications. In addition, the General Fund may also include an unassigned amount.

Commitments will only be used for specific purposes pursuant to a formal action (ordinance) of the City Council. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A two-thirds majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

**N. Net Position Flow Assumptions**

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

**O. Minimum Fund Balance Policy**

The City will maintain a minimum unassigned fund balance in its General Fund of 25 percent of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment. When fund balance falls below the 25 percent range, the City will replenish shortages/deficiencies. Should unassigned fund balance of the General Fund ever exceed the maximum 25 percent range, the City will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

P. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Excess Expenditures Over Appropriations

There were no excess expenditures over appropriations in the General Fund for the year ended September 30, 2016. In the Debt Service Fund, there were two instances where expenditures exceeded appropriations. Paying agent fees and issue costs exceeded the budget by \$39,898 and payment to escrow budget was exceeded by \$5,455,484.

**NOTE 3: DEPOSITS AND INVESTMENTS**

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

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pools		
TexPool	\$ 8,319,267	44
MBIA Texas CLASS	10,692,151	56
TexStar	<u>210,975</u>	41
Total	<u>\$ 19,222,393</u>	

As previously discussed in Note 1, the investments are reported in the accompanying statements at amortized cost.

A. Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments in non-operating funds to less than five years from the time of purchase. The weighted average maturity of investments of the City's operating funds cannot exceed one year from the time of purchase. TexPool's weighted average maturity cannot exceed 60 days.

B. Credit Risk

It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent. The City's investments in the public funds investment pools include those with TexPool, MBIA Texas CLASS and TexStar. The pools operate in full compliance with the Public Funds Investment Act. TexPool, MBIA Texas CLASS and TexStar are rated AAAM by Standard & Poor's.

C. Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

**NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**

D. 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 that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized. The City's deposits are therefore not subject to custodial credit risk at September 30, 2016.

E. 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 securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2016, and for the year then ended, the City was not exposed to any custodial credit risk.

Please see Note 18 for discussions relative to the investments of the City's component unit.

**NOTE 4: RECEIVABLES**

Receivables as of year-end for the City's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>EMS</u>	<u>Nonmajor Bus.-type Funds</u>	<u>Nonmajor Govt. Funds</u>	<u>Total</u>
Receivables:								
Ad valorem taxes	\$ 369,639	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,112	\$ 446,751
Franchise taxes	67,623	-	-	-	-	-	-	67,623
Municipal court fines	1,348,584	-	-	-	-	-	-	1,348,584
Customer accounts	-	1,953,556	457,141	326,006	2,790,369	225,591	-	5,752,663
Litigation settlements	-	-	492,172	-	-	-	-	492,172
Occupancy taxes	-	-	-	-	-	-	21,993	21,993
Miscellaneous	196,451	-	17,223	-	-	-	55,333	269,007
Gross receivables	1,982,297	1,953,556	966,536	326,006	2,790,369	225,591	154,438	8,398,793
Less: Allowance for uncollectibles	<u>(1,405,830)</u>	<u>(110,890)</u>	<u>(10,651)</u>	<u>(6,758)</u>	<u>(1,402,349)</u>	<u>(5,004)</u>	<u>(13,901)</u>	<u>(2,955,383)</u>
Net total receivables	<u>\$ 576,467</u>	<u>\$ 1,842,666</u>	<u>\$ 955,885</u>	<u>\$ 319,248</u>	<u>\$ 1,388,020</u>	<u>\$ 220,587</u>	<u>\$ 140,537</u>	<u>\$ 5,443,410</u>

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**NOTE 4: RECEIVABLES - (Continued)**

The City is permitted by a local charter to levy taxes up to limits set by the Constitution and laws of the State of Texas. Currently, the State of Texas does not set limits on the rate at which ad valorem taxes may be assessed. The combined tax rate for the year ended September 30, 2016, was \$0.7333 per \$100 of assessed valuation. Property taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Taxes are levied on October 1<sup>st</sup> and payable by the following January 31<sup>st</sup>, which comprises the collection dates for the current tax roll.

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). The governmental funds may also defer revenue recognition in connection with resources that have been received, but not yet recognizable (unearned). At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 303,835	\$ -	\$ 303,835
Charges for services	1,868	-	1,868
Nonmajor Funds			
Ad valorem taxes	63,210	-	63,210
Charges for services	-	30,650	30,650
	<u>\$ 368,913</u>	<u>\$ 30,650</u>	<u>\$ 399,563</u>

**NOTE 5: DUE FROM OTHER GOVERNMENTS**

The City reported amounts due from other governments as of the end of the current fiscal year. These amounts are comprised of the following at September 30, 2016:

	<u>General</u>
Sales taxes	<u>\$ 251,218</u>
	<u>\$ 251,218</u>

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**NOTE 6: CAPITAL ASSETS**

The capital asset activity of the City was as follows for the year ended September 30, 2016:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 1,383,270	\$ 105,186	\$ 3,852	\$ 1,484,604
Construction in progress	<u>213,543</u>	<u>1,296,799</u>	<u>-</u>	<u>1,510,342</u>
Total capital assets not being depreciated	<u>1,596,813</u>	<u>1,401,985</u>	<u>3,852</u>	<u>2,994,946</u>
Capital assets, being depreciated				
Machinery and equipment	6,187,814	471,469	286,464	6,372,819
Buildings	11,484,190	-	-	11,484,190
Infrastructure	<u>72,667,240</u>	<u>61,185</u>	<u>-</u>	<u>72,728,425</u>
Total capital assets being depreciated	<u>90,339,244</u>	<u>532,654</u>	<u>286,464</u>	<u>90,585,434</u>
Less accumulated depreciation for				
Machinery and equipment	4,771,216	456,046	139,065	5,088,197
Buildings	3,623,515	248,034	-	3,871,549
Infrastructure	<u>59,913,631</u>	<u>1,393,906</u>	<u>-</u>	<u>61,307,537</u>
Total accumulated depreciation	<u>68,308,362</u>	<u>2,097,986</u>	<u>139,065</u>	<u>70,267,283</u>
Total capital assets being depreciated, net	<u>22,030,882</u>	<u>(1,565,332)</u>	<u>147,399</u>	<u>20,318,151</u>
Governmental activities capital assets, net	<u>\$ 23,627,695</u>	<u>\$ (163,347)</u>	<u>\$ 151,251</u>	<u>\$ 23,313,097</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 574,710	\$ -	\$ -	\$ 574,710
Construction in progress	<u>3,512,433</u>	<u>379,330</u>	<u>3,396,027</u>	<u>495,736</u>
Total capital assets not being depreciated	<u>4,087,143</u>	<u>379,330</u>	<u>3,396,027</u>	<u>1,070,446</u>
Capital assets, being depreciated				
Machinery and equipment	5,611,286	263,730	-	5,875,016
Buildings and improvements	4,570,434	-	-	4,570,434
Infrastructure	<u>32,549,115</u>	<u>4,145,400</u>	<u>-</u>	<u>36,694,515</u>
Total capital assets being depreciated	<u>42,730,835</u>	<u>4,409,130</u>	<u>-</u>	<u>47,139,965</u>
Less accumulated depreciation for				
Machinery and equipment	4,608,622	762,594	-	5,371,216
Buildings and improvements	2,954,243	41,684	-	2,995,927
Infrastructure	<u>17,445,756</u>	<u>485,267</u>	<u>-</u>	<u>17,931,023</u>
Total accumulated depreciation	<u>25,008,621</u>	<u>1,289,545</u>	<u>-</u>	<u>26,298,166</u>
Total capital assets being depreciated, net	<u>17,722,214</u>	<u>3,119,585</u>	<u>-</u>	<u>20,841,799</u>
Business-type activities capital assets, net	<u>\$ 21,809,357</u>	<u>\$ 3,498,915</u>	<u>\$ 3,396,027</u>	<u>\$ 21,912,245</u>

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**NOTE 6: CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to functions/programs of the City as follows:

**Governmental activities**

General government	\$ 106,582
Public safety	367,878
Public works	1,517,136
Health	4,930
Parks and recreation	<u>101,460</u>

Total depreciation expense - governmental activities \$ 2,097,986

**Business-type activities**

Electric	\$ 389,028
Water	576,357
Wastewater	221,273
EMS	42,402
Solid Waste	7,669
Airport	<u>52,816</u>

Total depreciation expense - business-type activities \$ 1,289,545

**NOTE 7: DEFINED BENEFIT PENSION PLAN**Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the 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 the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.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 payment options. Members may also choose to receive a portion of their benefit as a partial lump-sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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**NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**

Benefits Provided - (Continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2016 were as follows:

Employee deposit rate	6.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100.0 repeating
Annuity increase (to retirees)	70.0% of CPI

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

Inactive employees or beneficiaries currently receiving benefits	68
Inactive employees entitled to but not yet receiving benefits	97
Active employees	<u>126</u>
	<u>291</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is 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 6.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.32% and 11.86% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were \$734,637, and were equal to the required contributions.

Net Pension Liability

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

*Actuarial Assumptions*

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

Inflation	2.5%
Overall Payroll Growth	3.0%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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**NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)****Net Pension Liability - (Continued)*****Actuarial Assumptions - (Continued)***

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% and female rates multiplied by 103%. 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% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% 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 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study Analysis and Experience Investigation Study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.



**NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**

Net Pension Liability - (Continued)

*Actuarial Assumptions - (Continued)*

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

*Discount Rate*

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

	<b>Increase (Decrease)</b>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	(a)	(b)	(a) - (b)
<b>Balance at 12/31/2014</b>	\$ 26,459,132	\$ 23,679,854	\$ 2,779,278
Changes for the year:			
Service cost	755,292	-	755,292
Interest	1,840,606	-	1,840,606
Difference between expected and actual experience	541,546	-	541,546
Change of assumptions	143,888	-	143,888
Contributions - Employer	-	721,903	(721,903)
Contributions - Employee	-	352,824	(352,824)
Net investment income	-	34,935	(34,935)
Benefit payments, including refunds of employee contributions	(1,084,811)	(1,084,811)	-
Administrative expense	-	(21,283)	21,283
Other changes	-	(1,051)	1,051
Net changes	<u>2,196,521</u>	<u>2,517</u>	<u>2,194,004</u>
<b>Balance at 12/31/2015</b>	<u>\$ 28,655,653</u>	<u>\$ 23,682,371</u>	<u>\$ 4,973,282</u>

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**NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.75%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	\$9,212,328	\$4,973,282	\$1,532,098

*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](http://www.tmr.com).

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

For the year ended September 30, 2016, the City recognized pension expense of \$1,098,877.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 397,134	\$ 128,080
Changes in actuarial assumptions	105,518	-
Difference between projected and actual investment earnings	1,470,141	-
Contributions subsequent to the measurement date	529,090	-
Total	\$ 2,501,883	\$ 128,080

\$529,090 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 net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ 491,059
2017	510,162
2018	518,959
2019	324,530
2020	-
Thereafter	-

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**NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN**

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<sup>st</sup> of any year to be effective the following January 1<sup>st</sup>.

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 postemployment benefit", or OPEB.

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

The City's contributions to the TMRS SDBF for the years ended 2016 and 2015 were \$14,265 and \$13,015, respectively, which equaled the required contributions each year.

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**NOTE 9: LONG-TERM DEBT****A. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds and certificates payable					
Certificates of obligation	\$ 14,875,686	\$ -	\$ (5,494,291)	\$ 9,381,395	\$ 577,997
General obligation bonds	476,031	4,887,402	(476,031)	4,887,402	-
Total bonds and certificates payable	<u>15,351,717</u>	<u>4,887,402</u>	<u>(5,970,322)</u>	<u>14,268,797</u>	<u>577,997</u>
Bond premium	<u>278,388</u>	<u>593,158</u>	<u>(35,740)</u>	<u>835,806</u>	<u>-</u>
Compensated absences	<u>427,338</u>	<u>314,553</u>	<u>(307,134)</u>	<u>434,757</u>	<u>108,689</u>
Net pension liability	<u>2,215,640</u>	<u>1,762,986</u>	<u>-</u>	<u>3,978,626</u>	<u>-</u>
Total governmental activity long-term liabilities	<u>\$ 18,273,083</u>	<u>\$ 7,558,099</u>	<u>\$ (6,313,196)</u>	<u>\$ 19,517,986</u>	<u>\$ 686,686</u>
<b>Business-type activities</b>					
Bonds and certificates payable					
Certificates of obligation	\$ 9,089,313	\$ -	\$ (15,705)	\$ 9,073,608	\$ 232,003
General obligation bonds	2,553,969	1,642,598	(2,318,974)	1,877,593	115,000
Total bonds and certificates payable	<u>11,643,282</u>	<u>1,642,598</u>	<u>(2,334,679)</u>	<u>10,951,201</u>	<u>347,003</u>
Bond premium	<u>324,792</u>	<u>199,353</u>	<u>(23,573)</u>	<u>500,572</u>	<u>-</u>
State infrastructure note	<u>3,314,617</u>	<u>-</u>	<u>(148,064)</u>	<u>3,166,553</u>	<u>151,765</u>
Capital leases payable	<u>1,045,473</u>	<u>-</u>	<u>(401,939)</u>	<u>643,534</u>	<u>423,595</u>
Compensated absences	<u>55,765</u>	<u>65,151</u>	<u>(65,567)</u>	<u>55,349</u>	<u>55,349</u>
Net pension liability	<u>563,638</u>	<u>431,018</u>	<u>-</u>	<u>994,656</u>	<u>-</u>
Total business-type activity long-term liabilities	<u>\$ 16,947,567</u>	<u>\$ 2,338,120</u>	<u>\$ (2,973,822)</u>	<u>\$ 16,311,865</u>	<u>\$ 977,712</u>

**NOTE 9: LONG-TERM DEBT - (Continued)**

**B. Bonds and Certificates Payable - Governmental Activities**

Bonds and certificates payable of the City's governmental activities at September 30, 2016, were comprised of the following individual issues:

2009 Certificates of Obligation due in annual installments ranging from \$135,000 to \$140,000 through August 1, 2018; interest rate at 4.77%.	\$ 275,000
2006 Combination Certificates of Obligation due in annual installments ranging from \$30,000 to \$45,000 through August 1, 2021; interest rate at 4.10%.	215,000
2006-A Combination Certificates of Obligation due in annual installments ranging from \$167,436 to \$260,456 through August 1, 2021; interest rate at 4.12%.	1,190,656
2015 Combination Certificates of Obligation due in annual installments ranging from \$184,400 to \$596,995 through August 1, 2035; interest rate at 3.39%.	7,700,739
2016 General Obligation Refunding Bonds due in annual installments ranging from \$205,700 to \$680,680 through August 1, 2028; interest rate at 3.6%.	<u>4,887,402</u>
	<u>\$ 14,268,797</u>

Annual debt service requirements to maturity for the City's governmental activity bonds and certificates are as follows:

Year Ending September 30	Principal	Interest	Total
2017	\$ 577,997	\$ 510,111	\$ 1,088,108
2018	601,519	483,158	1,084,677
2019	690,741	466,532	1,157,273
2020	727,093	442,638	1,169,731
2021	745,656	418,498	1,164,154
2022-2026	3,826,055	1,379,611	5,205,666
2027-2031	4,294,160	878,016	5,172,176
2032-2035	<u>2,805,576</u>	<u>326,803</u>	<u>3,132,379</u>
	<u>\$ 14,268,797</u>	<u>\$ 4,905,367</u>	<u>\$ 19,174,164</u>

The City is scheduled to receive annual installments ranging from \$48,093 to \$65,676 from LEDC and annual installments ranging from \$170,304 to \$290,798 from Wastewater Utility Fund for the 2015 Combination Certificates of Obligation through August 1, 2035.

**NOTE 9: LONG-TERM DEBT - (Continued)**

C. Bonds and Certificates Payable - Business-type Activities

Bonds and certificates payable of the City's business-type activities at September 30, 2016, were comprised of the following individual issues:

2009 General Obligation Refunding Bonds due in annual installments of \$115,000 to \$120,000 through February 1, 2018; interest rate at 4.33%.	\$ 235,000
2006-A Combination Certificates of Obligation due in annual installments ranging from \$16,403 to \$19,544 through August 1, 2012; interest rate at 4.12%.	89,344
2015 Combination Certificates of Obligation due in annual installments ranging from \$215,600 to \$698,005 through August 1, 2035; interest rate at 3.39%.	8,981,297
2016 General Obligation Refunding Bonds due in annual installments of \$69,300 to \$229,320 through February 1, 2028; interest rate at 3.60%.	<u>1,645,560</u>
	<u>\$ 10,951,201</u>

The annual debt service requirements to maturity for the above-listed obligations of the City's business-type activities are as follows:

Year Ending September 30	Principal	Interest	Total
2017	\$ 347,003	\$ 234,282	\$ 581,285
2018	363,481	210,734	574,215
2019	324,259	186,040	510,299
2020	337,907	160,077	497,984
2021	344,344	133,232	477,576
2022-2026	2,583,945	389,319	2,973,264
2027-2031	3,395,840	209,588	3,605,428
2032-2035	<u>3,254,422</u>	<u>38,080</u>	<u>3,292,502</u>
	<u>\$ 10,951,201</u>	<u>\$ 1,561,352</u>	<u>\$ 12,512,553</u>

**NOTE 9: LONG-TERM DEBT - (Continued)**

D. State Infrastructure Notes - Business-type Activities

2013 State Infrastructure Bank Loan is due in annual installments of \$230,000 through June 2033, interest rate of 2.5%.

Annual debt service requirements to maturity for the City's business-type activity State Infrastructure Notes are as follows:

Year Ending September 30	Principal	Interest	Total
2017	\$ 151,765	\$ 79,164	\$ 230,929
2018	155,560	75,370	230,930
2019	159,449	71,481	230,930
2020	163,435	67,494	230,929
2021	167,521	63,408	230,929
2022-2026	902,560	252,090	1,154,650
2027-2031	1,021,164	133,486	1,154,650
2032-2035	445,099	16,759	461,858
	<u>\$ 3,166,553</u>	<u>\$ 759,252</u>	<u>\$ 3,925,805</u>

D. Capital Leases

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, are as follows:

Year Ending September 30	Business-type Activities
2017	\$ 423,595
2018	219,939
Total minimum lease payments	<u>\$ 643,534</u>

E. Debt Reserves

There are certain reserve requirements for the various debt issues that are currently outstanding. The following are the reserve requirements by issue:

	Reserve Requirement
2006 Combination Certificates of Obligation	\$ 4,300
2006A Combination Certificates of Obligation	25,600
2009 General Obligation Refunding Bonds	4,700
2009 Combination Certificates of Obligation	5,500
2015 Combination Certificates of Obligation	333,700
2016 General Obligation Refunding Bonds	130,600
	<u>\$ 504,400</u>

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**NOTE 9: LONG-TERM DEBT - (Continued)**

F. Debt Reserves - (Continued)

The cash balances reserved for the reserve requirements are as follows:

<u>Fund</u>	<u>Cash</u>
Debt Service I & S Fund	\$ 278,088
Water Utility Fund	200,000
Wastewater Utility Fund	26,312
	<u>\$ 504,400</u>

G. Refunding Bonds

In April 2016, the City issued \$6,530,000 General Obligation Refunding Bonds with interest of 4.00% to advance refund a portion of the City's Certificates of Obligation, Series 2009, and Series 2009 General Obligation Refunding Bonds which were still outstanding in the amount of \$6,710,000 with interest rates ranging from 4.25% to 4.40% and to provide funding for costs of issuance. As a result, the Series 2009 certificates and bonds are considered defeased and the refunded portion of the liability has been removed from the City's financial statements. The net proceeds available for refunding bonds in the amount of \$7,265,155 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded issue. The refunding of the Series 2009 certificates and bonds resulted in an economic gain of \$574,025 and an increase in cash flow of \$645,194.

**NOTE 10: CONDUIT DEBT OBLIGATIONS**

Lockhart-Luling Water Delivery System

The Guadalupe-Blanco River Authority (GBRA) contracted with the City in 2002 to provide a reliable quantity of treated water through the Luling Water Treatment Plant. For the mutual benefit of the parties, GBRA, the City of Luling, and the City of Lockhart entered into an agreement that enabled GBRA to pump treated water from the Luling Water Treatment Plant to the Lockhart Treatment Plant ground storage reservoir through the water delivery system.

GBRA issued \$4,950,000 in Contract Revenue Refunding Bonds in fiscal year 2014 for the water delivery system. As of September 30, 2016, there was \$4,470,000 bonds outstanding. Through the agreement, the City has agreed to pay GBRA on an annual basis for twenty-five years the following:

- (a.) principal and interest on any bonds issued to pay off the financing, refinancing, design, permitting, construction, and equipping the project;
- (b.) operation and maintenance of the water delivery system;
- (c.) operation and maintenance of the Luling Water Treatment Plant;
- (d.) reserve and contingency fund payments, if any; and
- (e.) capital recovery charges.



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**NOTE 10: CONDUIT DEBT OBLIGATIONS - (Continued)**

Lockhart Wastewater Treatment Plant

GBRA entered into a contract on June 15, 1994 with the City whereby GBRA would construct a Regional Wastewater Treatment System to receive, treat and dispose of wastewater collected by the City's collection system.

GBRA issued \$4,025,000 of Contract Revenue Refunding Bonds in the fiscal year 2010 for the treatment system. As of September 30, 2016 there was \$640,000 of refunding bonds outstanding. Under the provisions of the contract, the City has agreed to pay GBRA through 2017 the following:

(a.) all operation and maintenance expenses of the Regional Wastewater Treatment System; (b.) amounts necessary to pay debt service on the bonds; (c.) amounts necessary to establish and maintain funds established by the resolution authorizing the issuance of the bonds; and (d.) amounts necessary to restore any deficiency in funds established by the resolution.

**NOTE 11: CONTRACTUAL SETTLEMENT**

The City reached a settlement agreement with a vendor during the 2006 fiscal year in a dispute over the performance of equipment used in its utility system infrastructure. Under the settlement agreement, the vendor agreed to pay the City a total of \$3,210,173 in multiple installments extending through the year 2018. As of September 30, 2016, the City had received \$2,718,001 in scheduled installment payments. The remaining balance due the City is reported as receivable in the accompanying government-wide and proprietary fund Statements of Net Position.

**NOTE 12: 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; injuries to employees; and natural disasters. During the year ended September 30, 2016, the City purchased insurance through the Texas Municipal League (TML) to cover its risk of loss in these areas. Substantially all risk of loss for events occurring during the current year has been transferred to TML by the payment of insurance premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 13: RELATED PARTY TRANSACTIONS**

During the fiscal year ending September 30, 2016, LEDC (a discretely presented component unit of the City) transferred a total of \$417,946 to the City. The City's Debt Service Fund, a nonmajor governmental fund, received \$337,357 to be used to pay debt service costs related to qualifying economic development projects previously paid for by debt issued by the City. The remaining transfers pertained to the reimbursement of eligible current period expenditures incurred by the City related to economic development activities and administrative services provided to LEDC by the City.

**NOTE 14: CONTINGENCIES AND COMMITMENTS**

A. Litigation

The City was not involved in any significant litigation as of September 30, 2016, and management was not aware of any threatened litigation or unasserted claims as of that date.

B. Grant Programs

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any monies received may be required, and the collectibility of any related receivables at September 30, 2016, may be impaired. In the opinion of the administration of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the City's various grant programs.

C. Water Purchase Commitment

The City has entered into an agreement with the Guadalupe-Blanco River Authority (GBRA) that obligates the City to purchase its water from GBRA through December 31, 2027.

**NOTE 15: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2016, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	<u>\$ 18,483</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General</u>	<u>Nonmajor Govt.</u>	<u>Business-type EMS</u>	
General	\$ -	\$ 179,824	\$ 255,559	\$ 435,383
2015 Cert. of Oblg.	-	36,852	-	36,852
Electric	1,853,829	-	-	1,853,829
Water	340,456	45,483	-	385,939
Wastewater	235,561	-	-	235,561
Sanitation	228,805	-	-	228,805
Nonmajor govt.	291,000	240,000	-	531,000
	<u>\$2,949,651</u>	<u>\$ 502,159</u>	<u>\$ 255,559</u>	<u>\$3,707,369</u>

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**NOTE 16: RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

A restatement was made to the beginning balances of the other post employment benefit (OPEB) liability that had been reflected in the City's financial statements. The result of the restatement decreased the government wide governmental activity OPEB liability by \$419,285 and increased its beginning net position by the same amount. The restatement also affect the Electric Fund, Water Fund, Wastewater Fund and the Sanitation Fund by decreasing the OPEB liability and increasing the beginning net position by \$64,5005, \$21,502, \$21,502, and \$10,751 respectively.

In addition during the 2016 fiscal year the EMS fund reported its activity in a stand-alone fund. In previous years it was reported as part of the General Fund. The effect of this change in reporting decreased the beginning fund balance of the General Fund by \$111,556.

**NOTE 17: FUND BALANCES**

The following is a detail of the governmental fund balances as of September 30, 2016:

	<u>Governmental Fund Balances</u>				
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>	<u>Total</u>
General					
Prepaid expenditures	\$ 15,728	\$ -	\$ -	\$ -	\$ 15,728
Inventory	13,699	-	-	-	13,699
Sidewalks	-	-	31,618	-	31,618
Revolving loan	-	-	257,723	-	257,723
Industrial park	-	-	314,911	-	314,911
Unassigned	-	-	-	3,423,228	3,423,228
2015 Cert. of Oblig.					
Various capital projects	-	6,453,170	-	-	6,453,170
Nonmajor Governmental					
Prepaid expenditures	4,512	-	-	-	4,512
Various capital projects	-	339,366	-	-	339,366
General government	-	627,417	-	-	627,417
Tourism	-	8,248	-	-	8,248
Public safety	-	180,153	-	-	180,153
Debt service	-	278,089	-	-	278,089
	<u>\$ 33,939</u>	<u>\$ 7,886,443</u>	<u>\$ 604,252</u>	<u>\$ 3,423,228</u>	<u>\$11,947,862</u>

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**NOTE 18: LOCKHART ECONOMIC DEVELOPMENT CORPORATION**

As described in Note 1, the Lockhart Economic Development Corporation is a component unit of the City. It is reported in a separate column to emphasize that it is legally separate for accounting purposes from the City. Following are note disclosures relating to this component unit:

A. Organization

The Lockhart Economic Development Corporation (LEDC), a public instrumentality and nonprofit corporation, was created under Section 4B of the Development Corporation Act of 1979, Article 5190.6 of the Revised Civil Statutes of Texas (the "Act") on June 26, 1996. Under the Act, the Board of Directors consists of seven members appointed by and who serve at the pleasure of the City Council of the City for two-year terms.

LEDC may enter into any project authorized by the Act including, but not limited to, such projects as promotion and development of new and expanded business enterprises, job training centers, infrastructure improvements, public safety, municipal buildings, civic centers, recreation facilities, and other related facilities.

LEDC prepares annual financial statements as of September 30<sup>th</sup> of each year. LEDC reports its financial results as a governmental type of entity.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of LEDC conform to GAAP, as applicable to governmental units. The more significant of LEDC's accounting policies are described below.

1. Reporting Entity - Component Unit Status

LEDC meets the criteria established by GASB to be a component unit of the City, due to the fact that the City Council of Lockhart appoints each member of its Board of Directors. LEDC is included in the City's annual financial statements as a discretely presented component unit.

2. Government-wide and Fund Accounting

The combined government-wide and fund financial statements (i.e., the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance) report information on all activities of LEDC.

The combined Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance demonstrate the degree to which the direct expenses of LEDC are offset by program revenues. Direct expenses are those that are clearly identifiable with the LEDC's specific function, that of economic development. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. For the year ended September 30, 2016, all of LEDC's revenues were classified as general revenues.

The government-wide and fund financial statements are provided for LEDC with a column for adjustments between the two statements.

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**NOTE 18: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide information (i.e., the columns labeled “Statement of Net Position” and “Statement of Activities”) in the financial statements is 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.

The governmental fund (i.e., the column labeled “General 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, LEDC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

Sales taxes and interest revenue 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. All other revenue items are considered to be measurable and available only when LEDC receives cash.

The Corporation reports the following governmental fund type:

Major Fund - The General Fund is LEDC’s operating fund. All financial resources are accounted for in the General Fund. The General Fund’s transactions consist primarily of revenues realized from the collection of sales tax revenue dedicated to the purpose of economic development and transfers to the City (reported as economic development expenditures) to be used for purposes authorized by LEDC’s enabling legislation.

LEDC reports no other funds.

4. Cash, Cash Equivalents, and Investments

Cash includes all amounts on deposit with financial institutions in demand accounts. All short-term investments that are highly liquid are considered to be cash equivalents. An investment is considered highly liquid if it is convertible to a known amount of cash and has a maturity date of no longer than three months from the date the investment was purchased.

LEDC may invest in any instruments authorized by the Public Funds Investment Act of the State of Texas. These instruments include, but are not limited to, the following: obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposit issued by state or national banks which are guaranteed or insured by the FDIC; and deposits in statewide investment pools which meet certain restrictive criteria. LEDC reports its investments at fair value.

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**NOTE 18: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

5. Budgets and Budgetary Accounting

The Board of Directors submits an annual budget to the City for approval in accordance with the Texas Municipal Budget Act. By September of each year, the Board of Directors, with approval by the City, adopts an annual fiscal year budget for the General Fund. Once approved, the Board of Directors may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budget of LEDC is prepared on a modified accrual basis of accounting. Revenues are budgeted in the year receipts are expected, and expenditures are budgeted in the year that the applicable purchase occurs. Any unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

6. Federal Income Taxes

LEDC is exempt from Federal income taxes due to its classification as a governmental entity under the guidelines of the Internal Revenue Service.

7. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires LEDC to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

C. Deposits and Investments

LEDC pools its funds with the City for investment, and as such, follows the City's policies and procedures pertaining to investment transactions. Following is a discussion of various risks associated with the City's (and accordingly LEDC's) investments as of and for the year ending September 30, 2016:

1. Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to one year or less from the time of purchase.

2. Credit Risk

As previously mentioned, it is LEDC's policy to limit its investments to those that are authorized under the Texas Public Funds Investment Act. Additionally, any money market mutual funds or local government investment pools must be rated no lower than AAA by at least one nationally recognized rating service. As of September 30, 2016, TexPool was rated AAAM by Standard and Poor's and MBIA Texas CLASS was rated AA/V-1+ by Fitch.

3. Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. As such, at year-end LEDC was not exposed to concentration of credit risk.

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**NOTE 18: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

C. Deposits and Investments - (Continued)

4. Custodial Credit Risk - Deposits

Custodial credit risk refers to the risk that in the event of a bank failure, LEDC's deposits may not be returned to it. The City's investment policies require that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. As of September 30, 2016, and for the year then ended, the City and LEDC were not exposed to any custodial credit risk.

It is managements' understanding that the LEDC, a discretely presented component unit, and any other 4A and 4B economic development entity is not considered a "political subdivision" as defined by Section 330.15 of the FDIC's regulation. Therefore, the Corporation's bank deposits may not be insured above \$250,000 even though they are secured by the pledged collateral agreement of the City.

5. 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 securities be held in the name of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2016, and for the year then ended, the City and LEDC were not exposed to any custodial credit risk.

D. Sales Taxes

LEDC, by law, is to receive one-half cent of the sales tax earned by the City and paid monthly to the City by the State of Texas. LEDC's outstanding receivable of the sales tax earned by the City for the year ended September 30, 2016, was \$125,609. The City collects the sales tax from the State of Texas and then pays LEDC's portion monthly when collected.

E. Restricted Net Position

The legislation under which LEDC was created restricts the use of sales tax revenue received by LEDC to projects related to quality of life improvements, including economic development that will attract and retain primary employers. Some of the types of projects authorized in the legislation are listed previously. There were no restrictions on LEDC's net position as of September 30, 2016, other than those imposed through the enabling legislation.

F. Inventory

Inventory consists of various tracts of land that LEDC has purchased to be used for future economic development projects. There was no change in the inventory from the previous year.

**NOTE 18: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

G. Capital Assets

The LEDC owns two buildings which are rented to businesses. The total cost of the facilities are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 264,857	\$ -	\$ -	\$ 264,857
Total capital assets not being depreciated	<u>264,857</u>	<u>-</u>	<u>-</u>	<u>264,857</u>
Capital assets, being depreciated				
Buildings	2,035,053	-	-	2,035,053
Total capital assets being depreciated	<u>2,035,053</u>	<u>-</u>	<u>-</u>	<u>2,035,053</u>
Less accumulated depreciation for				
Buildings	100,591	40,701	-	141,292
Total accumulated depreciation	<u>100,591</u>	<u>40,701</u>	<u>-</u>	<u>141,292</u>
Total capital assets being depreciated, net	<u>1,934,462</u>	<u>(40,701)</u>	<u>-</u>	<u>1,893,761</u>
Governmental activities capital assets, net	<u>\$ 2,199,319</u>	<u>\$ (40,701)</u>	<u>\$ -</u>	<u>\$ 2,158,618</u>

Depreciation expense was charged to functions/programs of the LEDC as follows:

<b>Governmental activities</b>		
General government		\$ 40,701
Total depreciation expense - governmental activities		<u>\$ 40,701</u>

H. Long-Term Debt

An analysis of changes in long term-debt is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Notes payable	\$ 1,170,558	\$ -	\$ 55,954	\$ 1,114,604	\$ 57,662
Total notes payable	<u>1,170,558</u>	<u>-</u>	<u>55,954</u>	<u>1,114,604</u>	<u>57,662</u>
Total governmental activity long-term liabilities	<u>\$ 1,170,558</u>	<u>\$ -</u>	<u>\$ 55,954</u>	<u>\$ 1,114,604</u>	<u>\$ 57,662</u>



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**NOTE 18: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

H. Long-Term Debt - (Continued)

Maturities of long term-debt is as follows:

Year Ending September 30	Principal	Interest	Total
2017	\$ 57,662	\$ 33,628	\$ 91,290
2018	59,559	31,719	91,278
2019	61,535	29,743	91,278
2020	63,579	27,699	91,278
2021	65,696	25,581	91,277
2022-2026	362,967	93,422	456,389
2027-2031	296,728	40,709	337,437
2032-2034	<u>146,878</u>	<u>4,934</u>	<u>151,812</u>
	<u>\$1,114,604</u>	<u>\$287,435</u>	<u>\$1,402,039</u>

I. Contingencies and Commitments

1. Litigation

LEDC was not involved in any litigation as of September 30, 2016, and management was not aware of any threatened litigation or unasserted claims as of that date.

2. Commitments

The LEDC is scheduled to make annual installments ranging from \$48,093 to \$65,676 to the City for the 2015 Combination Certificates of Obligation through August 1, 2035.

**Required Supplementary Information**

**CITY OF LOCKHART, TEXAS**

*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE*

*BUDGET AND ACTUAL*

*GENERAL FUND*

*For the year ended September 30, 2016*

	<u>Budget</u>	<u>Actual</u>	Variance with
	<u>Original / Final</u>	<u>Amounts</u>	Final Budget
			Positive (Negative)
<b>REVENUES</b>			
Property taxes	\$ 2,983,849	\$ 3,060,393	\$ 76,544
Sales and other taxes	1,750,018	1,807,777	57,759
Fines, fees, and forfeitures	339,182	370,334	31,152
Licenses and permits	120,155	173,641	53,486
Intergovernmental and grants	147,064	184,346	37,282
Investment	9,775	19,335	9,560
Miscellaneous	291,924	199,875	(92,049)
<b>Total revenues</b>	<u>5,641,967</u>	<u>5,815,701</u>	<u>173,734</u>
<b>EXPENDITURES</b>			
Current			
General government	2,813,961	1,806,338	1,007,623
Public safety	4,433,127	4,378,732	54,395
Public works	1,114,485	1,069,441	45,044
Health and welfare	8,795	12,138	(3,343)
Culture and recreation	815,926	823,894	(7,968)
<b>Total expenditures</b>	<u>9,186,294</u>	<u>8,090,543</u>	<u>1,095,751</u>
Excess (deficiency) of revenues over expenditures	(3,544,327)	(2,274,842)	1,269,485
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	2,952,068	2,949,651	(2,417)
Transfers out	(177,733)	(435,383)	(257,650)
<b>Total other financing sources (uses)</b>	<u>2,774,335</u>	<u>2,514,268</u>	<u>(260,067)</u>
Net change in fund balance	(769,992)	239,426	1,009,418
Fund balance - beginning, as restated	<u>3,817,481</u>	<u>3,817,481</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 3,047,489</u>	<u>\$ 4,056,907</u>	<u>\$ 1,009,418</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

**CITY OF LOCKHART, TEXAS**

*SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS*

*Last ten years*

	<u>2014</u>	<u>2015</u>
<b>Total Pension Liability</b>		
Service cost	\$ 659,622	\$ 755,292
Interest (on the total pension liability)	1,759,695	1,840,606
Difference between expected and actual experience	(275,265)	541,546
Change of assumptions	-	143,888
Benefit payments, including refunds of employee contributions	<u>(987,219)</u>	<u>(1,084,811)</u>
<b>Net Change in Total Pension Liability</b>	1,156,833	2,196,521
<b>Total Pension Liability - Beginning</b>	<u>25,302,299</u>	<u>26,459,132</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 26,459,132</u>	<u>\$ 28,655,653</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 662,456	\$ 721,903
Contributions - Employee	321,581	352,824
Net investment income	1,282,369	34,935
Benefit payments, including refunds of employee contributions	(987,219)	(1,084,811)
Administrative expense	(13,388)	(21,283)
Other	<u>(1,101)</u>	<u>(1,051)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	1,264,698	2,517
<b>Plan Fiduciary Net Position - Beginning</b>	<u>22,415,156</u>	<u>23,679,854</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 23,679,854</u>	<u>\$ 23,682,371</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 2,779,278</u>	<u>\$ 4,973,282</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	89.50%	82.64%
<b>Covered Employee Payroll</b>	\$ 5,359,686	\$ 5,730,595
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	51.86%	86.78%

NOTE: Information for the prior eight years was not readily available. The City will compile the respective information over the next eight years as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

**CITY OF LOCKHART, TEXAS**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
*Last ten fiscal years*

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	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 692,664	\$ 734,637
Contribution in relation to the actuarially determined contribution	<u>(692,664)</u>	<u>(734,637)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 5,617,224	\$ 6,129,529
Contributions as a percentage of covered employee payroll	12.33%	11.99%

NOTE: Information for the prior eight fiscal years was not readily available. The City will compile the respective information over the next eight fiscal years.

The accompanying notes to required supplementary information are an integral part of this schedule.

**NOTE 1: BUDGETARY BASIS OF ACCOUNTING**

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

**NOTE 2: TEXAS MUNICIPAL RETIREMENT SYSTEM**

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 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%, net of pension plan investment expense, including inflation
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

There were no benefit changes during the year.

**Combining and Individual Fund Statements**

**CITY OF LOCKHART, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2016

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Fund	Total Nonmajor Capital Project Funds	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 800,419	\$ 278,089	\$ 390,531	\$ 1,469,039
Receivables (net)	77,327	63,210	-	140,537
Prepaid expenditures	4,512	-	-	4,512
<b>Total assets</b>	<u>\$ 882,258</u>	<u>\$ 341,299</u>	<u>\$ 390,531</u>	<u>\$ 1,614,088</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 43,445	\$ -	\$ 20,515	\$ 63,960
Due to other funds	18,483	-	-	18,483
Unearned revenue	-	-	30,650	30,650
<b>Total liabilities</b>	<u>61,928</u>	<u>-</u>	<u>51,165</u>	<u>113,093</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	-	63,210	-	63,210
<b>Total deferred inflows of resources</b>	<u>-</u>	<u>63,210</u>	<u>-</u>	<u>63,210</u>
<b>FUND BALANCES</b>				
Nonspendable				
Prepaid expenditures	4,512	-	-	4,512
Restricted				
General government	627,417	-	-	627,417
Tourism	8,248	-	-	8,248
Public safety	180,153	-	-	180,153
Debt service	-	278,089	-	278,089
Various capital projects	-	-	339,366	339,366
<b>Total fund balances</b>	<u>820,330</u>	<u>278,089</u>	<u>339,366</u>	<u>1,437,785</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 882,258</u>	<u>\$ 341,299</u>	<u>\$ 390,531</u>	<u>\$ 1,614,088</u>



**CITY OF LOCKHART, TEXAS**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*

*NONMAJOR GOVERNMENTAL FUNDS*

*September 30, 2016*

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Fund	Total Nonmajor Capital Project Funds	Total
<b>REVENUES</b>				
Property taxes	\$ -	\$ 696,861	\$ -	\$ 696,861
Sales and other taxes	113,648	-	-	113,648
Fines, fees, and forfeitures	744,899	-	-	744,899
Intergovernmental and grants	92	-	-	92
Investment	5,220	2,727	2,823	10,770
Miscellaneous	-	350,515	-	350,515
<b>Total revenues</b>	<u>863,859</u>	<u>1,050,103</u>	<u>2,823</u>	<u>1,916,785</u>
<b>EXPENDITURES</b>				
Current				
General government	47,147	-	-	47,147
Public safety	301,290	-	-	301,290
Culture and recreation	10,921	-	-	10,921
Capital outlay	-	-	410,300	410,300
Debt service				
Principal retirement	-	855,322	-	855,322
Interest and fiscal charges	-	566,342	-	566,342
Paying agent and issue costs	-	151,889	-	151,889
<b>Total expenditures</b>	<u>359,358</u>	<u>1,573,553</u>	<u>410,300</u>	<u>2,343,211</u>
Excess (deficiency) of revenues over expenditures	504,501	(523,450)	(407,477)	(426,426)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds issued	-	4,887,402	-	4,887,402
Premium on issuance of bonds	-	593,157	-	593,157
Payment to escrow	-	(5,455,484)	-	(5,455,484)
Transfers in	88,614	413,545	-	502,159
Transfers out	(531,000)	-	-	(531,000)
<b>Total other financing sources (uses)</b>	<u>(442,386)</u>	<u>438,620</u>	<u>-</u>	<u>(3,766)</u>
Net change in fund balances	62,115	(84,830)	(407,477)	(430,192)
Fund balances - beginning	<u>758,215</u>	<u>362,919</u>	<u>746,843</u>	<u>1,867,977</u>
<b>Fund balances - ending</b>	<u>\$ 820,330</u>	<u>\$ 278,089</u>	<u>\$ 339,366</u>	<u>\$ 1,437,785</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**September 30, 2016**

	Radio Tower Equipment Replacement	Forfeited Property	Hotel / Motel Occupancy Tax	TCEQ NPS Grant	Road Impact Fees
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 63,889	\$ 3,633	\$ 21,993	\$ 5,827	\$ 472,313
Receivables (net)	-	-	-	-	-
Prepaid expenditures	-	-	-	-	-
<b>Total assets</b>	<u>\$ 63,889</u>	<u>\$ 3,633</u>	<u>\$ 21,993</u>	<u>\$ 5,827</u>	<u>\$ 472,313</u>
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ -	\$ 11,993	\$ -	\$ -
Due to other funds	-	-	7,579	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>19,572</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	-
Restricted					
General government	-	-	-	-	472,313
Tourism	-	-	2,421	5,827	-
Public safety	63,889	3,633	-	-	-
<b>Total fund balances</b>	<u>63,889</u>	<u>3,633</u>	<u>2,421</u>	<u>5,827</u>	<u>472,313</u>
<b>Total liabilities and fund balances</b>	<u>\$ 63,889</u>	<u>\$ 3,633</u>	<u>\$ 21,993</u>	<u>\$ 5,827</u>	<u>\$ 472,313</u>

<u>Municipal Court Technology</u>	<u>Radio System Maintenance</u>	<u>Municipal Court Security</u>	<u>Child Safety</u>	<u>Court Efficiency</u>	<u>Juvenile Case Manager</u>	<u>Truancy Court</u>
\$ 12,725	\$ 50,059	\$ 10,549	\$ 15,235	\$ 8,428	\$ 3,344	\$ 150
2,038	-	1,529	906	340	-	-
-	4,512	-	-	-	-	-
<u>\$ 14,763</u>	<u>\$ 54,571</u>	<u>\$ 12,078</u>	<u>\$ 16,141</u>	<u>\$ 8,768</u>	<u>\$ 3,344</u>	<u>\$ 150</u>
\$ 165	\$ 5,325	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
<u>165</u>	<u>5,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	4,512	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>14,598</u>	<u>44,734</u>	<u>12,078</u>	<u>16,141</u>	<u>8,768</u>	<u>3,344</u>	<u>150</u>
<u>14,598</u>	<u>49,246</u>	<u>12,078</u>	<u>16,141</u>	<u>8,768</u>	<u>3,344</u>	<u>150</u>
<u>\$ 14,763</u>	<u>\$ 54,571</u>	<u>\$ 12,078</u>	<u>\$ 16,141</u>	<u>\$ 8,768</u>	<u>\$ 3,344</u>	<u>\$ 150</u>

(continued)

**CITY OF LOCKHART, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**September 30, 2016**

	Cable Education	Transportation System Improvmts	Drainage System Improvmts	Law Enforcement Education - Police	Total
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 57,744	\$ 61,712	\$ -	\$ 12,818	\$ 800,419
Receivables (net)	5,760	39,815	26,939	-	77,327
Prepaid expenditures	-	-	-	-	4,512
<b>Total assets</b>	<u>\$ 63,504</u>	<u>\$ 101,527</u>	<u>\$ 26,939</u>	<u>\$ 12,818</u>	<u>\$ 882,258</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 25,962	\$ -	\$ -	\$ -	\$ 43,445
Due to other funds	-	-	10,904	-	18,483
<b>Total liabilities</b>	<u>25,962</u>	<u>-</u>	<u>10,904</u>	<u>-</u>	<u>61,928</u>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	4,512
Restricted					
General government	37,542	101,527	16,035	-	627,417
Tourism	-	-	-	-	8,248
Public safety	-	-	-	12,818	180,153
<b>Total fund balances</b>	<u>37,542</u>	<u>101,527</u>	<u>16,035</u>	<u>12,818</u>	<u>820,330</u>
<b>Total liabilities and fund balances</b>	<u>\$ 63,504</u>	<u>\$ 101,527</u>	<u>\$ 26,939</u>	<u>\$ 12,818</u>	<u>\$ 882,258</u>

(concluded)

**CITY OF LOCKHART, TEXAS**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*

*NONMAJOR SPECIAL REVENUE FUNDS*

*September 30, 2016*

	Radio Tower Equipment Replacement	Forfeited Property	Hotel / Motel Occupancy Tax	TCEQ NPS Grant	Road Impact Fees
<b>REVENUES</b>					
Sales and other taxes	\$ -	\$ -	\$ 90,542	\$ -	\$ -
Fines, fees, and forfeitures	-	1,889	-	-	158,714
Intergovernmental and grants	-	-	68	24	-
Investment	331	546	1,514	-	1,692
<b>Total revenues</b>	<u>331</u>	<u>2,435</u>	<u>92,124</u>	<u>24</u>	<u>160,406</u>
<b>EXPENDITURES</b>					
Current					
General government	-	-	39,621	-	-
Public safety	17,822	-	-	-	-
Culture and recreation	-	-	10,921	-	-
<b>Total expenditures</b>	<u>17,822</u>	<u>-</u>	<u>50,542</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(17,491)	2,435	41,582	24	160,406
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	(40,000)	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(17,491)	2,435	1,582	24	160,406
Fund balances - beginning	81,380	1,198	839	5,803	311,907
<b>Fund balances - ending</b>	<u>\$ 63,889</u>	<u>\$ 3,633</u>	<u>\$ 2,421</u>	<u>\$ 5,827</u>	<u>\$ 472,313</u>

<u>Municipal Court Technology</u>	<u>Radio System Maintenance</u>	<u>Municipal Court Security</u>	<u>Child Safety</u>	<u>Court Efficiency</u>	<u>Juvenile Case Manager</u>	<u>Truancy Court</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6,342	123,444	3,713	2,364	1,130	3,344	150
-	-	-	-	-	-	-
<u>49</u>	<u>257</u>	<u>43</u>	<u>71</u>	<u>34</u>	<u>-</u>	<u>-</u>
<u>6,391</u>	<u>123,701</u>	<u>3,756</u>	<u>2,435</u>	<u>1,164</u>	<u>3,344</u>	<u>150</u>
-	-	-	-	-	-	-
12,623	210,415	3,851	11,367	379	-	-
-	-	-	-	-	-	-
<u>12,623</u>	<u>210,415</u>	<u>3,851</u>	<u>11,367</u>	<u>379</u>	<u>-</u>	<u>-</u>
(6,232)	(86,714)	(95)	(8,932)	785	3,344	150
-	88,614	-	-	-	-	-
-	-	-	-	-	-	-
-	<u>88,614</u>	-	-	-	-	-
(6,232)	1,900	(95)	(8,932)	785	3,344	150
<u>20,830</u>	<u>47,346</u>	<u>12,173</u>	<u>25,073</u>	<u>7,983</u>	<u>-</u>	<u>-</u>
<u>\$ 14,598</u>	<u>\$ 49,246</u>	<u>\$ 12,078</u>	<u>\$ 16,141</u>	<u>\$ 8,768</u>	<u>\$ 3,344</u>	<u>\$ 150</u>

(continued)

**CITY OF LOCKHART, TEXAS**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS*

September 30, 2016

	Cable Education	Transportation System Improvmts	Drainage System Improvmts	Law Enforcement Education - Fire	Total
<b>REVENUES</b>					
Sales and other taxes	\$ 23,106	\$ -	\$ -	\$ -	\$ 113,648
Fines, fees, and forfeitures	-	269,666	172,008	2,135	744,899
Intergovernmental and grants	-	-	-	-	92
Investment	248	243	142	50	5,220
<b>Total revenues</b>	<u>23,354</u>	<u>269,909</u>	<u>172,150</u>	<u>2,185</u>	<u>863,859</u>
<b>EXPENDITURES</b>					
Current					
General government	-	1,133	6,393	-	47,147
Public safety	43,703	-	-	1,130	301,290
Culture and recreation	-	-	-	-	10,921
<b>Total expenditures</b>	<u>43,703</u>	<u>1,133</u>	<u>6,393</u>	<u>1,130</u>	<u>359,358</u>
Excess (deficiency) of revenues over expenditures	(20,349)	268,776	165,757	1,055	504,501
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	88,614
Transfers out	-	(291,000)	(200,000)	-	(531,000)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(291,000)</u>	<u>(200,000)</u>	<u>-</u>	<u>(442,386)</u>
Net change in fund balances	(20,349)	(22,224)	(34,243)	1,055	62,115
Fund balances - beginning	57,891	123,751	50,278	11,763	758,215
<b>Fund balances - ending</b>	<u>\$ 37,542</u>	<u>\$ 101,527</u>	<u>\$ 16,035</u>	<u>\$ 12,818</u>	<u>\$ 820,330</u>

(concluded)

**CITY OF LOCKHART, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECT FUNDS**  
*September 30, 2016*

	Clearfork Detention Basin	Clearfork Section 1 Sidewalk	2009 Certificates of Obligation	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 21,448	\$ 16,225	\$ 352,858	\$ 390,531
<b>Total assets</b>	<u>\$ 21,448</u>	<u>\$ 16,225</u>	<u>\$ 352,858</u>	<u>\$ 390,531</u>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ 20,515	20,515
Unearned revenue	17,450	13,200	-	30,650
<b>Total liabilities</b>	<u>17,450</u>	<u>13,200</u>	<u>20,515</u>	<u>51,165</u>
<b>FUND BALANCES</b>				
Restricted				
Various capital projects	3,998	3,025	332,343	339,366
<b>Total fund balances</b>	<u>3,998</u>	<u>3,025</u>	<u>332,343</u>	<u>339,366</u>
<b>Total liabilities and fund balances</b>	<u>\$ 21,448</u>	<u>\$ 16,225</u>	<u>\$ 352,858</u>	<u>\$ 390,531</u>



**CITY OF LOCKHART, TEXAS**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECT FUNDS  
September 30, 2016*

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	<u>Clearfork Detention Basin</u>	<u>Clearfork Section 1 Sidewalk</u>	<u>2009 Certificates of Obligation</u>	<u>Total</u>
<b>REVENUES</b>				
Investment	<u>\$ 86</u>	<u>\$ 66</u>	<u>\$ 2,671</u>	<u>\$ 2,823</u>
<b>Total revenues</b>	<u>86</u>	<u>66</u>	<u>2,671</u>	<u>2,823</u>
<b>EXPENDITURES</b>				
Capital outlay	<u>-</u>	<u>-</u>	<u>410,300</u>	<u>410,300</u>
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>410,300</u>	<u>410,300</u>
Excess (deficiency) of revenues over expenditures	86	66	(407,629)	(407,477)
Fund balances - beginning	<u>3,912</u>	<u>2,959</u>	<u>739,972</u>	<u>746,843</u>
<b>Fund balances - ending</b>	<u>\$ 3,998</u>	<u>\$ 3,025</u>	<u>\$ 332,343</u>	<u>\$ 339,366</u>

**CITY OF LOCKHART, TEXAS**

*SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE*

*BUDGET (GAAP BASIS) AND ACTUAL*

*NONMAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND*

*For the year ended September 30, 2016*

*With comparative totals for the year ended September 30, 2015*

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>REVENUES</b>				
Taxes				
Ad valorem	\$ 658,181	\$ 696,861	\$ 38,680	\$ 561,949
Investment income	-	2,727	2,727	1,479
Miscellaneous	11,644	350,515	338,871	311,693
<b>Total revenues</b>	<u>669,825</u>	<u>1,050,103</u>	<u>380,278</u>	<u>875,121</u>
<b>EXPENDITURES</b>				
Debt service				
Principal retirement	855,322	855,322	-	358,092
Interest and fiscal charges	566,342	566,342	-	825,385
Paying agent fees and issue costs	111,991	151,889	(39,898)	400
<b>Total expenditures</b>	<u>1,533,655</u>	<u>1,573,553</u>	<u>(39,898)</u>	<u>1,183,877</u>
Excess (deficiency) of revenues over expenditures	(863,830)	(523,450)	340,380	(308,756)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds issued	-	4,887,402	4,887,402	-
Premium on issuance of bonds	-	593,157	593,157	-
Payment to escrow	-	(5,455,484)	(5,455,484)	-
Transfers in	791,187	413,545	(377,642)	242,449
<b>Total other financing sources (uses)</b>	<u>791,187</u>	<u>438,620</u>	<u>(352,567)</u>	<u>242,449</u>
Net change in fund balance	<u>\$ (72,643)</u>	<u>(84,830)</u>	<u>\$ (12,187)</u>	<u>(66,307)</u>
Fund balance at beginning of year		<u>362,919</u>		<u>429,226</u>
<b>Fund balance at end of year</b>		<u>\$ 278,089</u>		<u>\$ 362,919</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING STATEMENT OF NET POSITION**  
**NONMAJOR ENTERPRISE FUNDS**  
September 30, 2016

	<u>Sanitation</u>	<u>Airport</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 399,647	\$ 45,086	\$ 444,733
Receivables (net)	<u>219,437</u>	<u>1,150</u>	<u>220,587</u>
Total current assets	<u>619,084</u>	<u>46,236</u>	<u>665,320</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	120,409	72,161	192,570
Buildings, improvements, and equipment (net)	<u>60,931</u>	<u>1,497,629</u>	<u>1,558,560</u>
Total noncurrent assets	<u>181,340</u>	<u>1,569,790</u>	<u>1,751,130</u>
<b>Total assets</b>	<u>800,424</u>	<u>1,616,026</u>	<u>2,416,450</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow related to TMRS	<u>49,189</u>	<u>-</u>	<u>49,189</u>
<b>Total deferred outflows of resources</b>	<u>49,189</u>	<u>-</u>	<u>49,189</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	4,779	925	5,704
Payroll related payables	85,797	-	85,797
Customer deposits	50	6,875	6,925
Unearned revenue	-	3,413	3,413
Accrued compensated absences	<u>2,177</u>	<u>-</u>	<u>2,177</u>
Total current liabilities	<u>92,803</u>	<u>11,213</u>	<u>104,016</u>
Noncurrent liabilities			
Net pension liability	<u>99,466</u>	<u>-</u>	<u>99,466</u>
<b>Total liabilities</b>	<u>192,269</u>	<u>11,213</u>	<u>203,482</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflow related to TMRS	<u>1,815</u>	<u>-</u>	<u>1,815</u>
<b>Total deferred inflows of resources</b>	<u>1,815</u>	<u>-</u>	<u>1,815</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	181,340	1,569,790	1,751,130
Unrestricted net position	<u>474,189</u>	<u>35,023</u>	<u>509,212</u>
<b>Total net position</b>	<u>\$ 655,529</u>	<u>\$ 1,604,813</u>	<u>\$ 2,260,342</u>

**CITY OF LOCKHART, TEXAS****COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
NONMAJOR ENTERPRISE FUNDS**

For the year ended September 30, 2016

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	<u>Sanitation</u>	<u>Airport</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,453,646	\$ 68,923	\$ 1,522,569
Miscellaneous	10,475	4	10,479
Total operating revenues	<u>1,464,121</u>	<u>68,927</u>	<u>1,533,048</u>
<b>OPERATING EXPENSES</b>			
Personnel services	128,973	-	128,973
Contracts and services	1,062,471	14,482	1,076,953
Materials and supplies	5,269	-	5,269
Maintenance and repairs	8,081	2,613	10,694
Depreciation	7,669	52,816	60,485
Miscellaneous	3,173	-	3,173
Total operating expenses	<u>1,215,636</u>	<u>69,911</u>	<u>1,285,547</u>
<b>Operating income before nonoperating revenues (expenses) and transfers</b>	248,485	(984)	247,501
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	1,545	124	1,669
Net nonoperating revenues (expenses)	<u>1,545</u>	<u>124</u>	<u>1,669</u>
Income (loss) before transfers	250,030	(860)	249,170
Transfers out	<u>(228,805)</u>	<u>-</u>	<u>(228,805)</u>
Change in net position	21,225	(860)	20,365
Net position - beginning, as restated	<u>634,304</u>	<u>1,605,673</u>	<u>2,239,977</u>
<b>Net position - ending</b>	<u>\$ 655,529</u>	<u>\$ 1,604,813</u>	<u>\$ 2,260,342</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR ENTERPRISE FUNDS**  
For the year ended September 30, 2016

	Sanitation	Airport	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,453,878	\$ 69,510	\$ 1,523,388
Cash payments to suppliers for goods and services	(1,078,247)	(16,519)	(1,094,766)
Cash payments to employees for services	(115,763)	-	(115,763)
<b>Net cash provided by operating activities</b>	<u>259,868</u>	<u>52,991</u>	<u>312,859</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Customer deposits	(50)	500	450
Cash paid to other funds	(228,805)	(8,529)	(237,334)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(228,855)</u>	<u>(8,029)</u>	<u>(236,884)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(46,096)	-	(46,096)
<b>Net cash used by capital financing activities</b>	<u>(46,096)</u>	<u>-</u>	<u>(46,096)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	1,545	124	1,669
<b>Net cash provided (used) by investing activities</b>	<u>1,545</u>	<u>124</u>	<u>1,669</u>
Net increase in cash and cash equivalents	(13,538)	45,086	31,548
Cash and cash equivalents at beginning of year	413,185	-	413,185
<b>Cash and cash equivalents at end of year</b>	<u>\$ 399,647</u>	<u>\$ 45,086</u>	<u>\$ 444,733</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 248,485	\$ (984)	\$ 247,501
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	7,669	52,816	60,485
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(10,243)	308	(9,935)
Increase (decrease) in accounts and other payables	13,575	576	14,151
Increase (decrease) in payroll related liabilities	382	-	382
Increase (decrease) in unearned revenue	-	275	275
<b>Net cash provided by operating activities</b>	<u>\$ 259,868</u>	<u>\$ 52,991</u>	<u>\$ 312,859</u>

**CITY OF LOCKHART, TEXAS**  
 COMBINING STATEMENT OF NET POSITION  
 FIDUCIARY FUNDS  
 September 30, 2016

	Private Purpose Trusts		
	Glosserman Trust	Brock Cabin Trust	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 509	\$ 1,190	\$ 1,699
<b>Total assets</b>	<u>509</u>	<u>1,190</u>	<u>1,699</u>
<b>LIABILITIES</b>			
Due to others	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>			
Held for various purposes	\$ 509	\$ 1,190	\$ 1,699

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Agency Funds

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<u>Confiscated Property</u>	<u>Unclaimed Property</u>	<u>Bicycle Helmet</u>	<u>Total</u>
\$ 6,955	\$ 8,164	\$ 1,054	\$ 16,173
<u>\$ 6,955</u>	<u>\$ 8,164</u>	<u>\$ 1,054</u>	<u>\$ 16,173</u>
\$ 6,955	\$ 8,164	\$ 1,054	\$ 16,173
<u>\$ 6,955</u>	<u>\$ 8,164</u>	<u>\$ 1,054</u>	<u>\$ 16,173</u>

**CITY OF LOCKHART, TEXAS***COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**PRIVATE PURPOSE TRUSTS**For the year ended September 30, 2016*

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	<u>Glosserman Trust</u>	<u>Brock Cabin Trust</u>	<u>Total</u>
<b>ADDITIONS</b>			
Investment income	\$ 2	\$ 2	\$ 4
Miscellaneous	<u>-</u>	<u>812</u>	<u>812</u>
<b>Total additions</b>	<u>2</u>	<u>814</u>	<u>816</u>
<b>DEDUCTIONS</b>			
Operating expenses	<u>-</u>	<u>690</u>	<u>690</u>
Change in net position	2	124	126
Net position - beginning	<u>507</u>	<u>1,066</u>	<u>1,573</u>
<b>Net position - ending</b>	<u>\$ 509</u>	<u>\$ 1,190</u>	<u>\$ 1,699</u>



**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**



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

The Honorable Mayor and Members  
of the City Council  
City of Lockhart, Texas

Mayor and Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lockhart, Texas (the "City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 15, 2017.

Internal Control Over Financial Reporting

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

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

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

The Honorable Mayor and Members  
of the City Council

Compliance and Other Matters

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

Purpose of this Report

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



HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

March 15, 2017