

CITY OF HITCHCOCK, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2017

CITY OF HITCHCOCK, TEXAS
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
and Members of the City Commission
City of Hitchcock, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hitchcock, Texas (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Anthony Matranga, Mayor
and Members of the City Commission
City of Hitchcock, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 13, budgetary comparison information on pages 48 through 49, and pension information on pages 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund and component unit financial statements are not a required part of the basic financial statements. The combining nonmajor fund and component unit financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund and component unit financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Honorable Mayor
and Members of the City Commission
City of Hitchcock, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance and has been issued under separate cover.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
November 1, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Hitchcock (the "City"), we offer the 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, 2017.

Financial Highlights

The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$15.8 million (net position). Of this amount, \$14.1 million is net investment in capital assets, \$0.3 million is restricted, leaving \$1.4 million in unrestricted net position.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$191,983 million, a decrease of \$1.7 million from the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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, deferred outflows, liabilities and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health, welfare and sanitation, and culture and recreation. The business-type activity of the City is a Water and Sewer Operating fund.

The government-wide financial statements include the City itself (known as the primary government), but also legally separate component units. Financial information for these component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 17 through 19 of this report.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating 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.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 18 through 20 of this report.

Proprietary Funds. The City maintains 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 an enterprise fund to account for its water and wastewater operations fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 24 through 26 of this report.

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. The notes to the basic financial statements can be found on pages 27 through 45 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's total pension liability and net pension asset, information regarding City's obligation to provide pension benefits to its employees and general fund budgetary comparisons. Required supplementary information can be found on pages 48 through 51 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the required supplementary information on pensions. Combining statements can be found on pages 54 through 57 of this report.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15.8 million.

By far the largest portion of the City's net position of \$14.1 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is 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.

CITY OF HITCHCOCK, TEXAS

Net Position (in thousands)
September 30, 2017 and 2016

	2017			2016		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Current assets	\$ 1,837	\$ 1,724	\$ 3,561	\$ 3,582	\$ 1,686	\$ 5,268
Capital assets	2,612	12,908	15,520	3,909	12,971	16,880
Total Assets	4,449	14,632	19,081	7,491	14,657	22,148
Deferred outflows of resources	218	74	292	261	92	353
Current liabilities	1,348	609	1,957	1,162	679	1,841
Long-term liabilities	301	1,209	1,510	568	2,250	2,818
Total Liabilities	1,649	1,818	3,467	1,730	2,929	4,659
Deferred inflows of resources	52	18	70	97	54	151
Net position						
Net investment in capital assets	2,388	11,725	14,113	3,626	10,726	14,352
Restricted	85	257	342	64	547	611
Unrestricted	493	888	1,381	2,235	493	2,728
Total Net Position	\$ 2,966	\$ 12,870	\$ 15,836	\$ 5,925	\$ 11,766	\$ 17,691

An additional portion of the City's net position, \$0.3 million, represents resources that are subject to external restrictions on how they may be used. The amount of unrestricted net position is \$1.4 million.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The government's net position decreased by \$1.9 million during the current fiscal year. The following table summarizes the changes in net position for the City for the year ended September 30, 2017:

CITY OF HITCHCOCK, TEXAS
Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2017 and 2016

	2017			2016		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program Revenues:						
Charges for services	\$ 1,256	\$ 2,877	\$ 4,133	\$ 1,419	\$ 2,961	\$ 4,380
Operating grants and contributions	80	-	80	821	-	821
Capital grants and contributions	-	64	64	-	64	64
General revenues:						
Property taxes	1,177	-	1,177	1,130	-	1,130
Franchise fees	402	-	402	405	-	405
Sales tax	837	-	837	953	-	953
Other	33	1	34	46	1	47
Total Revenues	3,785	2,942	6,727	4,774	3,026	7,800
Expenses						
General government	1,018	-	1,018	830	-	830
Public safety	2,668	-	2,668	2,106	-	2,106
Public works	1,041	-	1,041	1,187	-	1,187
Health, welfare and sanitat	322	-	322	312	-	312
Culture and recreation	103	-	103	106	-	106
Water and Sewer	-	3,430	3,430	-	3,320	3,320
Total Expenses	5,152	3,430	8,582	4,541	3,320	7,861
Transfer in (out)	(1,592)	1,592		(5,507)	5,507	
Change in net position	(2,959)	1,104	(1,855)	(5,274)	5,213	(61)
Beginning Net Position (as restated)	5,925	11,766	17,691	11,199	6,553	17,752
Ending Net Position	\$ 2,966	\$ 12,870	\$ 15,836	\$ 5,925	\$ 11,766	\$ 17,691

Governmental activities. Governmental activities decreased the City's net position by \$2.96 million. A comparison of program expenses to program revenues and revenues by source for governmental activities follows:

Program	2017			2016		
	Expenses	Program Revenues	Net (Cost) of Services	Expenses	Program Revenues	Net (Cost) of Services
General government	\$ 1,018	\$ -	\$ (1,018)	\$ 830	\$ -	\$ (830)
Public safety	2,668	541	(2,127)	2,106	588	(1,518)
Public works	1,041	480	(561)	1,187	1,345	158
Health, welfare and sanitat	322	315	(7)	312	307	(5)
Culture and recreation	103	-	(103)	106	-	(106)
	\$ 5,152	\$ 1,336	\$ (3,816)	\$ 4,541	\$ 2,240	\$ (2,301)

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

While total expenses increased from the prior year by \$611 thousand, total program revenue decreased by \$671 thousand due primarily to decreases in operating grants for the year before due to the decreased expenditures in the Community Development Block Grant Fund in 2017. Additionally, the City transferred \$1.6 million in capital assets built for the business-type activities funded by governmental activities.

Business-type activities. The net position of the City's business-type activities increased by approximately \$1.1 million. The primary component of this increase was the \$1.6 million transfer of capital assets noted in the previous paragraph.

Financial Analysis of the Government's Funds

As noted earlier, the City used 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 end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$191,983.

The General fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the general fund was \$107 thousand. This is approximately \$1.7 million less than September 30, 2016. This was primarily due to City Commission budgeting to draw down significant amounts of fund balance.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net position of the Water and Sewer Enterprise fund at the end of the year amounted to \$888,335 or 26% of annual operating and non-operating expenses for the fund.

General Fund Budgetary Highlights

The final budget for fiscal year 2017 reflected a decrease in fund balance of \$696 thousand. The City did not amend the general fund budget during the fiscal year. The actual change in fund balance was a decrease of \$1.67 million. Contributing factors were (a) \$404 thousand less than expected revenues for sales, franchise, and local taxes, (b) \$122 thousand less than expected revenues for licenses and permits, (c) \$422 thousand more than expected expenditures for public safety, and (d) \$274 thousand more than expected expenditures for health, welfare, and sanitation.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities, as of September 30, 2017, amounted to \$15.5 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, park facilities, water and wastewater plants and service lines, machinery and equipment.

A summary of capital assets, as of September 30, 2017, is as follows:

	2017			2016		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 1,425	\$ 62	\$ 1,487	\$ 1,425	\$ 62	\$ 1,487
Construction in progress		-		1,513	-	1,513
Infrastructure	-	12,185	12,185	-	11,398	11,398
Buildings	478	161	639	512	169	681
Equipment and furniture	709	500	1,209	459	516	975
	<u>\$ 2,612</u>	<u>\$ 12,908</u>	<u>\$ 15,520</u>	<u>\$ 3,909</u>	<u>\$ 12,145</u>	<u>\$ 16,054</u>

In fiscal year 2017, system improvements in the amount of \$1.6 million were transferred from the Governmental Activities to the Water and Sewer Fund. Additional information on the City's capital assets can be found in Note 7 of the basic financial statements of this report.

Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$938,500 which represents revenue bonds secured solely by specified revenue sources.

	2017			2016		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Certificates of obligation	\$ -	\$ 939	\$ 939	\$ -	\$ 957	\$ 957
Capital lease obligations	224	245	469	283	332	615
	<u>\$ 224</u>	<u>\$ 1,184</u>	<u>\$ 1,408</u>	<u>\$ 283</u>	<u>\$ 1,289</u>	<u>\$ 1,572</u>

The City's total debt decreased by approximately \$164 thousand during the fiscal year.

Additional information on the City's long-term debt can be found in Note 8 of the basic financial statements of this report.

CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the County in which the City is located was 4.8 percent in March 2018, which is a decrease of 0.6% percent from a year ago. A comparison of rates for the county, state and nation follows:

Region	March 2018	March 2017	Change
United States	4.1%	4.5%	-0.4%
Texas	4.0%	4.6%	-0.6%
Galveston County	4.8%	5.4%	-0.6%

The City approved a general fund budget of \$4.6 million for the fiscal year 2017 - 2018, which is a decrease of 14% when compared to the current year actual expenditures and is not expected to draw on existing general fund balance. The tax rate of \$.5000 per \$100 valuation was approved.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Office of the City Secretary, 7423 Highway 6, Hitchcock, Texas 77563.

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BASIC FINANCIAL STATEMENTS

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CITY OF HITCHCOCK, TEXAS

STATEMENT OF NET POSITION

September 30, 2017

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and temporary investments	\$ 962,994	\$ 1,026,701	\$ 1,989,695	\$ 1,916,700
Receivables	527,573	317,931	845,504	77,327
Internal balances	44,210	(44,210)	-	-
Restricted Assets:				
Cash and temporary investments	302,500	423,588	726,088	-
Total Current Assets	1,837,277	1,724,010	3,561,287	1,994,027
Capital Assets:				
Land	1,424,690	61,776	1,486,466	-
Capital assets, net of depreciation/amortization:				
Infrastructure	-	12,184,835	12,184,835	-
Buildings	478,086	161,266	639,352	-
Furniture, equipment and vehicles	709,044	499,841	1,208,885	-
Total Capital Assets	2,611,820	12,907,718	15,519,538	-
Total Assets	4,449,097	14,631,728	19,080,825	1,994,027
Deferred Outflows of Resources:				
Deferred outflows - pension	217,607	73,763	291,370	-
Total Deferred Outflows of Resources	217,607	73,763	291,370	-
Liabilities				
Accounts payable and other current liabilities	1,040,657	443,018	1,483,675	1,802
Accrued interest	-	8,310	8,310	13,009
Customer deposits	307,191	158,083	465,274	-
Long-term liabilities:				
Due within one year	92,615	124,146	216,761	750,000
Due in more than one year	180,408	1,075,070	1,255,478	1,535,000
Net pension liability	27,816	9,455	37,271	-
Total Liabilities	1,648,687	1,818,082	3,466,769	2,299,811
Deferred Inflows of Resources:				
Deferred inflows - pension	51,790	17,692	69,482	-
Total Deferred Inflows of Resources	51,790	17,692	69,482	-
Net Position				
Net investment in capital assets	2,387,661	11,724,187	14,111,848	-
Restricted for:				
Debt service	-	257,195	257,195	-
Public Safety	71,630	-	71,630	-
Unrestricted	493,402	888,335	1,381,737	(305,784)
Total Net Position	\$ 2,966,227	\$ 12,869,717	\$ 15,835,944	\$ (305,784)

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
General government	\$ 1,017,971	\$ -	\$ -	\$ -
Public safety	2,668,212	540,530	-	-
Public works	1,040,844	400,733	79,621	-
Health, welfare and sanitation	321,896	314,665	-	-
Culture and recreation	103,251	-	-	-
Total Governmental Activities	<u>5,152,174</u>	<u>1,255,928</u>	<u>79,621</u>	<u>-</u>
Business-type Activities:				
Water and Sewer	3,430,180	2,876,558	-	63,924
Total Business-type Activities	<u>3,430,180</u>	<u>2,876,558</u>	<u>-</u>	<u>63,924</u>
Total Primary Government	<u>\$ 8,582,354</u>	<u>\$ 4,132,486</u>	<u>\$ 79,621</u>	<u>\$ 63,924</u>
Component Units				
Hitchcock Industrial Development Corporation	\$ 651,803	\$ -	\$ -	\$ -
Reinvestment Zone Number One	237,009	-	-	-
Total component units	<u>\$ 888,812</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property taxes				
Franchise taxes				
Sales tax				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Prior period adjustments				
Net position - ending				

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,017,971)	\$ -	\$ (1,017,971)	
(2,127,682)	-	(2,127,682)	
(560,490)	-	(560,490)	
(7,231)	-	(7,231)	
(103,251)	-	(103,251)	
<u>(3,816,625)</u>	<u>-</u>	<u>(3,816,625)</u>	
-	(489,698)	(489,698)	
-	(489,698)	(489,698)	
<u>(3,816,625)</u>	<u>(489,698)</u>	<u>(4,306,323)</u>	
			\$ (651,803)
-	-	-	<u>(237,009)</u>
-	-	-	<u>(888,812)</u>
1,177,049	-	1,177,049	913,350
402,456	-	402,456	-
837,063	-	837,063	279,021
9,283	764	10,047	10,163
23,616	-	23,616	220,313
<u>(1,592,411)</u>	<u>1,592,411</u>	<u>-</u>	<u>-</u>
<u>857,056</u>	<u>1,593,175</u>	<u>2,450,231</u>	<u>1,422,847</u>
<u>(2,959,569)</u>	<u>1,103,477</u>	<u>(1,856,092)</u>	<u>534,035</u>
5,607,332	11,766,240	17,373,572	(521,355)
318,464	-	318,464	(318,464)
<u>\$ 2,966,227</u>	<u>\$ 12,869,717</u>	<u>\$ 15,835,944</u>	<u>\$ (305,784)</u>

CITY OF HITCHCOCK, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2017

	<u>General</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current assets:			
Cash and temporary investments	\$ 877,830	\$ 85,164	\$ 962,994
Due from other funds	44,210	-	44,210
Accounts receivable, less allowance for doubtful accounts:	527,573	-	527,573
Restricted Assets:			
Cash and temporary investments	302,500	-	302,500
Total Assets	<u>\$ 1,752,113</u>	<u>\$ 85,164</u>	<u>\$ 1,837,277</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 767,364	\$ -	\$ 767,364
Other liabilities	273,293	-	273,293
Payable from restricted assets:			
Refundable deposits and bonds	307,191	-	307,191
Total Liabilities	<u>1,347,848</u>	<u>-</u>	<u>1,347,848</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	276,861	-	276,861
Unavailable revenue - court fines and fees	20,585	-	20,585
	<u>297,446</u>	<u>-</u>	<u>297,446</u>
Fund Balance:			
Restricted:			
Culture and recreation	-	13,534	13,534
Public safety	-	71,630	71,630
Unassigned	106,819	-	106,819
Total Fund Balance	<u>106,819</u>	<u>85,164</u>	<u>191,983</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,752,113</u>	<u>\$ 85,164</u>	<u>\$ 1,837,277</u>

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2017

Total fund balance, governmental funds \$ 191,983

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement but are reported in the governmental activities of the Statement of Net Position. 2,611,820

Certain other long-term receivables are not available to pay current period expenditures and, therefore, are not reported in this fund financial statement but are reported in the governmental activities of the Statement of Position.

Property tax 276,861
 Court fines and fees 20,585

Some liabilities are not due and payable in the current period and are not included in the fund financial statements but are included in the governmental activities of the Statement of Net Position. These are as follows:

Capital leases payable (224,159)
 Compensated absences (48,864)

Pension related deferred outflows and inflows as well as the net pension liability are not recognized in the governmental funds. Below are the portions recognized at the government wide level of reporting.

Deferred outflows for pension related activities 217,607
 Deferred inflows for pension related activities (51,790)
 Net Pension Liability (27,816)

Net position of governmental activities in the statement of net position \$ 2,966,227

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	<u>General</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 1,219,149	\$ -	\$ 1,219,149
Sales, franchise and local taxes	1,137,622	-	1,137,622
Licenses and permits	397,733	-	397,733
Charges for services	425,909	-	425,909
Fines and forfeitures	279,152	9,125	288,277
Earnings on investments	9,283	-	9,283
Intergovernmental	139,539	79,621	219,160
Other	23,566	-	23,566
Total Revenues	<u>3,631,953</u>	<u>88,746</u>	<u>3,720,699</u>
Expenditures			
Current:			
General government	853,597	-	853,597
Public safety	2,855,014	6,308	2,861,322
Public works	1,103,386	79,621	1,183,007
Health, welfare and sanitation	321,896	-	321,896
Culture and recreation	101,516	-	101,516
Debt service:			
Principal retirement	68,927	-	68,927
Total Expenditures	<u>5,304,336</u>	<u>85,929</u>	<u>5,390,265</u>
Net change in fund balances	(1,672,383)	2,817	(1,669,566)
Fund balances - beginning of year	1,460,738	82,347	1,543,085
Prior period adjustment	318,464		318,464
Fund balances - end of year	<u>\$ 106,819</u>	<u>\$ 85,164</u>	<u>\$ 191,983</u>

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Net change in fund balances - total governmental funds: \$ (1,669,566)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay in the amount of \$479,096 was exceeded by depreciation in the amount of \$183,628 and a capital contribution to the Water & Sewer Fund in the amount of \$1,592,411 in the current period. (1,296,943)

Property tax revenues in the statement of activities that do not provide current financial resources are reported as unavailable revenue in the fund statements. (42,100)

Revenues for court fines and fees in the statement of activities do not provide current financial resources and are reported as unavailable revenue in the fund statements 4,520

Governmental funds report repayment of long-term debt as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of repayments made on long-term debt during the current year. 59,059

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

Increase in accrued compensated absences. (5,947)

Pension expense (93,493)

Pension contributions are recognized as expenditures when paid in the governmental funds but are recognized as reductions in net pension liability at the government wide level of reporting. 84,901

Change in net position of governmental activities \$ (2,959,569)

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS**STATEMENT OF NET POSITION****PROPRIETARY FUND***September 30, 2017***Assets****Current assets:**

Cash and temporary investments	\$ 1,026,701
Customer receivables (net of allowance for uncollectibles)	317,931
Restricted cash and temporary investments	423,588

Total current assets 1,768,220**Capital assets (net of depreciation):**

Land	61,776
Buildings	161,266
Infrastructure	12,184,835
Machinery and equipment	499,841

Total capital assets (net of depreciation) 12,907,718**Total Assets** 14,675,938**Deferred Outflows of Resources**

Deferred outflows - pension	<u>73,763</u>
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Liabilities**Current liabilities:**

Accounts payable and accrued expenses	\$ 443,018
Due to other funds	44,210
Accrued interest payable	8,310
Customer deposits	158,083
Compensated absences	15,685
Current portion of long-term debt payable	19,000
Current portion of capital leases payable	89,461

Total current liabilities 777,767**Non-current liabilities:**

Long term debt payable	919,500
Capital leases payable	155,570
Net pension liability	9,455

Total non-current liabilities (net of current portion) 1,084,525**Total Liabilities** 1,862,292**Deferred Inflows of Resources**

Deferred inflows - pension	<u>17,692</u>
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Total Deferred Inflows of Resources 17,692**Net Position:**

Net investment in capital assets	11,724,187
Restricted for debt service	257,195
Unrestricted	888,335

Total Net Position \$ 12,869,717

See notes to basic financial statements.

CITY OF HITCHCOCK, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2017

Operating Revenues	
Charges for services	<u>\$ 2,876,558</u>
Operating Expenses	
Personnel services	842,403
Contract Services	1,119,640
Supplies	181,269
Repair and maintenance	330,388
Depreciation	<u>907,680</u>
Total Operating Expenses	<u>3,381,380</u>
Operating income (loss)	<u>(504,822)</u>
Non-Operating Revenues (Expenses)	
Investment earnings	764
Interest expense and fiscal agent fees	<u>(48,800)</u>
Total Non-Operating Revenues (Expenses)	<u>(48,036)</u>
Income (loss) before contributions	(552,858)
Capital contributions	1,656,335
Change in net position	1,103,477
Total Net Position - beginning	<u>11,766,240</u>
Total Net Position - ending	<u><u>\$ 12,869,717</u></u>

See notes to basic financial statements.

CITY OF HITCHCOCK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2017

Cash flows from operating activities

Receipts from customers and users	\$ 2,846,452
Payments to suppliers	(1,676,534)
Payments to employees	(840,194)
Net cash provided (used) by operating activities	<u>329,724</u>

Cash flows from capital and related activities

HIDC water line contributions	85,055
Purchase of assets	(78,141)
Principal payments on debt	(18,000)
Payments on capital leases	(87,298)
Interest and fiscal agent fees paid	(48,717)
Net cash provided (used) by capital and related activities	<u>(147,101)</u>

Cash flows from investing activities

Interest earned on investments	764
Net cash provided by investing activities	<u>764</u>

Net increase (decrease) in cash and cash equivalents	183,387
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Cash and cash equivalents, beginning	<u>1,266,902</u>
Cash and cash equivalents, ending	<u>\$ 1,450,289</u>

Cash and cash equivalents per balance sheet

Unrestricted cash and temporary investments	\$ 1,026,701
Restricted	423,588
Cash and cash equivalents at end of year	<u>\$ 1,450,289</u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ (504,822)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	907,680
Changes in current assets and liabilities:	
(Increase) decrease in accounts receivable	(12,147)
(Increase) decrease in prepaid items	2,161
(Increase) decrease in deferred outflows - pensions	18,356
Increase (decrease) in deferred inflows - pensions	(16,464)
Increase (decrease) in accounts payable and accrued expenses	(49,501)
Increase (decrease) in unearned revenue	(36,277)
Increase (decrease) in customer deposits	18,318
Increase (decrease) in compensated absences	(2,903)
Increase (decrease) in net pension liability	3,220
Increase (decrease) in interfund payables	2,103
Total adjustments	<u>834,546</u>
Net cash provided (used) by operating activities	<u>\$ 329,724</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1 - Organization

The City of Hitchcock, Texas (the “City”) is a political subdivision of the State of Texas governed by an elected mayor and four member City Commission. The Mayor, as the official head of City government, resides at all meetings of Commission and signs all official documents.

The City provides the following services: public safety, public works, parks and recreation, water and sewer and general administrative services.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described as follows.

A. Reporting Entity

In conformity with GAAP, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

Hitchcock Industrial Development Corporation (the “Corporation”)

The mission of the Corporation is to provide economic development within the City and surrounding areas. The members of the Corporation are appointed by the City’s Commissioners. The Corporation’s budget requires the approval of the City’s Commissioners.

Reinvestment Zone Number One (the “TIRZ”)

The City designated approximately 850 acres of which at least 400 acres is designated wetlands, comprising the Harborwalk Development as a reinvestment zone in December 1999. A board of directors was established to make recommendations to the City Commission concerning administration of the TIRZ. A final project and financing plan was approved in February 2000. All project costs are to be advanced by the Developer, who will be reimbursed from proceeds of bonds issued by the City and payable from tax increments.

The component units identified above are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints the organizations' boards and is either able to impose its will on them or a financial benefit/burden exists.

Complete financial statements of the individual component units are not prepared.

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

The definition of the reporting entity is based primarily on the notion 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. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information about the City as a whole. These statements include all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

General property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred inflows of resources at year end. Property taxes collected within 60 days subsequent to September 30, 2017, have not been recorded as revenue as the amount is not considered material. Franchise taxes and Sales taxes relating to underlying transactions that occurred prior to September 30, 2017, have been recorded as receivables and revenue. Licenses, permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses, permits, fines and forfeitures. Expenditures are for general government, public safety, public works and other community services.

The City has one major proprietary fund:

The *Water and Sewer Operating Fund* is used to account for operations of the water and wastewater division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises - where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public, on a continuing basis, be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation) and other City funds.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operational expenses for the enterprise fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

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

The Government-wide Statement of Net Position classifies net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, laws, and regulations of other governments, constraints imposed by law through contractual provisions or enabling legislation.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

- Unrestricted net position - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

D. Cash Equivalents

The City’s cash equivalents presented in the statement of cash flows consist of cash on hand, and amounts in demand deposits.

E. Investments

Investments consist of Certificates of Deposit with original maturities greater than three months from the date of acquisition and balances in Treasury bond money market accounts. The City reports all investments at fair value. The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer fund have not been recognized as of the end of the year as they are considered immaterial.

G. Due to and from other funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivable and payables are, for the most part, eliminated from the Government-Wide Statement of Net Position and are recorded as “due from other funds” or “due to other funds” in the fund financial statements.

H. General property taxes

All taxes due to the City on real or personal property are payable at the Office of the County Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is October 1, or as soon thereafter as practical. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. All property located within the City limits on the first day of January of each year are charged with a special lien in favor of the City from such date for taxes due thereon.

I. Restricted assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

J. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain and equipment are capitalized and Proprietary Fund fixed assets are depreciated over the remaining useful lives of the related fixed assets using the straight line method, as applicable.

K. Compensated absences

Employees earn vacation based on years of service with the City and may accumulate unused time. Sick leave is accrued at the rate of eight hours per month of employment. In accordance with GAAP, the liability for accumulated vacation, as of September 30, 2017, has been recorded as a liability in the Government-Wide Statement of Net Position.

L. Fund equity

The City reports fund balances in the governmental funds to demonstrate the nature and extent of the constraints placed on a government's fund balances and describes the relative strength of the spending constraints as follows:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, retirement of fund indebtedness and other state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Unassigned fund balance – amounts that are available for any purpose.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

M. Revenues and expenditures/expenses

In the fund financial statements, revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally, tax revenues, fees and non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when the related liability is incurred.

Revenues and expenses in the Government-Wide Statement of Activities are recognized in essentially the same manner as used in commercial accounting.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

N. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.

O. Deferred outflows/inflows of resources

Deferred outflows and inflows of resources are reported in the statement of net position as described below:

A deferred outflow of resources is a consumption of a government's net assets (a decrease in assets excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The City has one item that qualifies for reporting in this category:

Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the differences between projected and actual earnings on pension plan investments. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related outflow will be amortized over a closed five year period.

A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for this category:

- Deferred inflows of resources for unavailable revenues – Reported in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences between expected and actual experience. These amounts will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with pension through the pension plan.

P. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents)

The City’s cash and temporary investments include demand accounts and certificates of deposits.

The City’s agent bank is required to pledge 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. At year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City’s name by the City’s agent in accordance with Texas Law.

Investments (Cash Equivalents)

State statutes authorize the City to invest in: 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S., the State of Texas or their agencies and instrumentalities; 4) 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; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; 7) a public funds investment pool meeting the requirements of Government Code 2256.016-2256.019; and, 8) commercial paper having received a rating of A1/P1 from a nationally recognized investment rating firm.

The Public Funds Investment Act (PFIA) governs the City’s investment policies and types of investment.

The City’s investments (cash equivalents) are in compliance with the authorized investments provided by the PFIA. It is the City’s policy to invest all excess funds only in certificates of deposit (time deposits).

The City’s deposits and investments (cash equivalents), including those of the component units, as of September 30, 2017 , are summarized below:

Certificates of deposits are carried at fair value using Level 1 Fair Value Measurement Inputs.

	Cash On Hand	Demand Deposits	Certificates of Deposit	Total
Primary government	\$ 1,090	\$ 1,655,563	\$ 1,059,130	\$ 2,715,783
Component units	-	1,823,505	93,195	1,916,700
	<u>\$ 1,090</u>	<u>\$ 3,479,068</u>	<u>\$ 1,152,325</u>	<u>\$ 4,632,483</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 4 - Restricted Assets

As of September 30, 2017, the City held restricted cash and temporary investments for the following purposes:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Restricted for:		
Customer deposits	\$ -	\$ 158,083
Debt service	-	265,505
Bond escrow deposits	302,500	-
	<u>\$ 302,500</u>	<u>\$ 423,588</u>

Note 5 - Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are payable on or before January 31. No penalties or interest shall be collected if payment in full is made by January 31. City property taxes are recognized as current receivables when levied; however, such amounts are reported as deferred inflows of resources, and not reported as revenues until collections are received. At year end, all property taxes receivable are classified as delinquent. Penalties and interest accrued at September 30 are also recognized as receivables.

Within these guidelines, the tax rate per \$100 of assessed valuation, for the year ended September 30, 2017, was 41.3202 cents based on an assessed property valuation of approximately of \$353.8 million resulting in a tax levy of approximately \$1.4 million, all of which was to finance general governmental services.

Note 6 - Receivables

Amounts recorded as receivables, as of September 30, 2017, for the government's individual major and nonmajor funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Wastewater</u>	<u>Component Units</u>
Receivables:			
Property taxes and penalties	\$ 511,852	\$ -	\$ -
Franchise taxes	19,549	-	-
Sales taxes	148,157	-	77,327
Court fines	205,857	-	-
Customer accounts	-	392,808	-
Gross receivables	<u>885,415</u>	<u>392,808</u>	<u>77,327</u>
Less: allowance for uncollectibles	(357,842)	(74,877)	
Net Total Receivables	<u>\$ 527,573</u>	<u>\$ 317,931</u>	<u>\$ 77,327</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets

A summary of activity for capital assets, for the year ended September 30, 2017, follows:

	<u>October 1, 2016</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>September 30, 2017</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 1,424,690	\$ -	\$ -	\$ 1,424,690
Construction in progress	1,512,790	79,620	(1,592,410)	-
Total capital assets not being depreciated	<u>2,937,480</u>	<u>79,620</u>	<u>(1,592,410)</u>	<u>1,424,690</u>
Capital assets being depreciated:				
Buildings and improvements	1,291,115	-	-	1,291,115
Machinery and equipment	2,293,770	399,475	-	2,693,245
Total capital assets being depreciated	<u>3,584,885</u>	<u>399,475</u>	<u>-</u>	<u>3,984,360</u>
Less accumulated depreciation for:				
Building and improvements	(779,029)	34,000	(68,000)	(813,029)
Machinery and equipment	(1,834,573)	149,628	(299,256)	(1,984,201)
Total accumulated depreciation	<u>(2,613,602)</u>	<u>183,628</u>	<u>(367,256)</u>	<u>(2,797,230)</u>
Total capital assets being depreciated, net	<u>971,283</u>	<u>583,103</u>	<u>(367,256)</u>	<u>1,187,130</u>
Governmental activities capital assets, net	<u>\$ 3,908,763</u>	<u>\$ 662,723</u>	<u>\$ (1,959,666)</u>	<u>\$ 2,611,820</u>
	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>Balance September 30, 2017</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 61,776	\$ -	\$ -	\$ 61,776
Total capital assets, not being depreciated	<u>61,776</u>	<u>-</u>	<u>-</u>	<u>61,776</u>
Capital assets being depreciated:				
Water/sewer system	25,912,200	1,592,414	-	27,504,614
Buildings and improvements	190,453	-	-	190,453
Machinery and equipment	1,851,501	78,141	-	1,929,642
Total capital assets being depreciated	<u>27,954,154</u>	<u>1,670,555</u>	<u>-</u>	<u>29,624,709</u>
Less accumulated depreciation for:				
Water/sewer system	(14,514,276)	(805,503)	-	(15,319,779)
Buildings and improvements	(20,970)	(8,217)	-	(29,187)
Machinery and equipment	(1,335,841)	(93,960)	-	(1,429,801)
Total accumulated depreciation	<u>(15,871,087)</u>	<u>(907,680)</u>	<u>-</u>	<u>(16,778,767)</u>
Total capital assets being depreciated, net	<u>12,083,067</u>	<u>762,875</u>	<u>-</u>	<u>12,845,942</u>
Business-type activities capital assets, net	<u>\$ 12,144,843</u>	<u>\$ 762,875</u>	<u>\$ -</u>	<u>\$ 12,907,718</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
General	\$ 9,315
Garage	15,847
Public safety	98,229
Public works	58,502
Culture and recreation	1,735
Total Governmental activities	<u>\$ 183,628</u>
Business-type activities:	
Water	\$ 183,761
Sewer	723,919
Total Business-type activities	<u>\$ 907,680</u>

Note 8 - Long-Term Debt

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. These instruments include certificates of obligation, capital leases, and tax increment bonds. Future ad valorem tax revenues, water and sewer system revenues or liens on property and equipment secure these debt obligations.

During the year ended September 30, 2017, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Capital leases	\$ 283,218	\$ -	\$ (59,059)	\$ 224,159	\$ 43,751
Compensated absences	42,917	97,935	(91,988)	48,864	48,864
Long-term liabilities	<u>\$ 326,135</u>	<u>\$ 97,935</u>	<u>\$ (151,047)</u>	<u>\$ 273,023</u>	<u>\$ 92,615</u>
Business-type Activities					
Certificates of obligation	\$ 956,500	\$ -	\$ (18,000)	\$ 938,500	\$ 19,000
Capital leases	332,329	-	(87,298)	245,031	89,461
Compensated absences	18,588	32,662	(35,565)	15,685	15,685
Long-term liabilities	<u>\$ 1,307,417</u>	<u>\$ 32,662</u>	<u>\$ (140,863)</u>	<u>\$ 1,199,216</u>	<u>\$ 124,146</u>
Component Units					
Tax increment bonds	<u>\$ 3,940,000</u>	<u>\$ 3,045,000</u>	<u>\$ (4,700,000)</u>	<u>\$ 2,285,000</u>	<u>\$ 750,000</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Annual debt service requirements to retire outstanding certificates of obligation are as follows:

Fiscal Year Ending September 30	Business-type Activities	
	Principal	Interest
2018	\$ 19,000	\$ 44,455
2019	20,000	43,648
2020	21,000	42,798
2021	22,000	41,905
2022	22,000	40,970
2023-2027	126,000	189,975
2028-2032	157,000	160,608
2033-2037	192,000	124,440
2038-2042	236,000	79,943
2043-2046	123,500	22,483
	<u>\$ 938,500</u>	<u>\$ 791,225</u>

The following is a summary of the terms of certificates of obligation outstanding as of September 30, 2017:

Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Certificates of Obligation				
2006 Tax and Revenue Certificates of Obligations	\$ 1,185,000	4.25%	2011-2050	<u>\$ 938,500</u>

Component Units

The City of Hitchcock Reinvestment Zone Number One issued Series 2017 refunding bonds on May 31, 2017. The proceeds are to refund the Series 2006 bonds. These bonds are payable from tax collections resulting from increases to the zone's tax base. The refunding resulted in net present value savings of \$182,142.

Fiscal Year Ending September 30	City of Hitchcock Tax Reinvestment Zone #1		
	Principal	Interest	Total
2018	\$ 750,000	\$ 38,388	\$ 788,388
2019	760,000	25,788	785,788
2020	775,000	13,020	788,020
	<u>\$ 2,285,000</u>	<u>\$ 77,196</u>	<u>\$ 2,362,196</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

The following is a summary of the Tax Increment Bonds outstanding as of September 30, 2017:

Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Tax Increment Bonds				
2017 Tax Increment Refunding Bonds	\$ 3,045,000	1.68%	2020	\$ 2,285,000
Total Component Units				\$ 2,285,000

Capital Leases

Governmental Activities

During fiscal year 2012, the City entered into capital lease agreements totaling \$394,795 for the purchase of equipment. In fiscal year 2015, the City entered into capital lease agreements in the amount of \$17,250 for copiers. Additional information on the leases is as follows:

Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Capital Leases				
Police radio equipment	\$ 394,795	3.420%	2022	\$ 215,176
Copiers	17,250	6.014%	2020	8,983
Total Governmental Activities				\$ 224,159

General fund revenues are used to retire these capital lease obligations.

The following presents capital lease payment requirements to maturity for the Governmental Activities:

Fiscal Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 43,751	\$ 7,802	\$ 51,553
2019	45,345	6,209	51,554
2020	44,630	4,587	49,217
2021	44,457	3,093	47,550
2022	45,976	1,572	47,548
	\$ 224,159	\$ 23,263	\$ 247,422

Business-type Activities

In fiscal year 2013, the City entered into capital lease agreements in the amount of \$508,717 for the purchase of water meters and \$66,376 for the purchase of a utility backhoe. In fiscal year 2015, the City entered into capital lease agreements in the amount of \$5,750 for copiers. Additional information on the leases is as follows:

Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Capital Leases				
Water meters	\$ 508,717	2.350%	2020	\$ 228,009
Backhoe	66,376	2.890%	2018	14,029
Copier	5,750	6.014%	2020	2,993
Total Business-type Activities				\$ 245,031

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

The following presents capital lease payment requirements to maturity for the Business-Type Activities:

Fiscal Year Ending September 30	Business-type Activities		
	Principal	Interest	Total
2018	\$ 89,461	\$ 5,904	\$ 95,365
2019	77,249	3,688	80,937
2020	78,321	1,836	80,157
	<u>\$ 245,031</u>	<u>\$ 11,428</u>	<u>\$ 256,459</u>

Note 9 - Interfund Receivables, Payables and Transfers

The composite of the interfund balances as of September 30, 2017, is as follows.

Fund	Due (to)/from
Utility Fund	\$ (44,210)
General Fund	44,210
Totals	<u>\$ -</u>

All interfund balances are expected to be repaid within one year.

Note 10 - Pension Plan

The City of Hitchcock participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Pension Plan (continued)

Benefits Provided (continued)

Plan provisions for the City were as follows:

Employee deposit rate	5.00%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	0%
Annuity Increase (to retirees)	0% of CPI

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

Employees covered by benefit terms

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

Number of:	
Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	49
Active employees	<u>52</u>
Total	<u><u>115</u></u>

Contributions

The contributions rate for employees in TMRS are either 5%, 6%, or 7% of the 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 liability.

Employees of the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.02% and 4.47% in calendar years 2016 and 2017 respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$113,759, and were equal to the required contributions.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.5% to 10.5%, including inflation
Investment rate of return	6.75%

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Pension Plan (continued)

Contributions (continued)

Salary increases were based on a service-related table. Monthly 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.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

The long-term expected rate of return on pension plan investments is 6.75%. 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) and 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. 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%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	<u>5.0%</u>	7.75%
Total	<u>100%</u>	

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Pension Plan (continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in the 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 period of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension (Asset) Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at 12/31/2015	\$ 3,420,795	\$ 3,396,890	\$ 23,904
Changes for the year:			
Service cost	205,211		205,211
Interest (on the Total Pension Liability)	233,888		233,888
Difference between expected and actual experience	2,434		2,434
Changes in assumptions	-		-
Contributions - employer		87,163	(87,163)
Contributions - employee		114,133	(114,133)
Net investment income		229,604	(229,604)
Benefit payments, including refunds of employee contributions	(116,794)	(116,794)	-
Administrative expense		(2,593)	2,593
Other		(140)	140
Balance at 12/31/2016	<u>\$ 3,745,534</u>	<u>\$ 3,708,263</u>	<u>\$ 37,270</u>

Sensitivity of the net pension liability to changes in the discount rate

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

<u>1% Decrease 5.75%</u>	<u>Current Single Rate Assumption 6.75%</u>	<u>1% Increase 7.75%</u>
\$521,473	\$37,271	(\$363,356)

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 10 - Pension Plan (continued)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the City recognized a pension expense of \$99,493 for the governmental activities and \$33,970 for the business-type activities.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference in expected and actual experience	\$ -	\$ 69,482
Difference in assumption changes	41,231	-
Difference in projected and actual earnings on pension plan investments.	155,341	-
Employer contributions made after the measurement date	<u>94,798</u>	<u>-</u>
Totals	<u>\$ 291,370</u>	<u>\$ 69,482</u>

The amount of \$94,798 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or addition to the net pension asset for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
<u> </u>	<u> </u>
2018	\$ 30,669
2019	49,799
2020	46,685
2021	<u>(63)</u>
Total	<u>\$ 127,090</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Risk Management

General Liability

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the City in the risk pool is limited to the payment of premiums. There has not been any significant reduction in insurance coverage in the past three years.

Workers' Compensation

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivision of the State of Texas. The company is not intended to operate as an insurance company but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third party administrator for administration, investigation and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

Note 12 - Amounts Due To Developer

In a prior year the City created Reinvestment Zone One (the "Zone"). The development and financing agreement between the City, the Zone and the developer provides that the developer will advance the funds to provide for construction costs that will be reimbursed from proceeds of bonds issued by the City and payable from tax increments, as provided in the agreement.

The property included in the Zone is adjacent to West Bay and the Highland Bayou Diversionary Canal. Originally, the only vehicular access to this waterfront land was via 2nd Street. Now, primary vehicular access to this waterfront property is via Harbor Drive from State Highway 6. The construction of a bridge over the Diversionary Canal and reconstruction of Basford Bayou Bridge are completed. The public improvement and associated cost are estimated at \$13.56 million, while the estimated appraised value is estimated by the Galveston Central Appraisal District to be \$71.9 million as of January 1, 2014. Since the Zone's creation in 1999, \$13.9 million in expenses have been paid or advanced to finance the development expenses, engineering cost, environmental studies, land surveys, bridge construction/repairs, regional lift station, road improvements and tax zone expenses.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)

Note 13 - Economic Development Agreements

The City and Hitchcock Industrial Development Corporation (“HIDC”) entered into an economic development agreement with a developer in May 2014. The agreement by the City and HIDC would provide funding to an entity involved, which will be utilized to defray a portion of the costs of infrastructure projects in the new developed area of the City. Under the terms of the agreement, the developer will be reimbursed as follows:

<u>Years</u>	<u>Amount</u>
Year 1 - Year 5	65% of the eligible 2% sales tax collected at the project
Year 6	62% of the eligible 2% sales tax collected at the project
Year 7	59% of the eligible 2% sales tax collected at the project
Year 8	56% of the eligible 2% sales tax collected at the project
Year 9	53% of the eligible 2% sales tax collected at the project
Year 10	50% of the eligible 2% sales tax collected at the project

If the project meets a minimum revenue amount and contributes \$6,500,000 to the City in the first ten years, the City will extend the agreement for five years and will reimburse the developer 50% of the eligible 2% sales tax collected during the life of the new agreement. Upon completion of year fifteen, if the City has collected \$4,000,000 during the term of the new agreement, the City will extend the agreement for another five years and reimburse the developer 35% of the eligible 2% sales tax collected during the life of the new agreement.

During the fiscal year ended September 30, 2017, the City and HIDC reimbursed the developer a total of \$165,449. In addition, the City agreed to give the developer a 50% property tax abatement for ten years on the project improvements that are subject to ad valorem taxation as well as all business personal property.

Note 14 – Prior Period Adjustment

During the current fiscal year, the City made a prior period adjustment to the General Fund and TIRZ #1 discretely presented component unit. The prior period adjustment reflects two years of over payment to TIRZ #1 for tax increment receipts.

A summary of the prior period adjustment is as follows:

	<u>General Fund Fund Balance</u>	<u>TIRZ #1 Fund Balance</u>
Beginning fund balance, as originally presented	\$ 1,460,738	\$ 2,816,209
Prior period adjustment:		
Overpayment by the City to TIRZ #1 for tax increment receipts	318,464	(318,464)
Beginning fund balance, as restated	<u>\$ 1,779,202</u>	<u>\$ 2,497,745</u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HITCHCOCK, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive / (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property taxes	\$ 1,221,473	\$ 1,221,473	\$ 1,219,149	\$ (2,324)
Sales, franchise and local taxes	1,541,154	1,541,154	1,137,622	(403,532)
Licenses and permits	519,250	519,250	397,733	(121,517)
Charges for services	136,000	136,000	425,909	289,909
Fines and forfeitures	284,500	284,500	279,152	(5,348)
Earnings on investments	9,000	9,000	9,283	283
Intergovernmental	151,214	151,214	139,539	(11,675)
Other	22,330	22,330	23,566	1,236
Total Revenues	<u>3,884,921</u>	<u>3,884,921</u>	<u>3,631,953</u>	<u>(252,968)</u>
Expenditures				
Current:				
General government	815,576	815,576	853,597	(38,021)
Public safety	2,432,833	2,432,833	2,855,014	(422,181)
Public works	1,180,703	1,180,703	1,103,386	77,317
Health, welfare and sanitation	48,000	48,000	321,896	(273,896)
Culture and recreation	104,200	104,200	101,516	2,684
Debt service:				
Principal retirement	-	-	68,927	(68,927)
Total Expenditures	<u>4,581,312</u>	<u>4,581,312</u>	<u>5,304,336</u>	<u>(723,024)</u>
 Net change in fund balance	 (696,391)	 (696,391)	 (1,672,383)	 (975,992)
Fund Balance (Budgetary Basis), Beginning of Year	 1,460,738	 1,460,738	 1,460,738	 -
Prior period adjustment	-	-	318,464	318,464
Fund Balance (Budgetary Basis), End of Year	<u>\$ 764,347</u>	<u>\$ 764,347</u>	<u>\$ 106,819</u>	<u>\$ (657,528)</u>

CITY OF HITCHCOCK, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION

Year Ended September 30, 2017

A. Legal Compliance - Budgets

Prior to October 1, the departments and agencies of the City transmit their estimates of their budgetary requirements to the Mayor. The Commission may revise, alter, increase or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall also increase the total anticipated income. At least ten days before the beginning of the fiscal year, the Commission approves the budget plan. One or more public hearings are conducted to obtain taxpayer comments. The budget is legally enacted prior to October 1.

B. Excess of Expenditures over Appropriations

At September 30, 2017, expenditures exceeded appropriations at the department level (the legal level of compliance) in the following departments/activities: (1) general government in the amount of \$38,021, (2) public safety in the amount of \$422,181, (3) health, welfare and sanitation in the amount of \$273,896, and (4) principal retirement in the amount of \$68,927.

CITY OF HITCHCOCK, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Changes in Net Pension Asset and Related Ratios
For the Last Three Plan Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 205,211	\$ 162,996	\$ 133,102
Interest	233,888	229,110	215,538
Difference between expected and actual experience	2,434	(184,715)	(8,473)
Change in assumptions	-	108,274	-
Benefit payments, including refunds of employee contributions	<u>(116,794)</u>	<u>(172,736)</u>	<u>(149,740)</u>
Net change in total pension liability	324,739	142,929	190,427
Total pension liability - beginning	<u>3,420,795</u>	<u>3,277,866</u>	<u>3,087,439</u>
Total pension liability - ending (a)	<u><u>\$ 3,745,534</u></u>	<u><u>\$ 3,420,795</u></u>	<u><u>\$ 3,277,866</u></u>
Plan fiduciary net position:			
Contributions - employer	\$ 87,163	\$ 82,579	\$ 69,866
Contributions - employee	114,133	98,309	86,042
Net investment income	229,604	4,998	183,055
Benefit payments, including refunds of employee contributions	(116,794)	(172,736)	(149,740)
Administrative expense	(2,593)	(3,044)	(1,911)
Other	<u>(141)</u>	<u>(151)</u>	<u>(157)</u>
Net change in plan fiduciary net position	311,372	9,955	187,155
Plan fiduciary net position - beginning	<u>3,396,891</u>	<u>3,386,936</u>	<u>3,199,781</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,708,263</u></u>	<u><u>\$ 3,396,891</u></u>	<u><u>\$ 3,386,936</u></u>
Net pension (asset) liability - ending (a) - (b)	<u><u>\$ 37,271</u></u>	<u><u>\$ 23,904</u></u>	<u><u>\$ (109,070)</u></u>
Plan fiduciary net position as a percentage of total pension liability	99.00%	99.30%	103.33%
Covered employee payroll	\$2,282,664	\$1,966,176	\$1,720,845
Net pension asset as a percentage of covered employee payroll	1.63%	1.22%	-6.34%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end.

Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68.

Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

CITY OF HITCHCOCK, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of City Contributions
For the Last Four Fiscal Years

	Fiscal Year			
	2017	2016	2015	2014
Actuarially Determined Contributions	\$ 113,759	\$ 92,303	\$ 75,141	\$ 56,263
Contributions in relation to the actuarially determined contribution	<u>113,759</u>	<u>92,303</u>	<u>75,141</u>	<u>56,263</u>
Contribution deficiency(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,174,840	\$ 2,174,840	\$ 1,802,750	\$ 1,703,174
Contributions as a percentage of Covered employee payroll	5.23%	4.24%	4.17%	3.30%

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

Methods and Assumptions Used to Determine Contribution Rates:

	Fiscal Year	Fiscal Year
	2016 and 2017	2015 and 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor	10 Year smoothed market; 15% soft corridor
Inflation	2.50%	3.00%
Salary Increases	3.50% to 10.00% including inflation	3.50% to 12.00% including inflation
Investment Rate of Return	6.75%	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation to an experience study for the period 2010-2014.	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation to an experience study for 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.	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:		
Notes:	There were no benefit changes during the year.	1) Granted 100% ad hoc USC with transfer 2) Granted 70% ad hoc COLA

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OTHER SUPPLEMENTARY INFORMATION

CITY OF HITCHCOCK, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2017

	<i>Special Revenue Funds</i>					Total NonMajor Governmental Funds
	Community Development Fund	Court Security and Technology Fund	Parks and Recreation	Donation Fund	Seizure Fund	
Assets						
Cash and cash equivalents	\$ -	\$ 67,356	\$ 5,273	\$ 8,261	\$ 4,274	\$ 85,164
Total Assets	<u>\$ -</u>	<u>\$ 67,356</u>	<u>\$ 5,273</u>	<u>\$ 8,261</u>	<u>\$ 4,274</u>	<u>\$ 85,164</u>
Fund Balance:						
Restricted:						
Public safety	\$ -	\$ 67,356	\$ -	\$ -	\$ 4,274	\$ 71,630
Culture and recreation	-	-	5,273	8,261	-	13,534
Total Fund Balance	<u>\$ -</u>	<u>\$ 67,356</u>	<u>\$ 5,273</u>	<u>\$ 8,261</u>	<u>\$ 4,274</u>	<u>\$ 85,164</u>

CITY OF HITCHCOCK, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	<i>Special Revenue Funds</i>					Total NonMajor Governmental Funds
	Community Development Fund	Court Security and Technology Fund	Parks and Recreation	Donation Fund	Seizure Fund	
Revenues						
Fines and forfeitures	\$ -	\$ 9,125	\$ -	\$ -	\$ -	\$ 9,125
Intergovernmental	79,621	-	-	-	-	79,621
Total Revenues	<u>79,621</u>	<u>9,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,746</u>
Expenditures						
Current:						
Public safety	-	2,265	-	4,043	-	6,308
Public works	79,621	-	-	-	-	79,621
Total Expenditures	<u>79,621</u>	<u>2,265</u>	<u>-</u>	<u>4,043</u>	<u>-</u>	<u>85,929</u>
Revenues Over (Under)						
Expenditures	-	6,860	-	(4,043)	-	2,817
Fund Balances,						
Beginning of Year	<u>-</u>	<u>60,496</u>	<u>5,273</u>	<u>12,304</u>	<u>4,274</u>	<u>82,347</u>
Fund Balances,						
End of Year	<u>\$ -</u>	<u>\$ 67,356</u>	<u>\$ 5,273</u>	<u>\$ 8,261</u>	<u>\$ 4,274</u>	<u>\$ 85,164</u>

CITY OF HITCHCOCK, TEXAS
COMBINING BALANCE SHEET
COMPONENT UNITS - GOVERNMENTAL FUNDS
September 30, 2017

	<u>HIDC</u>	<u>TIRZ #1</u>	<u>Total Component Units</u>
ASSETS			
Current assets:			
Cash and temporary investments	\$ 415,707	\$ 1,500,993	\$ 1,916,700
Due from others	77,327	-	77,327
Total Assets	<u>\$ 493,034</u>	<u>\$ 1,500,993</u>	<u>\$ 1,994,027</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 1,802	\$ -	\$ 1,802
Total Liabilities	<u>1,802</u>	<u>-</u>	<u>1,802</u>
Fund Balance:			
Unassigned	491,232	1,500,993	1,992,225
Total Fund Balance	<u>491,232</u>	<u>1,500,993</u>	<u>1,992,225</u>
Total Liabilities and Fund Balances	<u>\$ 493,034</u>	<u>\$ 1,500,993</u>	<u>\$ 1,994,027</u>
Reconciliation from Fund Balance to Net Position			
Fund Balance	\$ 491,232	\$ 1,500,993	\$ 1,992,225
Less tax increment bonds payable	-	(2,285,000)	(2,285,000)
Additional accrued interest payable	-	(13,009)	(13,009)
Net Position	<u>\$ 491,232</u>	<u>\$ (797,016)</u>	<u>\$ (305,784)</u>

CITY OF HITCHCOCK, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
COMPONENT UNITS - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2017

	HIDC	TIRZ #1	Total Component Units
REVENUES			
Property taxes	\$ -	\$ 913,350	\$ 913,350
Sales tax	279,021	-	279,021
Earnings on investments	1,956	8,207	10,163
Other	220,313	-	220,313
Total Revenues	<u>501,290</u>	<u>921,557</u>	<u>1,422,847</u>
EXPENDITURES			
Current:			
Economic Development	651,803	-	651,803
Debt service:			
Principal retirement	-	4,700,000	4,700,000
Interest and fees	-	174,907	174,907
Bond issuance costs	-	88,402	88,402
Total Expenditures	<u>651,803</u>	<u>4,963,309</u>	<u>5,615,112</u>
Revenues Over (Under) Expenditures	<u>(150,513)</u>	<u>(4,041,752)</u>	<u>(4,192,265)</u>
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	-	3,045,000	3,045,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,045,000</u>	<u>3,045,000</u>
Revenues and Other Financing Sources Over (Under)			
Expenditures	(150,513)	(996,752)	(1,147,265)
Fund Balances - Beginning of Year	641,745	2,816,209	3,457,954
Prior period adjustment	-	(318,464)	(318,464)
Fund Balances - End of Year	<u>\$ 491,232</u>	<u>\$ 1,500,993</u>	<u>\$ 1,992,225</u>
Reconciliation from changes in fund balance to changes in net position			
Change in Fund Balance	\$ (150,513)	\$ (996,752)	\$ (1,147,265)
Add bond principal retirement	-	4,700,000	4,700,000
Less proceeds from issuance of refunding bonds	-	(3,045,000)	(3,045,000)
Change in accrued interest payable	-	26,300	26,300
Changes in Net Position	<u>\$ (150,513)</u>	<u>\$ 684,548</u>	<u>\$ 534,035</u>