

CITY OF LOCKHART, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2015

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lockhart, Texas
308 West San Antonio Street
Lockhart, Texas 78644

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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 misstatements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented

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Opinions (continued)

component unit, each major fund and the aggregate remaining fund information of the City of Lockhart, Texas as of September 30, 2015, 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.

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, the City adopted new accounting guidance. Government Accounting Standards Board Statement Number 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lockhart, Texas' basic financial statements. The combining and individual nonmajor fund financial statements in the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements in the other supplementary information 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 other supplementary information statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2016, on our consideration of the City of Lockhart, Texas' 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 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 of Lockhart, Texas' internal control over financial reporting and compliance.

ABIP, PC

Certified Public Accountants
San Antonio, Texas

March 1, 2016

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CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015

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, 2015.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at September 30, 2015 by \$40,540,315. Of this amount \$6,644,650 (unrestricted net position), may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total cost of all City activities was \$28,252,055 for the fiscal year. The net expense was \$6,360,666.
- During the year, the City's general revenues were \$105,240 less than net expenses. This represents a 0.25% decrease in net position from the previous year as a result of operations.
- At September 30, 2015 the City's governmental funds reported combined ending fund balances of \$13,437,851, a net increase of \$7,867,650 in comparison with the prior year due mainly to issuance of certificates of obligation.
- At September 30, 2015 the total committed and unassigned fund balance for the General Fund was \$3,799,402 or 40.28% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves 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 the financial statements and required supplementary information.

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 City'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 their user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and welfare, culture and recreation and interest on long-term debt. The

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (Continued)

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, proprietary and fiduciary funds, and utilize different accounting approaches.

Governmental Funds – Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available for current spending, as well as on balances of resources available for spending 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 governmental funds and governmental activities.

The City maintained twenty six (26) individual governmental funds during the 2015 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 balances for the General Fund and the 2015 Certificates of Obligation Fund, which are considered to be major funds. Data from the other twenty four (24) 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.

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. Schedules of revenues, expenditures and changes in fund balances – budget and actual (GAAP basis) have been provided for each of the funds to demonstrate compliance with the appropriated budgets.

Proprietary Funds - 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, solid waste operations and the airport operations.

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Proprietary Funds (Continued)

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The City has three major proprietary funds. They are the electric fund, water fund and the wastewater fund. 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 - 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.

Notes to the Basic 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 as the City's 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, net position exceeded liabilities by \$40,540,315 at the close of the fiscal year 2015.

The largest portion of the City's net position (78.10%) reflects its net investment in capital assets (i.e., land, buildings, infrastructure, machinery and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. 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.

An additional portion of the City's net position (5.51%) represents resources that are subject to external restrictions on how they may be used (i.e. debt service). The balance of unrestricted net position (\$6,644,650) 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.

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>						
Current and						
Other Assets	\$ 14,473,795	\$ 7,018,373	\$ 18,324,349	\$ 10,454,972	\$ 32,798,144	\$ 17,473,345
Capital Assets	23,627,695	25,067,506	21,661,958	20,516,807	45,289,653	45,584,313
Other Noncurrent						
Assets	-	-	492,172	716,756	492,172	716,756
Total Assets	<u>\$38,101,490</u>	<u>\$ 32,085,879</u>	<u>\$40,478,479</u>	<u>\$ 31,688,535</u>	<u>\$78,579,969</u>	<u>\$ 63,774,414</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Deferred Outflows						
Related to TMRS	421,035	-	107,108	-	528,143	-
<u>LIABILITIES</u>						
Current Liabilities	1,339,867	1,630,208	1,952,838	1,954,853	3,292,705	3,585,061
Long-Term Liabilities	<u>18,265,030</u>	<u>8,881,382</u>	<u>17,010,062</u>	<u>8,489,396</u>	<u>35,275,092</u>	<u>17,370,778</u>
Total Liabilities	<u>19,604,897</u>	<u>10,511,590</u>	<u>18,962,900</u>	<u>10,444,249</u>	<u>38,567,797</u>	<u>20,955,839</u>
<u>NET POSITION</u>						
Net Investment in						
Capital Assets	16,376,825	16,591,140	15,283,769	10,193,932	31,660,594	26,785,072
Restricted	1,211,989	2,123,629	1,023,082	2,924,473	2,235,071	5,048,102
Unrestricted	<u>1,328,814</u>	<u>2,859,520</u>	<u>5,315,836</u>	<u>8,125,881</u>	<u>6,644,650</u>	<u>10,985,401</u>
Total Net Position	<u>\$18,917,628</u>	<u>\$ 21,574,289</u>	<u>\$21,622,687</u>	<u>\$ 21,244,286</u>	<u>\$40,540,315</u>	<u>\$ 42,818,575</u>

Governmental Activities – Governmental activities decreased the City's net position by \$729,916.

Key elements are as follows:

- Property tax revenues increased \$48,880 (1.40%)
- Sales and other tax revenue increased by \$102,272 (7.40%)
- Charges for services increased \$694,367 (34.75%) mainly due to an increase in permit fees and EMS charges

Business-Type Activities – Business-type activities increased the City's net position by \$624,676

Key elements are as follows:

- Water expenses increased \$573,355 (21.35%) primarily due to higher acquisition and treatment costs.
- Increase in charges for services of \$583,956 (3.21%) was largely due to an increase in the customer base.

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2015

The following table indicates changes in net position for the governmental and business-type activities for the City as of September 30, 2015.

	GOVERNMENTAL ACTIVITIES		CHANGES IN NET POSITION BUSINESS-TYPE ACTIVITIES		TOTAL	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program Revenues						
Charges for Services	\$ 2,692,508	\$ 1,998,141	\$18,795,860	\$ 18,211,904	\$ 21,488,368	\$ 20,210,045
Operating Grants and Contributions	391,200	432,581	11,821	-	403,021	432,581
Capital Grants and Contributions	-	103,808	-	37,035	-	140,843
General Revenues						
Property Taxes	3,536,997	3,488,117	-	-	3,536,997	3,488,117
Sales Taxes	1,484,020	1,381,748	-	-	1,484,020	1,381,748
Franchise Taxes	325,911	319,982	-	-	325,911	319,982
Other Taxes	106,712	93,825	-	-	106,712	93,825
Impact Fees	-	-	255,462	218,458	255,462	218,458
Investment Earnings	23,881	18,355	21,733	14,881	45,614	33,236
Miscellaneous	<u>493,852</u>	<u>505,461</u>	<u>6,858</u>	<u>-</u>	<u>500,710</u>	<u>505,461</u>
Total Revenues	<u>9,055,081</u>	<u>8,342,018</u>	<u>19,091,734</u>	<u>18,482,278</u>	<u>28,146,815</u>	<u>26,824,296</u>
EXPENSES						
General Government	2,476,203	2,096,530	-	-	2,476,203	2,096,530
Public Safety	5,626,336	5,584,295	-	-	5,626,336	5,584,295
Public Works	2,448,572	2,507,776	-	-	2,448,572	2,507,776
Health and Welfare	13,489	6,091	-	-	13,489	6,091
Culture and Recreation	964,757	771,470	-	-	964,757	771,470
Interest on Long-Term Debt	612,529	383,683	-	-	612,529	383,683
Electric	-	-	9,753,464	9,725,877	9,753,464	9,725,877
Water	-	-	3,258,446	2,685,091	3,258,446	2,685,091
Wastewater	-	-	1,849,338	1,936,142	1,849,338	1,936,142
Sanitation	-	-	1,166,275	1,077,505	1,166,275	1,077,505
Airport	-	-	82,646	79,443	82,646	79,443
Total Expenses	<u>12,141,886</u>	<u>11,349,845</u>	<u>16,110,169</u>	<u>15,504,058</u>	<u>28,252,055</u>	<u>26,853,903</u>
Change in Net Position before Special Items and Transfers	(3,086,805)	(3,007,827)	2,981,565	2,978,220	(105,240)	(29,607)
Transfers	<u>2,356,889</u>	<u>2,595,561</u>	<u>(2,356,889)</u>	<u>(2,595,561)</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>(729,916)</u>	<u>(412,266)</u>	<u>624,676</u>	<u>382,659</u>	<u>(105,240)</u>	<u>(29,607)</u>
Net Position - Beginning	<u>21,574,289</u>	<u>21,986,555</u>	<u>21,244,286</u>	<u>20,861,627</u>	<u>42,818,575</u>	<u>42,848,182</u>
Prior Period Adjustment	<u>(1,926,745)</u>	<u>-</u>	<u>(246,275)</u>	<u>-</u>	<u>(2,173,020)</u>	<u>-</u>
Net Position - Beginning as restated	<u>19,647,544</u>	<u>21,986,555</u>	<u>20,998,011</u>	<u>20,861,627</u>	<u>40,645,555</u>	<u>42,848,182</u>
Net Position - Ending	<u>\$18,917,628</u>	<u>\$ 21,574,289</u>	<u>\$21,622,687</u>	<u>\$ 21,244,286</u>	<u>\$ 40,540,315</u>	<u>\$ 42,818,575</u>

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2015

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, unassigned 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 close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$13,437,851, an increase of \$7,867,650 from the prior year.

Approximately 28.27% of this total amount (\$3,799,402) constitutes fund balance which is available for spending at the government's discretion. The remainder fund balance of \$9,638,449 or 71.73% is non-spendable or restricted as to use due to funds already allocated.

The City's General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance was \$3,196,967. The unassigned fund balance represents 33.92% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$326,698 during the current fiscal year.

Proprietary Funds – The City's proprietary funds and utility funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Funds at the end of the current fiscal year amounted to \$5,315,836.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund – Actual fiscal year expenditures in the General Fund were \$786,373 less than the final budgeted amounts or appropriations. The major difference in expenditures were:

- \$858,910 – decrease in general government expenditures
- \$195,157 – increase in public safety expenditures

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of September 30, 2015 amounted to \$132,823,669 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, infrastructure and construction in progress. The net increase in the City's investment in capital assets for the current fiscal year was 1.97%.

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

The following table shows capital asset activity for the 2015 fiscal year with comparison for 2014. If more detailed information is desired on the City's capital asset activity, please refer to Note E (pages 42-43) as presented in the notes to the financial statements.

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2015	2014	2015	2014	2015	2014
<u>Capital Assets - Not Depreciated</u>						
Land	\$ 1,383,270	\$ 1,373,193	\$ 574,710	\$ 574,710	\$ 1,957,980	\$ 1,947,903
Construction in Progress	213,543	2,042,471	3,512,433	1,461,725	3,725,976	3,504,196
Total Capital Assets - Not Depreciated	<u>1,596,813</u>	<u>3,415,664</u>	<u>4,087,143</u>	<u>2,036,435</u>	<u>5,683,956</u>	<u>5,452,099</u>
<u>Capital Assets - Depreciated</u>						
Buildings and Improvements	11,484,190	9,298,569	4,570,434	4,570,434	16,054,624	13,869,003
Equipment	6,187,814	6,032,030	5,364,876	5,422,756	11,552,690	11,454,786
Infrastructure	<u>72,667,240</u>	<u>72,625,012</u>	<u>32,549,115</u>	<u>32,302,918</u>	<u>105,216,355</u>	<u>104,927,930</u>
Total Capital Assets	<u>90,339,244</u>	<u>87,955,611</u>	<u>42,484,425</u>	<u>42,296,108</u>	<u>132,823,669</u>	<u>130,251,719</u>
<u>Less Accumulated Depreciation</u>						
Buildings and Improvements	(3,623,515)	(3,389,937)	(2,954,243)	(2,912,561)	(6,577,758)	(6,302,498)
Equipment	(4,771,216)	(4,412,193)	(4,509,611)	(4,221,153)	(9,280,827)	(8,633,346)
Infrastructure	<u>(59,913,631)</u>	<u>(58,501,639)</u>	<u>(17,445,756)</u>	<u>(16,682,022)</u>	<u>(77,359,387)</u>	<u>(75,183,661)</u>
Total Accumulated Depreciation	<u>(68,308,362)</u>	<u>(66,303,769)</u>	<u>(24,909,610)</u>	<u>(23,815,736)</u>	<u>(93,217,972)</u>	<u>(90,119,505)</u>
Total Capital Assets - Net	<u>\$ 23,627,695</u>	<u>\$ 25,067,506</u>	<u>\$ 21,661,958</u>	<u>\$ 20,516,807</u>	<u>\$ 45,289,653</u>	<u>\$ 45,584,313</u>

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of \$26,995,000. Of this amount, \$3,030,000 represents General Obligation Tax and Revenue Bonds and \$23,965,000 of combination tax and revenue certificates of obligation. The remainder of the City's debt is comprised of a \$3,314,617 loan from the State Infrastructure Bank. Additional information on debt may be found in Note F (page 44) of this report as presented in the notes to the financial statements.

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.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The total sales tax receipts budgeted by the City, including the amounts on the City's own utility billing, for the 2015-2016 fiscal year totaled \$2,124,951 (including funds disbursed to the Lockhart Economic Development Corporation). This amount is an increase of approximately \$129,311 (6.09%) over the previous year's budget.

CITY OF LOCKHART, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The 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 2015-2016 fiscal year.

The certified assessed taxable property valuations for the 2015 tax roll total \$513,794,567 with a tax rate of \$.7333 per \$100 valuation. \$.5967 was allocated for maintenance and operations, and \$.1366 was allocated for interest and sinking (debt service). The projected total property tax due is \$3,712,656 for the 2015 tax year.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Director, 308 West San Antonio Street, Lockhart, Texas 78644.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Government Accounting Standards Board (GASB). The sets of statements include:

- Government-Wide Financial Statements
- Fund Financial Statements
 - Governmental Funds
 - Proprietary Funds
 - Fiduciary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

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CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	COMPONENT
	ACTIVITIES	ACTIVITIES		UNIT
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 13,526,004	\$ 13,546,027	\$ 27,072,031	\$1,003,019
Cash and Cash Equivalents-Restricted	-	845,982	845,982	-
Receivables:				
Delinquent Ad Valorem Taxes	303,758	-	303,758	-
Sales and Use Tax	250,061	-	250,061	125,031
Customer	-	3,319,507	3,319,507	-
Miscellaneous	345,089	224,584	569,673	35,599
Prepaid Items	25,776	355	26,131	-
Inventory (at cost)	14,578	396,423	411,001	674,522
Interfund	8,529	(8,529)	-	
Capital Assets:				
Land	1,383,270	574,710	1,957,980	264,857
Construction in Progress	213,543	3,512,433	3,725,976	-
Furniture, Fixtures and Equipment	1,416,598	855,265	2,271,863	-
Buildings	7,860,675	1,616,191	9,476,866	1,934,462
Infrastructure	12,753,609	15,103,359	27,856,968	-
Contractual Settlement	-	492,172	492,172	-
TOTAL ASSETS	<u>38,101,490</u>	<u>40,478,479</u>	<u>78,579,969</u>	<u>4,037,490</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred Outflows Related to TMRS	421,035	107,108	528,143	-
<u>LIABILITIES</u>				
Accounts Payable	473,227	1,125,606	1,598,833	10,000
Payroll Related Accruals	208,241	56,264	264,505	-
Other Payables	20,068	183,627	203,695	-
Unearned Revenue	30,650	3,137	33,787	-
Accrued Interest	180,343	200,599	380,942	-
Customer Deposits	-	327,840	327,840	-
Compensated Absences	427,338	55,765	483,103	-
Noncurrent Liabilities:				
Other Post Employment Benefits	419,285	118,260	537,545	-
Net Pension Liability	2,215,640	563,638	2,779,278	
Due Within One Year	869,245	1,289,679	2,158,924	55,979
Due in More Than One Year	14,760,860	15,038,485	29,799,345	1,114,579
TOTAL LIABILITIES	<u>19,604,897</u>	<u>18,962,900</u>	<u>38,567,797</u>	<u>1,180,558</u>
<u>NET POSITION</u>				
Net Investment in Capital Assets	16,376,825	15,283,769	31,660,594	1,028,761
Restricted for:				
Debt Service	362,919	177,100	540,019	-
Special Revenue	849,070	-	849,070	-
Utility Improvements	-	845,982	845,982	-
Unrestricted Net Position	1,328,814	5,315,836	6,644,650	1,828,171
TOTAL NET POSITION	<u>\$ 18,917,628</u>	<u>\$ 21,622,687</u>	<u>\$ 40,540,315</u>	<u>\$2,856,932</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2015

FUNCTIONS AND PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<u>Primary Governmental Activities</u>				
General Government	\$ 2,476,203	\$ 1,131,977	\$ 84,110	\$ -
Public Safety	5,626,336	1,531,653	307,090	-
Public Works	2,448,572	-	-	-
Health and Welfare	13,489	-	-	-
Culture and Recreation	964,757	28,878	-	-
Interest on Long Term Debt	612,529	-	-	-
Total Primary Governmental Activities	<u>12,141,886</u>	<u>2,692,508</u>	<u>391,200</u>	<u>-</u>
<u>Business-Type Activities</u>				
Electric	9,753,464	12,039,498	-	-
Water	3,258,446	3,090,312	-	-
Wastewater	1,849,338	2,195,102	-	-
Sanitation	1,166,275	1,402,428	11,821	-
Airport	82,646	68,520	-	-
Total Business-Type Activities	<u>16,110,169</u>	<u>18,795,860</u>	<u>11,821</u>	<u>-</u>
Total Primary Government	<u>\$ 28,252,055</u>	<u>\$ 21,488,368</u>	<u>\$ 403,021</u>	<u>\$ -</u>

Component Unit

Lockhart Economic Development Corp.

General Revenues

Ad Valorem Taxes Levied for General Purposes

Ad Valorem Taxes Levied for Debt Service

Sales and Use Tax

Franchise Tax

Other Taxes

Interest on Deposits

Impact Fees

Miscellaneous Revenue

Transfers

Total General Revenues

Change in Net Position

Net Position at Beginning of Year

Prior Period Adjustment

Beginning Net Position of Year, as Restated

Net Position at End of Year

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>COMPONENT UNIT</u>
\$ (1,260,116)	\$ -	
(3,787,593)	-	
(2,448,572)	-	
(13,489)	-	
(935,879)	-	
(612,529)	-	
<u>(9,058,178)</u>	<u>-</u>	
-	2,286,034	
-	(168,134)	
-	345,764	
-	247,974	
-	(14,126)	
<u>-</u>	<u>2,697,512</u>	
(9,058,178)	2,697,512	-
		<u>\$ (536,520)</u>
2,975,409	-	-
561,588	-	-
1,484,020	-	739,528
325,911	-	-
106,712	-	-
23,881	21,733	1,906
-	255,462	-
493,852	6,858	297,330
<u>2,356,889</u>	<u>(2,356,889)</u>	<u>-</u>
<u>8,328,262</u>	<u>(2,072,836)</u>	<u>1,038,764</u>
(729,916)	624,676	502,244
21,574,289	21,244,286	2,354,688
(1,926,745)	(246,275)	-
<u>19,647,544</u>	<u>20,998,011</u>	<u>2,354,688</u>
<u>\$ 18,917,628</u>	<u>\$ 21,622,687</u>	<u>\$ 2,856,932</u>

CITY OF LOCKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	GENERAL FUND	2015 CERTIFICATE OF OBLIGATION	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 4,026,323	\$ 7,666,413	\$ 1,833,268	\$ 13,526,004
Receivables:				
Ad Valorem Taxes	253,719	-	50,039	303,758
Sales and Use Tax	250,061	-	-	250,061
Miscellaneous	248,132	-	96,957	345,089
Due from Other Funds	17,690	-	-	17,690
Prepaid Items	23,103	-	2,673	25,776
Inventory, at cost	14,578	-	-	14,578
 TOTAL ASSETS	 \$ 4,833,606	 \$ 7,666,413	 \$ 1,982,937	 \$ 14,482,956
 <u>LIABILITIES</u>				
Liabilities:				
Accounts Payable-Trade	\$ 422,540	\$ 27,150	\$ 23,537	\$ 473,227
Payroll Related Liabilities	208,241	-	-	208,241
Other Payables	20,068	-	-	20,068
Unearned Revenue	-	-	30,650	30,650
Due to Other Funds	-	-	9,161	9,161
Total Liabilities	650,849	27,150	63,348	741,347
 <u>DEFERRED INFLOWS OF RESOURCES</u>				
Unearned Revenue - Property Taxes	253,719	-	50,039	303,758
 <u>FUND BALANCES</u>				
Nonspendable	37,681	-	2,673	40,354
Restricted for Construction	-	7,639,263	746,843	8,386,106
Restricted for Debt Service	-	-	362,919	362,919
Restricted for Special Revenue	91,955	-	757,115	849,070
Committed Fund Balances				
Sidewalks	31,489	-	-	31,489
Revolving Loan	256,035	-	-	256,035
Industrial Park	314,911	-	-	314,911
Unassigned	3,196,967	-	-	3,196,967
Total Fund Balances	3,929,038	7,639,263	1,869,550	13,437,851
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	 \$ 4,833,606	 \$ 7,666,413	 \$ 1,982,937	 \$ 14,482,956

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total Fund Balances - Governmental Funds Balance Sheet	\$ 13,437,851
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets expensed in the governmental activities are not reported in the funds.	23,627,695
Receivables that are not available to pay current year expenditures are deferred in the funds.	303,758
Accrued vacation and sick leave payable is not due and payable in the current period and, therefore, is not reported in the funds.	(427,338)
Long-term liabilities consisting of bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	(15,630,105)
Accrued interest payable on bonded debt is not reported in the funds.	(180,343)
Net pension liability and deferred outflows related to TMRS are not reported in the funds.	(1,794,605)
Accrued post employment benefits are not reported in the funds.	<u>(419,285)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION	<u>\$ 18,917,628</u>

CITY OF LOCKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	GENERAL FUND	2015 CERTIFICATE OF OBLIGATION	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>				
Taxes:				
Ad Valorem	\$ 2,969,641	\$ -	\$ 561,949	\$ 3,531,590
Sales and Other Taxes	1,816,091	-	100,552	1,916,643
Fines, Fees and Forfeitures	416,884	-	604,159	1,021,043
Licenses and Permits	288,438	-	-	288,438
Grants and Intergovernmental	246,336	-	144,864	391,200
Charges for Services	1,383,027	-	-	1,383,027
Interest Income	11,502	7,107	5,272	23,881
Miscellaneous	171,726	-	322,126	493,852
	<u>7,303,645</u>	<u>7,107</u>	<u>1,738,922</u>	<u>9,049,674</u>
<u>EXPENDITURES</u>				
General Government	1,863,128	-	82,963	1,946,091
Public Safety	5,524,673	-	242,655	5,767,328
Public Works	908,990	-	21,804	930,794
Health and Welfare	11,970	-	-	11,970
Culture and Recreation	867,342	-	13,101	880,443
Capital Outlay	247,826	213,372	204,277	665,475
Debt Service:				
Administrative Charges	-	-	400	400
Interest	-	-	825,385	825,385
Principal Retirement	-	-	358,092	358,092
Bond Issuance Cost	-	132,058	-	132,058
	<u>9,423,929</u>	<u>345,430</u>	<u>1,748,677</u>	<u>11,518,036</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures before Other Financing Uses	(2,120,284)	(338,323)	(9,755)	(2,468,362)
<u>OTHER FINANCING SOURCES (USES)</u>				
Other Sources - Bond Issue	-	7,700,735	-	7,700,735
Other Sources - Bond Premium	-	278,388	-	278,388
Transfers In	2,626,839	-	331,609	2,958,448
Transfers Out	(179,857)	(1,537)	(420,165)	(601,559)
	<u>2,446,982</u>	<u>7,977,586</u>	<u>(88,556)</u>	<u>10,336,012</u>
Net Change in Fund Balances	326,698	7,639,263	(98,311)	7,867,650
Fund Balance-Beginning of Year	3,602,340	-	1,967,861	5,570,201
Total Fund Balance-End of Year	<u>\$ 3,929,038</u>	<u>\$ 7,639,263</u>	<u>\$ 1,869,550</u>	<u>\$ 13,437,851</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO CHANGE IN THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$	7,867,650
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized.		665,475
Changes in deferred property tax is recorded as revenue in the government wide statements.		5,407
Capital assets are not recorded in government funds and therefore are not depreciated. However, in the Statement of Activities these assets are depreciated over their estimated useful lives. This is the amount of depreciation.		(2,105,286)
Amounts to be expended for other post employment benefits is not recorded as an expenditure in the funds, but is an expense in the Statement of Activities.		(14,269)
The repayment of principal on debt consumes current financial resources and is expended in the governmental funds, but is a reduction of the liability and does not affect the Statement of Activities.		825,384
Amounts to be expended for long-term employee leave is not recorded as an expenditure in the funds, but is an expense in the Statement of Activities. This is the change in compensated absences.		(5,316)
Bonds issued during the year are recorded as other sources in the governmental funds, but are capitalized in the Statement of Activities.		(7,979,123)
Change in net pension liability and deferred outflows related to TMRS are not expensed in the governmental funds but are in the Statement of Activities.		132,140
Governmental funds do not accrue interest payable because it is not paid out of current resources. These are reported as expenditures in the government wide statements. This is the change in accrued interest payable.		<u>(121,978)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	\$	<u><u>(729,916)</u></u>

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	PROPRIETARY FUNDS				TOTAL PROPRIETARY FUNDS
	ELECTRIC FUND	WATER FUND	WASTEWATER FUND	OTHER FUND	
ASSETS					
<u>CURRENT ASSETS</u>					
Cash and Cash Equivalents - Unrestricted	\$ 1,207,377	\$ 10,439,661	\$ 1,485,804	\$ 413,185	\$ 13,546,027
Cash and Cash Equivalents - Restricted	226,770	221,376	397,836	-	845,982
Accounts Receivable:					
Customer Accounts	2,045,549	499,361	563,945	210,652	3,319,507
Contractual Settlement	-	224,584	-	-	224,584
Prepays	355	-	-	-	355
Inventory	396,423	-	-	-	396,423
Total Current Assets	<u>3,876,474</u>	<u>11,384,982</u>	<u>2,447,585</u>	<u>623,837</u>	<u>18,332,878</u>
<u>NONCURRENT ASSETS</u>					
Contractual Settlement	-	492,172	-	-	492,172
Capital Assets, Net:					
Land and Other Assets -					
Not Being Depreciated	1,003,835	1,579,510	1,311,228	192,570	4,087,143
Building, Improvements and Equipment	2,105,063	9,019,533	4,877,271	1,572,948	17,574,815
Total Noncurrent Assets	<u>3,108,898</u>	<u>11,091,215</u>	<u>6,188,499</u>	<u>1,765,518</u>	<u>22,154,130</u>
TOTAL ASSETS	<u>6,985,372</u>	<u>22,476,197</u>	<u>8,636,084</u>	<u>2,389,355</u>	<u>40,487,008</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>					
Deferred Outflows from TMRS	61,899	17,852	18,749	8,608	107,108
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,047,271</u>	<u>\$ 22,494,049</u>	<u>\$ 8,654,833</u>	<u>\$ 2,397,963</u>	<u>\$ 40,594,116</u>
LIABILITIES AND NET POSITION					
<u>CURRENT LIABILITIES</u>					
Accounts Payable - Trade	\$ 760,340	\$ 232,485	\$ 128,400	\$ 4,381	\$ 1,125,606
Payroll Related Liabilities	34,542	9,630	8,893	3,199	56,264
Other Payables	101,411	-	-	82,216	183,627
Due to Other Funds	-	-	-	8,529	8,529
Interest Payables	13,349	164,089	23,161	-	200,599
Unearned Revenue	-	-	-	3,137	3,137
Customer Deposits	228,215	93,150	-	6,475	327,840
Accrued Compensated Absences	36,955	7,068	6,995	4,747	55,765
Current Portion of Long-Term Liabilities:					
Capital Leases	237,145	164,796	-	-	401,941
Bonds and Notes	84,751	560,614	242,377	-	887,742
Total Current Liabilities	<u>1,496,708</u>	<u>1,231,832</u>	<u>409,826</u>	<u>112,684</u>	<u>3,251,050</u>
<u>NONCURRENT LIABILITIES</u>					
Other Post Employment Benefits	64,505	21,502	21,502	10,751	118,260
Net Pension Liability	325,732	93,939	98,665	45,302	563,638
Capital Lease Payable	379,684	263,848	-	-	643,532
Bonds and Notes	975,639	11,384,076	2,035,234	-	14,394,949
Total Noncurrent Liabilities	<u>1,745,560</u>	<u>11,763,365</u>	<u>2,155,401</u>	<u>56,053</u>	<u>15,720,379</u>
TOTAL LIABILITIES	<u>3,242,268</u>	<u>12,995,197</u>	<u>2,565,227</u>	<u>168,737</u>	<u>18,971,429</u>
<u>NET POSITION</u>					
Net Investment in Capital Assets	1,431,679	7,293,675	4,792,897	1,765,518	15,283,769
Restricted Net Position	226,770	398,476	397,836	-	1,023,082
Unrestricted Net Position	2,146,554	1,806,701	898,873	463,708	5,315,836
TOTAL NET POSITION	<u>3,805,003</u>	<u>9,498,852</u>	<u>6,089,606</u>	<u>2,229,226</u>	<u>21,622,687</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,047,271</u>	<u>\$ 22,494,049</u>	<u>\$ 8,654,833</u>	<u>\$ 2,397,963</u>	<u>\$ 40,594,116</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	PROPRIETARY FUNDS				TOTAL PROPRIETARY FUNDS
	ELECTRIC FUND	WATER FUND	WASTEWATER FUND	OTHER FUND	
<u>OPERATING REVENUES</u>					
Charges for Service	\$ 11,885,439	\$ 3,059,809	\$ 2,194,792	\$ 1,450,597	\$ 18,590,637
Miscellaneous	154,059	30,503	310	20,351	205,223
Total Operating Revenues	<u>12,039,498</u>	<u>3,090,312</u>	<u>2,195,102</u>	<u>1,470,948</u>	<u>18,795,860</u>
<u>OPERATING EXPENSES</u>					
Personnel Services	874,292	259,018	269,645	128,567	1,531,522
Contracts and Services	147,357	22,455	35,344	1,025,827	1,230,983
Materials and Supplies	56,614	33,269	18,557	9,965	118,405
Maintenance and Repairs	182,928	73,376	27,777	22,329	306,410
Power, Water and Water Treatment	7,987,861	1,866,422	1,217,454	-	11,071,737
Depreciation and Amortization	348,045	557,231	199,156	54,998	1,159,430
Miscellaneous	91,242	10,989	7,407	4,222	113,860
Total Operating Expenses	<u>9,688,339</u>	<u>2,822,760</u>	<u>1,775,340</u>	<u>1,245,908</u>	<u>15,532,347</u>
Operating Income (Loss)	<u>2,351,159</u>	<u>267,552</u>	<u>419,762</u>	<u>225,040</u>	<u>3,263,513</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Interest Income	2,654	13,415	3,663	2,001	21,733
Interest Expense	(65,125)	(294,406)	(61,897)	(3,013)	(424,441)
Proceeds from Sale of Asset	465	4,976	897	520	6,858
Bond Issuance Costs	-	(141,280)	(12,101)	-	(153,381)
Impact Fees	-	135,451	120,011	-	255,462
Total Nonoperating Revenues (Expenses)	<u>(62,006)</u>	<u>(281,844)</u>	<u>50,573</u>	<u>(492)</u>	<u>(293,769)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	2,289,153	(14,292)	470,335	224,548	2,969,744
<u>CAPITAL CONTRIBUTIONS</u>					
Grants and Contributions	-	-	-	11,821	11,821
Transfers In	-	-	-	14,632	14,632
Transfers Out	(1,563,537)	(342,963)	(236,045)	(228,976)	(2,371,521)
Net Transfers	<u>(1,563,537)</u>	<u>(342,963)</u>	<u>(236,045)</u>	<u>(202,523)</u>	<u>(2,345,068)</u>
CHANGE IN NET POSITION	725,616	(357,255)	234,290	22,025	624,676
NET POSITION AT BEGINNING OF YEAR	3,362,647	9,937,797	5,697,246	2,246,596	21,244,286
RESTATEMENT OF BEGINNING NET POSITION	<u>(283,260)</u>	<u>(81,690)</u>	<u>158,070</u>	<u>(39,395)</u>	<u>(246,275)</u>
TOTAL NET POSITION-BEGINNING RESTATED	<u>3,079,387</u>	<u>9,856,107</u>	<u>5,855,316</u>	<u>2,207,201</u>	<u>20,998,011</u>
NET POSITION AT END OF YEAR	<u>\$ 3,805,003</u>	<u>\$ 9,498,852</u>	<u>\$ 6,089,606</u>	<u>\$ 2,229,226</u>	<u>\$ 21,622,687</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	PROPRIETARY FUNDS				TOTAL PROPRIETARY FUNDS
	ELECTRIC FUND	WATER FUND	WASTEWATER FUND	OTHER FUND	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Cash Received from Customers	\$ 12,072,194	\$ 3,121,701	\$ 2,186,809	\$ 1,446,743	\$ 18,827,447
Cash Paid to Employees for Services	(879,569)	(259,423)	(271,625)	(131,831)	(1,542,448)
Cash Paid to Suppliers for Goods and Services	<u>(8,690,448)</u>	<u>(2,069,374)</u>	<u>(1,377,728)</u>	<u>(1,056,743)</u>	<u>(13,194,293)</u>
Net Cash Provided by Operating Activities	<u>2,502,177</u>	<u>792,904</u>	<u>537,456</u>	<u>258,169</u>	<u>4,090,706</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Impact Fees	-	135,451	120,011	-	255,462
Acquisition and Construction of Capital Assets	(477,442)	(942,409)	(862,984)	-	(2,282,835)
Proceeds from Sale of Asset	465	4,976	897	520	6,858
Proceeds from Bond Sale	-	8,574,635	734,417	-	9,309,052
Bond Issuance Cost	-	(141,280)	(12,101)	-	(153,381)
Proceeds from Grants	-	-	-	11,821	11,821
Principal Paid on Bond and Debt	(82,383)	(541,904)	(234,782)	(61,018)	(920,087)
Principal Paid on Capital Leases	(221,513)	(153,933)	-	-	(375,446)
Interest Paid on Bond and Debt	<u>(67,504)</u>	<u>(162,265)</u>	<u>(51,576)</u>	<u>(3,600)</u>	<u>(284,945)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(848,377)</u>	<u>6,773,271</u>	<u>(306,118)</u>	<u>(52,277)</u>	<u>5,566,499</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>					
Transfers from Other Funds	-	-	-	23,161	23,161
Transfers to Other Funds	(1,563,537)	(342,963)	(236,045)	(228,976)	(2,371,521)
Contractual Payment	<u>-</u>	<u>211,084</u>	<u>-</u>	<u>-</u>	<u>211,084</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(1,563,537)</u>	<u>(131,879)</u>	<u>(236,045)</u>	<u>(205,815)</u>	<u>(2,137,276)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest Received	<u>2,654</u>	<u>13,415</u>	<u>3,663</u>	<u>2,001</u>	<u>21,733</u>
Net Increase (Decrease) in Cash and Cash Equivalents	92,917	7,447,711	(1,044)	2,078	7,541,662
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,341,230</u>	<u>3,213,326</u>	<u>1,884,684</u>	<u>411,107</u>	<u>6,850,347</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,434,147</u>	<u>\$ 10,661,037</u>	<u>\$ 1,883,640</u>	<u>\$ 413,185</u>	<u>\$ 14,392,009</u>
RESTRICTED	\$ 1,207,377	\$ 10,439,661	\$ 1,485,804	\$ 413,185	\$ 13,546,027
UNRESTRICTED	<u>226,770</u>	<u>221,376</u>	<u>397,836</u>	<u>-</u>	<u>845,982</u>
	<u>\$ 1,434,147</u>	<u>\$ 10,661,037</u>	<u>\$ 1,883,640</u>	<u>\$ 413,185</u>	<u>\$ 14,392,009</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	PROPRIETARY FUNDS				TOTAL PROPRIETARY FUNDS
	ELECTRIC FUND	WATER FUND	WASTEWATER FUND	OTHER FUND	
<u>RECONCILIATION OF OPERATING INCOME</u>					
<u>TO NET CASH PROVIDED BY (USED IN)</u>					
<u>OPERATING ACTIVITIES</u>					
Operating Income (Loss)	\$ 2,351,159	\$ 267,552	\$ 419,762	\$ 225,040	\$ 3,263,513
Depreciation and Amortization	348,045	535,484	199,156	54,998	1,137,683
Decrease (Increase) in Assets					
Accounts Receivable	24,889	17,342	(8,293)	(24,102)	9,836
Inventory	(88,355)	-	-	-	(88,355)
Prepaid Expenses	(355)	-	-	-	(355)
Increase (Decrease) in Liabilities					
Accounts Payable	(135,736)	(41,116)	(71,189)	4,551	(243,490)
Accrued Payroll	5,405	2,321	380	268	8,374
Due to Other Governments					
Customer Deposits	7,807	14,047	-	(150)	21,704
Unearned Revenue	-	-	-	47	47
Net Pension Liability	(19,427)	(5,603)	(5,884)	(2,701)	(33,615)
Other Post Employment Benefits	2,195	732	732	366	4,025
Accrued Compensated Absences	6,550	2,145	2,792	(148)	11,339
NET CASH PROVIDED BY (USED IN)					
OPERATING ACTIVITIES	<u>\$ 2,502,177</u>	<u>\$ 792,904</u>	<u>\$ 537,456</u>	<u>\$ 258,169</u>	<u>\$ 4,090,706</u>

CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	AGENCY FUNDS		
	UNCLAIMED PROPERTY	POLICE EVIDENCE PROPERTY	TOTAL AGENCY FUNDS
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 7,886	\$ 6,927	\$ 14,813
TOTAL ASSETS	\$ 7,886	\$ 6,927	\$ 14,813
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ -	\$ -
Due to Others	7,886	6,927	14,813
TOTAL LIABILITIES	\$ 7,886	\$ 6,927	\$ 14,813

NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lockhart, Texas (“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 and provides the following services as authorized by its charter: police and fire protection, maintenance of streets, planning and zoning, culture and recreation, general administrative services, electric, water, wastewater, solid waste, and airport services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Proprietary type funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City’s accounting policies are described below:

1. REPORTING ENTITY

In evaluating how to define the government, for financial purposes, management has considered all potential component units and associated component units. The decision to include a potential component unit or associated component unit in the reporting entity was made by applying the criteria set forth in Government Accounting Standards Board (GASB). The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the criteria of GASB the Lockhart Economic Development Corporation (LEDC) is considered to be a discretely presented component unit. The LEDC is financially accountable to the City because City Council approves the LEDC budget and must approve any debt issuance. The component unit’s board is appointed by City Council and its activities benefit the City by promoting growth and development opportunities.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net position and statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. The value of interfund services provided and used are not eliminated in the government-wide financial statements, as elimination of those charges would distort the direct costs reported for the various functions. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed whole or in part by fees charged to external parties for goods and services. Separate financial statements are prepared for the fiduciary funds which are not included in the government-wide statements because those funds are held in trust for others.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. 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. 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 and 2) grants and contributions that are restricted to meeting the operational or

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. The General Fund and the 2015 Certificate of Obligation Capital Projects Fund are the funds that meet the criteria as major governmental funds. The combined amounts for all nonmajor funds are reflected in a single column in the fund level Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. Detailed statements for nonmajor funds are presented within Combining and Individual Fund Statements and Schedules.

3. 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. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash revenue types, which have been accrued, revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as program revenues and general revenues. Program revenues include 1) charges to customers or applicants for good, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs and investment earnings.

Governmental fund level financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables, including property taxes, which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Sales taxes, franchise taxes, hotel/motel taxes, and fees associated with the current fiscal year are considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items received by the government are considered to be measurable and available only when the cash is received by the City.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general government, public safety, public works, health and welfare, culture and recreation, capital acquisition, and debt service.

The 2015 Certificate of Obligation Capital Projects Fund is used to account for the proceeds of a debt issue and their expenditures on the approved projects for which the debt was issued, mainly infrastructure improvements.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

Nonmajor funds include Special Revenue Funds, Capital Projects Funds, and a Debt Service Fund.

Proprietary fund level financial statements are used to account for activities, which are similar to those found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Funds are the Electric, Water, Wastewater, Solid Waste, and Airport Funds.

The Proprietary Fund is accounted for using the accrual basis of accounting as follows:

- Revenues are recognized when earned, and expenses are recognized when liabilities are incurred.
- Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Enterprise Funds consider all highly liquid investments including cash in banks, cash on hand, money market accounts, deposits in local government investment pools, and restricted cash and temporary investments to be cash equivalents.

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) – (d). Statutes allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

Investments are stated at fair value (plus accrued interest) except for money market investments and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost. Likewise, certificates of deposit, if any, are stated at amortized cost (see Note B).

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2014 and past due after January 31, 2015. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

8. INVENTORIES

The City accounts for inventories using the consumption method. Inventories consist primarily of supplies and are valued at cost determined by the average cost method.

9. BUDGET

An operating budget is adopted each fiscal year for all City governmental funds. The budget is adopted on the GAAP basis of accounting.

10. RESTRICTED ASSETS

Certain Enterprise Fund revenues are collected for a specific purpose by State law and City ordinances such as impact fees for infrastructure improvements and the purchase of future water rights. These funds are classified as restricted assets on the statement of net position and balance sheet because their use is limited by law.

11. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sidewalks, curbs and bridges. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment.

CITY OF LOCKHART, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2015

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

12. COMPENSATED ABSENCES

Vested or accumulated vacation leave 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 leave and sick pay that are not expected to be liquidated with expendable available financial resources are reported in the government wide statements. Vested or accumulated vacation leave 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.

13. DEFERRED INFLOWS OF RESOURCES/UNEARNED REVENUE

Property tax revenues, emergency medical services, and court fines are recognized when they become both measurable and available in fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue, emergency medical service, and court fines revenue not expected to be available for the current period are reflected as deferred inflows of resources in the funds.

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expense/ expenditures are reflected as unearned revenue.

14. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or business-type activities statement of net position. On new bond issues, bond premium and discounts are deferred and amortized over the life of the term of the related debt.

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.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

15. FUND BALANCE

The City adopted Governmental Accounting Standards Board Statement Number 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement provides guidance for fund balance categories and classifications and governmental fund type definitions. GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes. Five categories of cash balances were created and defined by GASB 54. These five categories are as follows:

- Non-spendable - These funds are not available for expenditures based on legal or contractual requirements. An example might be inventories and prepaid expenditures.
- Restricted - These funds are governed by externally enforceable restrictions.
- Committed - Fund balances in this category are limited by the government's highest level of decision making (in this case the City Council). Any changes of this designation must be done in the same manner that it was implemented. For example, if funds are committed by resolution, the commitment could only be released with another resolution.
- Assigned - For funds to be assigned, there must be an intended use which can be established by the City Council or an official delegated by the council, such as a city administrator or finance director. For example, during the budget process, the council decided to use some existing fund balance to support activities in the upcoming year.
- Unassigned - This classification is the default for all funds that do not fit into the other categories.

Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. The City's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year.

16. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City has elected to appropriate net position of its business type activity. Such appropriations reflect the intended use of the net position.

17. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

18. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for electric, water, and sewer services. Operating expenses are necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

19. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

20. CHANGE IN ACCOUNTING POLICY

During fiscal year 2015, the City changed accounting policies related to reporting of net pension liability, deferred outflows of resources, and deferred inflows of resources in a statement of net financial position by adopting GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27." Accordingly, the effect of the accounting change is reported on the statement of net position, and the statement of activities for the current year.

21. PENSIONS

For purposes of measuring the net pension liability, deferred outflows 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. Benefits payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE B—CASH AND CASH EQUIVALENTS

The City's funds are required to be deposited and invested under the terms of the depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. CASH

At September 30, 2015, the carrying amount of the City's and the component unit deposits in the bank were \$3,062,665 and the book balance was \$2,904,591. The cash balance was fully collateralized.

2. INVESTMENTS

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable

CITY OF LOCKHART, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2015

stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date of the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposits.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investments pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City's cash, and cash equivalents and that of LEDC at September 30, 2015 are as shown below:

INVESTMENT TYPE	FAIR VALUE	PERCENT OF TOTAL PORTFOLIO	WEIGHTED AVERAGE MATURITY (YEARS)	RATING S&P
TexPool (Local Government Investment Pool)	\$ 12,858,333	49.86%	n/a	AAA-m
Texas CLASS	<u>12,929,069</u>	50.14%	n/a	AAA-m
Total Investments	25,787,402			
Cash In Bank	2,141,556		n/a	n/a
Petty Cash	<u>3,868</u>		n/a	n/a
Total Investments and Cash	27,932,826			
Less: Cash Held In Trust and Agency Funds	<u>(14,813)</u>			
Total Cash and Cash Equivalents Reported on Statement of Net Position	<u>\$ 27,918,013</u>			

Lockhart Economic Development Corporation:

Cash In Bank	<u>\$ 1,003,019</u>	100.00%	n/a	AAA-m
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ANALYSIS OF SPECIFIC DEPOSIT AND INVESTMENT RISKS

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. City investment policy follows state guidelines. The City policy allows investments in certificates of deposit with banks in Texas, investments in U.S. Treasuries and Agencies, and investment pools that invest in obligations of the United States or its agencies and instrumentalities to name a few.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

At September 30, 2015, the City's investments were in investment pools. Public funds investment pools hold securities to maintain a continuous rating of no lower than Aaa or AAAM or an equivalent rating by at least one nationally recognized rating service.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year-end and per City policy all funds were in the City's name and collateralized with securities that maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service. The City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. All City funds are in the external investment pool as allowed by the City's investment policy, and the investment pool invests in hundreds of authorized securities that minimize concentrations of credit risk. At year-end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair market value of an investment. At year-end, the City was not exposed to interest rate risk due to investment in an external investment pool as authorized by the City's investment policy.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The City's policy does not allow investment in foreign currency. At year end the City was not exposed to foreign currency risk.

4. INVESTMENT POLICY

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

5. PUBLIC FUNDS INVESTMENT POOLS

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

NOTE C—PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Caldwell County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2014, upon which the fiscal 2015 levy was based, was \$496,576,028 (market value less exemptions).

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2015 was \$.7227 per \$100 of assessed value, which means that the City has a tax margin of \$1.7773 for each \$100 value. The City may not, however, adopt a tax rate that exceeds the rollback rate or the effective rate, whichever is lower, without first having two public hearings. If the City adopts a tax rate that exceeds the rollback tax rate, registered voters may petition the City for an election on the tax increase. A successful election limits the City's current tax rate to the rollback rate.

Property taxes are recorded as receivables and deferred inflows of resources at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in the time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts (if any), at the levy date.

CITY OF LOCKHART, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2015

NOTE D—INTERFUND TRANSACTIONS

Transfers consisted of the following:

TRANSFERS OUT	TRANSFERS IN			TOTAL
	GENERAL	GOVERNMENTAL NONMAJOR	BUSINESS TYPE NONMAJOR	
General	\$ -	\$ 179,782	\$ 75	\$ 179,857
2015 Certificate of Obligation	-	1,537	-	1,537
Electric	1,548,980	-	14,557	1,563,537
Water	341,312	1,651	-	342,963
Wastewater	235,904	141	-	236,045
Solid Waste	228,976	-	-	228,976
Nonmajor Governmental	<u>271,667</u>	<u>148,498</u>	<u>-</u>	<u>420,165</u>
Total	<u>\$ 2,626,839</u>	<u>\$ 331,609</u>	<u>\$ 14,632</u>	<u>\$ 2,973,080</u>

Amounts due among funds is as follows:

DUE TO FUND	DUE FROM FUND	AMOUNT	PURPOSE
General Fund	Nonmajor Governmental Funds	\$ 9,161	Short Term Loan
General Fund	Business-Type	<u>8,529</u>	Short Term Loan
		<u>\$ 17,690</u>	

CITY OF LOCKHART, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2015

NOTE E—CAPITAL ASSETS

Governmental capital asset activity for the year ended September 30, 2015, was as follows:

<u>GOVERNMENTAL ACTIVITIES:</u>	<u>BALANCE SEPTEMBER 30, 2014</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE SEPTEMBER 30, 2015</u>
<u>Capital Assets not being Depreciated -</u>				
Land	\$ 1,373,193	\$ 10,077	\$ -	\$ 1,383,270
Construction In Progress	<u>2,042,471</u>	<u>212,820</u>	<u>(2,041,748)</u>	<u>213,543</u>
Total Capital Assets not being Depreciated	<u>3,415,664</u>	<u>222,897</u>	<u>(2,041,748)</u>	<u>1,596,813</u>
<u>Capital Assets being Depreciated -</u>				
Buildings and Improvements	9,298,569	2,185,621	-	11,484,190
Equipment	6,032,030	256,477	(100,693)	6,187,814
Infrastructure	<u>72,625,012</u>	<u>42,228</u>	<u>-</u>	<u>72,667,240</u>
Total Capital Assets being Depreciated	<u>87,955,611</u>	<u>2,484,326</u>	<u>(100,693)</u>	<u>90,339,244</u>
<u>Less Accumulated Depreciation -</u>				
Buildings and Improvements	(3,389,937)	(233,578)	-	(3,623,515)
Equipment	(4,412,193)	(459,716)	100,693	(4,771,216)
Infrastructure	<u>(58,501,639)</u>	<u>(1,411,992)</u>	<u>-</u>	<u>(59,913,631)</u>
Total Accumulated Depreciation	<u>(66,303,769)</u>	<u>(2,105,286)</u>	<u>100,693</u>	<u>(68,308,362)</u>
Total Capital Assets being Depreciated - Net	<u>21,651,842</u>	<u>379,040</u>	<u>-</u>	<u>22,030,882</u>
 GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS - NET	<u>\$ 25,067,506</u>	<u>\$ 601,937</u>	<u>\$ (2,041,748)</u>	<u>\$ 23,627,695</u>

Depreciation Expense was charged to the governmental functions as follows:

General Government	\$ 90,475
Public Safety	411,200
Public Works	1,517,778
Health and Welfare	1,519
Culture and Recreation	<u>84,314</u>
	<u>\$ 2,105,286</u>

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

Business-type capital asset activity for the year ended September 30, 2015, was as follows:

<u>BUSINESS-TYPE ACTIVITIES:</u>	<u>BALANCE SEPTEMBER 30, 2014</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE SEPTEMBER 30, 2015</u>
<u>Assets Not Being Depreciated -</u>				
Land	\$ 574,710	\$ -	\$ -	\$ 574,710
Construction In Progress	<u>1,461,725</u>	<u>2,050,708</u>	<u>-</u>	<u>3,512,433</u>
Total Capital Assets not being Depreciated - Net	<u>2,036,435</u>	<u>2,050,708</u>	<u>-</u>	<u>4,087,143</u>
<u>Assets Depreciated -</u>				
Infrastructure	32,302,918	246,197	-	32,549,115
Buildings and Improvements	4,570,434	-	-	4,570,434
Equipment	<u>5,422,756</u>	<u>7,675</u>	<u>(65,555)</u>	<u>5,364,876</u>
Total Capital Assets being Depreciated - Net	<u>42,296,108</u>	<u>253,872</u>	<u>(65,555)</u>	<u>42,484,425</u>
<u>Less Accumulated Depreciation -</u>				
Infrastructure	(16,682,022)	(763,734)	-	(17,445,756)
Buildings and Improvements	(2,912,561)	(41,682)	-	(2,954,243)
Equipment	<u>(4,221,153)</u>	<u>(354,013)</u>	<u>65,555</u>	<u>(4,509,611)</u>
Total Accumulated Depreciation	<u>(23,815,736)</u>	<u>(1,159,429)</u>	<u>65,555</u>	<u>(24,909,610)</u>
Total Capital Assets being Depreciated - Net	<u>18,480,372</u>	<u>(905,557)</u>	<u>-</u>	<u>17,574,815</u>
 BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS - NET	<u>\$ 20,516,807</u>	<u>\$ 1,145,151</u>	<u>\$ -</u>	<u>\$ 21,661,958</u>

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

NOTE F—LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2015 were comprised of the following issues:

SERIES AND ORIGINAL ISSUE AMOUNT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES:					
Certificates of Obligation	\$ 7,539,595	\$ 7,700,735	\$ (364,644)	\$ 14,875,686	\$ 379,295
General Obligation Bonds	<u>936,771</u>	<u>-</u>	<u>(460,740)</u>	<u>476,031</u>	<u>476,031</u>
Total Governmental Activities Bonds	<u>8,476,366</u>	<u>7,700,735</u>	<u>-</u>	<u>15,351,717</u>	<u>855,326</u>
Bond Premium	-	278,388	-	278,388	13,919
Compensated Absences	<u>422,022</u>	<u>309,955</u>	<u>(304,639)</u>	<u>427,338</u>	<u>427,338</u>
Total Governmental Activities	<u>\$ 8,898,388</u>	<u>\$ 8,289,078</u>	<u>\$ (304,639)</u>	<u>\$ 16,057,443</u>	<u>\$ 1,296,583</u>

SERIES AND ORIGINAL ISSUE AMOUNT	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	DUE WITHIN ONE YEAR
BUSINESS-TYPE ACTIVITIES:					
Certificates of Obligation	\$ 180,404	\$ 8,984,265	\$ (75,356)	\$ 9,089,313	\$ 15,705
General Obligation Bonds	3,253,229		(699,260)	2,553,969	723,969
SIB Loan	<u>3,459,070</u>	<u>-</u>	<u>(144,453)</u>	<u>3,314,617</u>	<u>148,064</u>
Total Business-Type Activities Bonds	<u>6,892,703</u>	<u>8,984,265</u>	<u>(919,069)</u>	<u>14,957,899</u>	<u>887,738</u>
Bond Premium	1,018	324,789	(1,015)	324,792	16,239
Capital Leases	<u>1,420,920</u>	<u>-</u>	<u>(375,447)</u>	<u>1,045,473</u>	<u>401,941</u>
	<u>8,314,641</u>	<u>9,309,054</u>	<u>(1,295,531)</u>	<u>16,328,164</u>	<u>1,305,918</u>
Compensated Absences	<u>44,426</u>	<u>61,831</u>	<u>(50,492)</u>	<u>55,765</u>	<u>55,765</u>
Total Business-Type Activities	<u>\$ 8,359,067</u>	<u>\$ 9,370,885</u>	<u>\$ (1,346,023)</u>	<u>\$ 16,383,929</u>	<u>\$ 1,361,683</u>

Interest rates on the bonds range from 3.19% to 6.75%. The rates of capital leases range from 3.99% to 5.07%

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

The annual requirements to amortize all long-term debt and obligations outstanding as of September 30, 2015, including interest payments, are as follows:

FISCAL YEAR ENDING 9/30	GOVERNMENTAL ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL
2016	\$ 855,326	\$ 678,373	\$ 1,533,699
2017	578,197	562,287	1,140,484
2018	601,729	535,323	1,137,052
2019	630,261	508,512	1,138,773
2020	659,178	486,525	1,145,703
2021-2025	4,705,309	1,957,153	6,662,462
2026-2030	4,524,420	882,641	5,407,061
2031-2035	<u>2,797,297</u>	<u>291,126</u>	<u>3,088,423</u>
	<u>\$ 15,351,717</u>	<u>\$ 5,901,940</u>	<u>\$ 21,253,657</u>

FISCAL YEAR ENDING 9/30	BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL
2016	\$ 887,738	\$ 598,619	\$ 1,486,357
2017	498,569	472,204	970,773
2018	518,831	451,826	970,657
2019	539,188	430,718	969,906
2020	559,257	415,734	974,991
2021-2025	3,735,237	1,743,208	5,478,445
2026-2030	4,296,837	1,000,445	5,297,282
2031-2035	<u>3,922,242</u>	<u>372,948</u>	<u>4,295,190</u>
	<u>\$ 14,957,899</u>	<u>\$ 5,485,702</u>	<u>\$ 20,443,601</u>

Future commitments on capital leases are as follows:

FISCAL YEAR ENDING 9/30	BUSINESS-TYPE ACTIVITIES
2016	\$ 447,410
2017	448,260
2018	<u>224,130</u>
Total Minimum Rentals	1,119,800
Less: Amount Representing Interest	<u>(74,327)</u>
Net Present Value	<u>\$ 1,045,473</u>

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

NOTE G—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 agreements 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 \$6,370,000 in Contract Revenue Bonds in fiscal year 2004 for the water delivery system. That issue was refunded by the Series 2014 Contract Revenue Bonds totaling \$4,950,000. As of September 30, 2015, there was \$4,715,000 of bonds outstanding. Through the agreements, 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.

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 \$5,480,000 of Contract Revenue Bonds in fiscal year 1996 for the treatment system. That issue was refunded by the Series 2010 Contract Revenue Bonds totaling \$4,025,000. As of September 30, 2015, \$1,255,000 of refunding bonds was 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 H—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. The remaining balance due the City is reported as a receivable in the accompanying government wide and proprietary fund Statements of Net Position.

NOTE I—EMPLOYEES' RETIREMENT SYSTEM

A. Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

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.tmr.com.

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

B. Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members are eligible to retire at age sixty (60) and above with five (5) or more years of service or with twenty (20) years of service regardless of age. A member is vested after five (5) years. The contribution rate for the employees is 6%, and the City matching percent is currently 2 to 1.

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	61
Inactive employees entitled to but not yet receiving benefits	86
Active employees	<u>128</u>
Total	275

C. 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% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.32% and 11.86% for calendar years 2014 and 2015 respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$692,664, and matched the required contribution.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF LOCKHART, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015

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	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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.

Changes in the Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balance at December 31, 2013	\$ 25,302,299	\$ 22,415,156	\$ 2,887,143
Changes for the year:			
Service Cost	659,622	-	659,622
Interest	1,759,695	-	1,759,695
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(275,265)	-	(275,265)
Changes of Assumptions	-	-	-
Contributions - Employer	-	662,456	(662,456)
Contributions - Employee	-	321,581	(321,581)
Net Investment Income	-	1,282,369	(1,282,369)
Benefit Payments, Including Refunds of Employee Contributions	(987,219)	(987,219)	-
Administrative Expense	-	(13,388)	13,388
Other Changes	-	<u>(1,101)</u>	<u>1,101</u>
Net Changes	<u>1,156,833</u>	<u>1,264,698</u>	<u>(107,865)</u>
Balance at December 31, 2014	<u>\$ 26,459,132</u>	<u>\$ 23,679,854</u>	<u>\$ 2,779,278</u>

CITY OF LOCKHART, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2015

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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
\$ 6,774,851	\$ 2,779,278	\$ (461,591)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the City recognized pension expense of \$526,910.

At September 30, 2015, 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
Difference Between Expected and Actual Economic Experience	\$ -	\$ 201,673
Changes in Actuarial Assumptions	-	-
Difference Between Projected and Actual Investment Earnings	229,354	-
Contributions Subsequent to the Measurement Date	500,462	-
Total	\$ 729,816	\$ 201,673

The City reported \$500,462 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, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ (16,254)
2017	(16,254)
2018	2,849
2019	57,340
2020	-
Thereafter	-
Total	\$ 27,681

CITY OF LOCKHART, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2015

Supplemental Death Benefits Fund

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

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

Contributions- The City contributes to the SDBF at a contractually required contribution 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 of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

A schedule of contribution rates follows:

<u>PLAN YEAR</u>	<u>ANNUAL REQUIRED CONTRIBUTION RATE</u>	<u>ACTUAL RATE OF CONTRIBUTION MADE</u>	<u>PERCENTAGE OF ARC CONTRIBUTED</u>
2015	0.24%	0.24%	100.00%
2014	0.21%	0.21%	100.00%
2013	0.19%	0.19%	100.00%

NOTE J—FUND BALANCE CATEGORIES

The fund balance categories after adopting GASB 54 (see Note A section 15) are as follows:

	<u>General</u>	<u>2015 Certificate of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Fund Balances:</u>				
Nonspendable	\$ 37,681	\$ -	\$ 2,673	\$ 40,354
Restricted - Construction	-	7,639,263	746,843	8,386,106
Restricted -Debt Service	-	-	362,919	362,919
Restricted - Special Revenue	91,955	-	757,115	849,070
Committed Fund Balances:				
Sidewalks	31,489	-	-	31,489
Revolving Loan	256,035	-	-	256,035
Industrial Park	314,911	-	-	314,911
Unassigned	<u>3,196,967</u>	<u>-</u>	<u>-</u>	<u>3,196,967</u>
Total Fund Balances	<u>\$ 3,929,038</u>	<u>\$ 7,639,263</u>	<u>\$ 1,869,550</u>	<u>\$ 13,437,851</u>

CITY OF LOCKHART, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2015

NOTE K—CONTINGENCIES

Grant Programs

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

Water Purchase Commitment

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

NOTE L—RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contribution amounts. During the past three years, no settlements have exceeded insurance coverage.

NOTE M - RESTATEMENT OF NET POSITION

During fiscal year 2015, the City adopted GASB Statement No. 68, Accounting and Reporting for Pensions. With the adoption of this standard, the City must recognize a net pension liability for their defined-benefit pension plan. Adoption of GASB No. 68 requires a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$(1,926,745) for the governmental activities and \$(490,145) for the business-type activities. The wastewater fund also identified an accounts receivable from the prior year for \$243,780 that was not recorded in the prior year. The restated beginning net position for the Governmental Activities and Business-type activities are as follows:

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	ELECTRIC FUND	WATER FUND	WASTEWATER FUND	OTHER ENTERPRISE FUND
Net Position, beginning, as previously reported	\$ 21,574,289	\$ 21,244,286	\$ 3,362,647	\$ 9,937,797	\$ 5,697,246	\$ 2,246,596
Net Pension Liability	(1,926,745)	(490,145)	(283,260)	(81,690)	(85,800)	(39,395)
Prior Year GBRA Receivable	-	243,870	-	-	243,870	-
Net Position, beginning, as restated	<u>\$ 19,647,544</u>	<u>\$ 20,998,011</u>	<u>\$ 3,079,387</u>	<u>\$ 9,856,107</u>	<u>\$ 5,855,316</u>	<u>\$ 2,207,201</u>

REQUIRED SUPPLEMENTARY INFORMATION

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CITY LOCKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>BUDGET AMOUNTS</u>		2015 ACTUAL	VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>		
<u>REVENUES</u>				
Taxes:				
Ad Valorem	\$ 2,965,654	\$ 2,965,654	\$ 2,969,641	\$ 3,987
Sales and Other Taxes	1,672,222	1,672,222	1,816,091	143,869
Fines, Fees and Forfeitures	309,295	309,295	416,884	107,589
Licenses and Permits	117,702	117,702	288,438	170,736
Grants and Intergovernmental	147,491	147,491	246,336	98,845
Charges for Services	994,867	994,867	1,383,027	388,160
Interest Income	6,044	6,044	11,502	5,458
Miscellaneous	<u>189,090</u>	<u>189,090</u>	<u>171,726</u>	<u>(17,364)</u>
Total Revenues	<u>6,402,365</u>	<u>6,402,365</u>	<u>7,303,645</u>	<u>901,280</u>
<u>EXPENDITURES</u>				
General Government	2,969,864	2,969,864	2,110,954	858,910
Public Safety	5,329,516	5,329,516	5,524,673	(195,157)
Public Works	1,113,799	1,113,799	908,990	204,809
Health and Welfare	8,254	8,254	11,970	(3,716)
Culture and Recreation	<u>788,869</u>	<u>788,869</u>	<u>867,342</u>	<u>(78,473)</u>
Total Expenditures	<u>10,210,302</u>	<u>10,210,302</u>	<u>9,423,929</u>	<u>786,373</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	(3,807,937)	(3,807,937)	(2,120,284)	1,687,653
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	3,073,629	3,073,629	2,626,839	(446,790)
Transfers Out	<u>(177,145)</u>	<u>(177,145)</u>	<u>(179,857)</u>	<u>(2,712)</u>
Total Other Financing Sources (Uses)	<u>2,896,484</u>	<u>2,896,484</u>	<u>2,446,982</u>	<u>(449,502)</u>
Net Change in Fund Balances	(911,453)	(911,453)	326,698	1,238,151
Total Fund Balance-Beginning of Year	<u>3,602,340</u>	<u>3,602,340</u>	<u>3,602,340</u>	<u>-</u>
Total Fund Balance-End of Year	<u>\$ 2,690,887</u>	<u>\$ 2,690,887</u>	<u>\$ 3,929,038</u>	<u>\$ 1,238,151</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY LOCKHART, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 YEAR ENDED SEPTEMBER 30,

	2015
Total Pension Liability	
Service Cost	\$ 659,622
Interest (on the Total Pension Liability)	1,759,695
Changes of Benefit Terms	-
Difference Between Expected and Actual Experience	(275,265)
Change of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	(987,219)
Net Change in Total Pension Liability	1,156,833
Total Pension Liability - Beginning	25,302,299
Total Pension Liability - Ending (a)	\$ 26,459,132
Plan Fiduciary Net Position	
Contributions - Employer	\$ 662,456
Contributions - Employee	321,581
Net Investment Income	1,282,369
Benefit Payments, Including Refunds of Employee Contributions	(987,219)
Administrative Expense	(13,388)
Other	(1,101)
Net Change in Plan Fiduciary Net Position	1,264,698
Plan Fiduciary Net Position - Beginning	22,415,156
Plan Fiduciary Net Position - Ending (b)	\$ 23,679,854
Net Pension Liability (a) - (b)	\$ 2,779,278
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	89.50%
Covered Employee Payroll	5,359,686
Net Pension Liability as a Percentage of Total Covered Employee Payroll	51.86%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. This is the first year of implementation of GASB 68. The City will develop the schedule prospectively.

CITY LOCKHART, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 YEAR ENDED SEPTEMBER 30,

	2015
Actuarially Determined Contributions	\$ 692,664
Contributions in Relation to the Actuarially Determined Contributions	692,664
Contribution Deficiency (Excess)	\$ -
Covered Employee Payroll	\$ 5,359,686
Contributions as a Percentage of Covered Employee Payroll	12.92%

*GASB 68 requires 10 fiscal years of data to be provided in this schedule. This is the first year of implementation of GASB 68. The City will develop the schedule prospectively.

CITY LOCKHART, TEXAS
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City Council adopts an "appropriated budget" on a Generally Accepted Accounting Principles (GAAP) basis. At a minimum the City is required to present the original and the final amended budgets for revenues and expenditures as compared to actual.

SCHEDULE OF CONTRIBUTIONS

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	25 Years
Asset Valuation Method	10 Year Smoothed Market, 15% Soft Corridor
Inflation	3.00%
Salary Increases	3.5% to 12.00% Including Inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	SPECIAL REVENUES					
	Radio Tower Replacement	Forfeited Property	Hotel/Motel Occupancy Tax	TCEQ NPS Grant	Road Impact Fee	Radio System Maintenance Fund
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 81,380	\$ 1,198	\$ -	\$ 5,803	\$ 311,907	\$ 46,299
Receivables:						
Ad Valorem Taxes	-	-	-	-	-	-
Miscellaneous	-	-	27,200	-	-	-
Prepaid Expenses	-	-	-	-	-	2,673
TOTAL ASSETS	\$ 81,380	\$ 1,198	\$ 27,200	\$ 5,803	\$ 311,907	\$ 48,972
<u>LIABILITIES</u>						
Accounts Payable - Trade	\$ -	\$ -	\$ 17,200	\$ -	\$ -	\$ 1,626
Unearned Revenue	-	-	-	-	-	-
Due to Other Funds	-	-	9,161	-	-	-
Total Liabilities	-	-	26,361	-	-	1,626
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Deferred Revenue	-	-	-	-	-	-
Total Deferred Inflows	-	-	-	-	-	-
<u>FUND BALANCES</u>						
Nonspendable	-	-	-	-	-	2,673
Restricted - Debt Service	-	-	-	-	-	-
Restricted - Capital Projects Funds	-	-	-	-	-	-
Restricted - Special Revenue Funds	81,380	1,198	839	5,803	311,907	44,673
Total Fund Balances	81,380	1,198	839	5,803	311,907	47,346
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 81,380	\$ 1,198	\$ 27,200	\$ 5,803	\$ 311,907	\$ 48,972

(The Accompanying Notes are an Integral Part of these Financial Statements)

SPECIAL REVENUES (CONTINUED)

Court Technology	Court Security	Child Safety	Court Efficiency	Cable Education Fund	Transportation Improvements	Drainage Improvements	Law Enforcement Education
\$ 19,262	\$ 10,844	\$ 24,298	\$ 7,651	\$ 52,402	\$ 84,750	\$ 29,108	\$ 11,763
-	-	-	-	-	-	-	-
1,661	1,329	775	332	5,489	39,001	21,170	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 20,923</u>	<u>\$ 12,173</u>	<u>\$ 25,073</u>	<u>\$ 7,983</u>	<u>\$ 57,891</u>	<u>\$ 123,751</u>	<u>\$ 50,278</u>	<u>\$ 11,763</u>
\$ 93	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>93</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>20,830</u>	<u>12,173</u>	<u>25,073</u>	<u>7,983</u>	<u>57,891</u>	<u>123,751</u>	<u>50,278</u>	<u>11,763</u>
<u>20,830</u>	<u>12,173</u>	<u>25,073</u>	<u>7,983</u>	<u>57,891</u>	<u>123,751</u>	<u>50,278</u>	<u>11,763</u>
<u>\$ 20,923</u>	<u>\$ 12,173</u>	<u>\$ 25,073</u>	<u>\$ 7,983</u>	<u>\$ 57,891</u>	<u>\$ 123,751</u>	<u>\$ 50,278</u>	<u>\$ 11,763</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF NET POSITION (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	SPECIAL REVENUES (CONTINUED)					
	Confiscated Property	Glosserman Fund	Brock Cabin	Police Federal Cops Grant	Total Special Revenue	Interest and Sinking Fund
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 538	\$ 507	\$ 1,066	\$ -	\$ 688,776	\$ 362,919
Receivables:						
Ad Valorem Taxes	-	-	-	-	-	50,039
Miscellaneous	-	-	-	-	96,957	-
Prepaid Expenses	-	-	-	-	2,673	-
TOTAL ASSETS	<u>\$ 538</u>	<u>\$ 507</u>	<u>\$ 1,066</u>	<u>\$ -</u>	<u>\$ 788,406</u>	<u>\$ 412,958</u>
<u>LIABILITIES</u>						
Accounts Payable - Trade	\$ 538	\$ -	\$ -	\$ -	\$ 19,457	\$ -
Unearned Revenue	-	-	-	-	-	-
Due to Other Funds	-	-	-	-	9,161	-
Total Liabilities	<u>538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,618</u>	<u>-</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Deferred Revenue	-	-	-	-	-	50,039
Total Deferred Inflows	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,039</u>
<u>FUND BALANCES</u>						
Nonspendable	-	-	-	-	2,673	-
Restricted - Debt Service	-	-	-	-	-	362,919
Restricted - Capital Projects Funds	-	-	-	-	-	-
Restricted - Special Revenue Funds	-	507	1,066	-	757,115	-
Total Fund Balances	<u>-</u>	<u>507</u>	<u>1,066</u>	<u>-</u>	<u>759,788</u>	<u>362,919</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 538</u>	<u>\$ 507</u>	<u>\$ 1,066</u>	<u>\$ -</u>	<u>\$ 788,406</u>	<u>\$ 412,958</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CAPITAL PROJECTS						Total
Clearfork Detention Basin	Clearfork Section 1 Sidewalk	2006 Certificates of Obligation	2006-A Bond Fund	2009 Certificate of Obligation	Total Capital Projects	Nonmajor Governmental Funds
\$ 21,362	\$ 16,159	\$ -	\$ -	\$ 744,052	\$ 781,573	\$ 1,833,268
-	-	-	-	-	-	50,039
-	-	-	-	-	-	96,957
-	-	-	-	-	-	2,673
<u>\$ 21,362</u>	<u>\$ 16,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 744,052</u>	<u>\$ 781,573</u>	<u>\$ 1,982,937</u>
\$ -	\$ -	\$ -	\$ -	\$ 4,080	\$ 4,080	\$ 23,537
17,450	13,200	-	-	-	30,650	30,650
-	-	-	-	-	-	9,161
<u>17,450</u>	<u>13,200</u>	<u>-</u>	<u>-</u>	<u>4,080</u>	<u>34,730</u>	<u>63,348</u>
-	-	-	-	-	-	50,039
-	-	-	-	-	-	50,039
-	-	-	-	-	-	2,673
-	-	-	-	-	-	362,919
3,912	2,959	-	-	739,972	746,843	746,843
-	-	-	-	-	-	757,115
<u>3,912</u>	<u>2,959</u>	<u>-</u>	<u>-</u>	<u>739,972</u>	<u>746,843</u>	<u>1,869,550</u>
<u>\$ 21,362</u>	<u>\$ 16,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 744,052</u>	<u>\$ 781,573</u>	<u>\$ 1,982,937</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	SPECIAL REVENUES				
	Radio Tower Replacement	Forfeited Property	Hotel/Motel Occupancy Tax	TCEQ NPS Grant	Road Impact Fee
<u>REVENUES</u>					
Taxes					
Ad Valorem Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and Other Taxes	-	-	100,552	-	-
Fines, Fees and Forfeitures	-	-	-	-	164,180
Grants and Contributions	-	-	-	-	-
Interest Income	192	2	37	13	595
Miscellaneous	-	-	-	-	-
TOTAL REVENUES	<u>192</u>	<u>2</u>	<u>100,589</u>	<u>13</u>	<u>164,775</u>
<u>EXPENDITURES</u>					
Current					
General Government	171	-	47,454	-	-
Public Safety	-	-	-	-	-
Public Works	-	-	-	-	-
Culture and Recreation	-	-	13,101	-	-
Capital Outlay	-	-	-	-	-
Debt Service					
Administrative Charges	-	-	-	-	-
Interest	-	-	-	-	-
Principal Retirement	-	-	-	-	-
Total Expenditures	<u>171</u>	<u>-</u>	<u>60,555</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>21</u>	<u>2</u>	<u>40,034</u>	<u>13</u>	<u>164,775</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In	-	-	-	-	-
Transfers Out	-	-	(40,000)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	21	2	34	13	164,775
FUND BALANCES - BEGINNING	<u>81,359</u>	<u>1,196</u>	<u>805</u>	<u>5,790</u>	<u>147,132</u>
FUND BALANCES - ENDING	<u>\$ 81,380</u>	<u>\$ 1,198</u>	<u>\$ 839</u>	<u>\$ 5,803</u>	<u>\$ 311,907</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

SPECIAL REVENUES (CONTINUED)

Radio System Maintenance Fund	Court Technology	Court Security	Child Safety	Court Efficiency	Cable Education Fund	Transportation Improvements
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	10,185	8,716	10,514	3,265	-	264,638
121,092	-	-	-	-	-	-
117	44	27	55	18	132	355
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,126</u>	<u>-</u>
<u>121,209</u>	<u>10,229</u>	<u>8,743</u>	<u>10,569</u>	<u>3,283</u>	<u>22,258</u>	<u>264,993</u>
-	-	-	-	-	17,288	-
191,309	18,987	10,904	7,802	2,920	-	-
-	-	-	-	-	-	1,462
-	-	-	-	-	-	-
-	-	-	-	-	-	136,232
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>191,309</u>	<u>18,987</u>	<u>10,904</u>	<u>7,802</u>	<u>2,920</u>	<u>17,288</u>	<u>137,694</u>
<u>(70,100)</u>	<u>(8,758)</u>	<u>(2,161)</u>	<u>2,767</u>	<u>363</u>	<u>4,970</u>	<u>127,299</u>
89,160	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(242,500)</u>
<u>89,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(242,500)</u>
19,060	(8,758)	(2,161)	2,767	363	4,970	(115,201)
<u>28,286</u>	<u>29,588</u>	<u>14,334</u>	<u>22,306</u>	<u>7,620</u>	<u>52,921</u>	<u>238,952</u>
<u>\$ 47,346</u>	<u>\$ 20,830</u>	<u>\$ 12,173</u>	<u>\$ 25,073</u>	<u>\$ 7,983</u>	<u>\$ 57,891</u>	<u>\$ 123,751</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	SPECIAL REVENUES (CONTINUED)				
	Drainage Improvements	Law Enforcement Education	Glosserman Fund	Brock Cabin	Police Federal Cops Grant
<u>REVENUES</u>					
Taxes					
Ad Valorem Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and Other Taxes	-	-	-	-	-
Fines, Fees and Forfeitures	142,661	-	-	-	-
Grants and Contributions	-	2,174	-	-	9,905
Interest Income	225	25	2	3	-
Miscellaneous	-	-	-	-	-
TOTAL REVENUES	<u>142,886</u>	<u>2,199</u>	<u>2</u>	<u>3</u>	<u>9,905</u>
<u>EXPENDITURES</u>					
Current					
General Government	-	-	-	412	-
Public Safety	-	828	-	-	9,905
Public Works	20,342	-	-	-	-
Culture and Recreation	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service					
Administrative Charges	-	-	-	-	-
Interest	-	-	-	-	-
Principal Retirement	-	-	-	-	-
Total Expenditures	<u>20,342</u>	<u>828</u>	<u>-</u>	<u>412</u>	<u>9,905</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>122,544</u>	<u>1,371</u>	<u>2</u>	<u>(409)</u>	<u>-</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In	-	-	-	-	-
Transfers Out	<u>(129,167)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(129,167)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(6,623)	1,371	2	(409)	-
FUND BALANCES - BEGINNING	<u>56,901</u>	<u>10,392</u>	<u>505</u>	<u>1,475</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 50,278</u>	<u>\$ 11,763</u>	<u>\$ 507</u>	<u>\$ 1,066</u>	<u>\$ -</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

Interest and Sinking Fund	CAPITAL PROJECTS						Total Nonmajor Governmental Funds
	Clearfork Detention Basin	Clearfork Section 1 Sidewalk	2006 Certificates of Obligation	2006-A Bond Fund	2009 Certificate of Obligation	Total Capital Projects	
\$ 561,949	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 561,949
-	-	-	-	-	-	-	100,552
-	-	-	-	-	-	-	604,159
11,693	-	-	-	-	-	-	144,864
1,479	50	38	4	9	1,850	1,951	5,272
<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>322,126</u>
<u>875,121</u>	<u>50</u>	<u>38</u>	<u>4</u>	<u>9</u>	<u>1,850</u>	<u>1,951</u>	<u>1,738,922</u>
-	-	-	1,800	-	15,838	17,638	82,963
-	-	-	-	-	-	-	242,655
-	-	-	-	-	-	-	21,804
-	-	-	-	-	-	-	13,101
-	-	-	-	-	68,045	68,045	204,277
400	-	-	-	-	-	-	400
825,385	-	-	-	-	-	-	825,385
<u>358,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>358,092</u>
<u>1,183,877</u>	<u>-</u>	<u>-</u>	<u>1,800</u>	<u>-</u>	<u>83,883</u>	<u>85,683</u>	<u>1,748,677</u>
<u>(308,756)</u>	<u>50</u>	<u>38</u>	<u>(1,796)</u>	<u>9</u>	<u>(82,033)</u>	<u>(83,732)</u>	<u>(9,755)</u>
242,449	-	-	-	-	-	-	331,609
<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,293)</u>	<u>(5,205)</u>	<u>-</u>	<u>(8,498)</u>	<u>(420,165)</u>
<u>242,449</u>	<u>-</u>	<u>-</u>	<u>(3,293)</u>	<u>(5,205)</u>	<u>-</u>	<u>(8,498)</u>	<u>(88,556)</u>
(66,307)	50	38	(5,089)	(5,196)	(82,033)	(92,230)	(98,311)
<u>429,226</u>	<u>3,862</u>	<u>2,921</u>	<u>5,089</u>	<u>5,196</u>	<u>822,005</u>	<u>839,073</u>	<u>1,967,861</u>
<u>\$ 362,919</u>	<u>\$ 3,912</u>	<u>\$ 2,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 739,972</u>	<u>\$ 746,843</u>	<u>\$ 1,869,550</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	SANITATION	AIRPORT	TOTAL
<u>ASSETS</u>			
Current Assets:			
Cash and Cash Equivalents	\$ 413,185	\$ -	\$ 413,185
Accounts Receivable:			
Customer Accounts	<u>209,194</u>	<u>1,458</u>	<u>210,652</u>
Total Current Assets	<u>622,379</u>	<u>1,458</u>	<u>623,837</u>
Noncurrent Assets:			
Capital Assets (Net):			
Land and Other Assets not being Depreciated	120,409	72,161	192,570
Building, Improvements and Equipment	<u>22,504</u>	<u>1,550,444</u>	<u>1,572,948</u>
Total Noncurrent Assets	<u>142,913</u>	<u>1,622,605</u>	<u>1,765,518</u>
TOTAL ASSETS	<u>765,292</u>	<u>1,624,063</u>	<u>2,389,355</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows - Pension	<u>8,608</u>	<u>-</u>	<u>8,608</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 773,900</u>	<u>\$ 1,624,063</u>	<u>\$ 2,397,963</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable - Trade	\$ 4,032	\$ 349	\$ 4,381
Payroll Related Liabilities	3,199	-	3,199
Other Payables	82,216	-	82,216
Due to Other Funds	-	8,529	8,529
Unearned Revenue	-	3,137	3,137
Customer Deposits	100	6,375	6,475
Accrued Compensated Absences	<u>4,747</u>	<u>-</u>	<u>4,747</u>
Total Current Liabilities	<u>94,294</u>	<u>18,390</u>	<u>112,684</u>
Noncurrent Liabilities:			
Other Post Employment Benefits	10,751	-	10,751
Net Pension Liability	<u>45,302</u>	<u>-</u>	<u>45,302</u>
Total Noncurrent Liabilities	<u>56,053</u>	<u>-</u>	<u>56,053</u>
TOTAL LIABILITIES	<u>150,347</u>	<u>18,390</u>	<u>168,737</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	142,913	1,622,605	1,765,518
Unrestricted Net Position	<u>480,640</u>	<u>(16,932)</u>	<u>463,708</u>
Total Net Position	<u>623,553</u>	<u>1,605,673</u>	<u>2,229,226</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 773,900</u>	<u>\$ 1,624,063</u>	<u>\$ 2,397,963</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND NET POSITION – NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	SANITATION	AIRPORT	TOTAL
<u>OPERATING REVENUES</u>			
Charges for Service	\$ 1,391,574	\$ 59,023	\$ 1,450,597
Miscellaneous	<u>10,854</u>	<u>9,497</u>	<u>20,351</u>
Total Operating Revenues	<u>1,402,428</u>	<u>68,520</u>	<u>1,470,948</u>
<u>OPERATING EXPENSES</u>			
Personnel Services	128,567	-	128,567
Contracts and Services	1,009,630	16,197	1,025,827
Materials and Supplies	9,624	341	9,965
Maintenance and Repairs	12,051	10,278	22,329
Depreciation and Amortization	2,181	52,817	54,998
Miscellaneous	<u>4,222</u>	<u>-</u>	<u>4,222</u>
Total Operating Expenses	<u>1,166,275</u>	<u>79,633</u>	<u>1,245,908</u>
Net Operating Income	<u>236,153</u>	<u>(11,113)</u>	<u>225,040</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Interest Income	947	1,054	2,001
Interest Expense	-	(3,013)	(3,013)
Proceeds from Sale of Asset	<u>520</u>	<u>-</u>	<u>520</u>
Total Nonoperating Revenues (Expenses)	<u>1,467</u>	<u>(1,959)</u>	<u>(492)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>237,620</u>	<u>(13,072)</u>	<u>224,548</u>
<u>CAPITAL CONTRIBUTIONS</u>			
Grant Revenue	11,821	-	11,821
Transfers In	75	14,557	14,632
Transfers Out	<u>(228,976)</u>	<u>-</u>	<u>(228,976)</u>
Total Capital Contributions	<u>(217,080)</u>	<u>14,557</u>	<u>(202,523)</u>
<u>CHANGE IN NET POSITION</u>			
Change in Net Position	20,540	1,485	22,025
Total Net Position - Beginning of Year	642,408	1,604,188	2,246,596
Restatement of Beginning Net Position	<u>(39,395)</u>	<u>-</u>	<u>(39,395)</u>
Total Net Position - Beginning of Year Restated	<u>603,013</u>	<u>1,604,188</u>	<u>2,207,201</u>
Total Net Position - End of Year	<u>\$ 623,553</u>	<u>\$ 1,605,673</u>	<u>\$ 2,229,226</u>

(The Accompanying Notes are an Integral Part of these Financial Statements)

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COMPLIANCE SECTION

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

To the City Council
City of Lockhart, Texas
308 West San Antonio Street
Lockhart, Texas 78644

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, the discretely presented component units, 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, 2015, and the related notes to the financial statements, which collectively comprise the City of Lockhart, Texas' basic financial statements, and have issued our report thereon dated March 1, 2016.

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 entity's financial statements will not be prevented, or detected and corrected on 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.

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Compliance and Other Matters

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

Purpose of this Report

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

ABIP, PC

Certified Public Accountants
San Antonio, Texas

March 1, 2016