

CITY OF HITCHCOCK, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2015

CITY OF HITCHCOCK, TEXAS
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Anthony Matranga, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 and Note 15 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No.68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as of September 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 7 through 14, budgetary comparison information on pages 54 through 55, and pension information on pages 56 through 57 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 and individual nonmajor fund financial statements are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated May 20, 2016, on our consideration of the City's internal control over financial reporting 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, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Texas City, Texas
May 20, 2016

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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, 2015.

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 \$17.8 million (net position). Of this amount, \$14.4 million is net investment in capital assets, \$0.5 million is restricted, leaving \$2.9 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 \$2.31 million, an increase of \$199 thousand 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.

The City maintains seven individual governmental funds. 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 fund, debt service fund, and the Community Development Block Grant fund, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 20 through 23 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 utility 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 Operating 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 29 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 30 through 52 of this report.

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

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 54 through 57 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 62 through 67 of this report.

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 \$17.8 million.

By far the largest portion of the City's net position of \$14.4 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

Table A-1

Net Position (in thousands)

September 30, 2015

With Comparative Totals for September 30, 2014

	2015			2014		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Current assets	\$ 4,590	\$ 1,364	\$ 5,954	\$ 4,648	\$ 1,674	\$ 6,322
Capital assets	8,791	8,331	17,122	5,455	8,756	14,211
Total Assets	13,381	9,695	23,076	10,103	10,430	20,533
Deferred outflows of resources	66	25	91	-	-	-
Total Deferred Outflows of Resources	66	25	91	-	-	-
Current liabilities	1,870	727	2,597	2,214	587	2,801
Long-term liabilities	375	2,438	2,813	497	2,719	3,216
Total Liabilities	2,245	3,165	5,410	2,711	3,306	6,017
Deferred Inflows of Resources	4	2	6	-	-	-
Total Deferred Inflows of Resources	4	2	6	-	-	-
Net position						
Net investment in capital assets	8,451	5,916	14,367	4,987	6,059	11,046
Restricted	63	391	454	56	400	456
Unrestricted	2,685	246	2,931	2,349	665	3,014
Total Net Position	\$ 11,199	\$ 6,553	\$ 17,752	\$ 7,392	\$ 7,124	\$ 14,516

An additional portion of the City's net position, \$0.5 million, represents resources that are subject to external restrictions on how they may be used. The amount of unrestricted net position is \$2.9 million.

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

The government's net position increased by \$3.1 million during the current fiscal year. The following table summarizes the changes in net position for the City for the year ended September 30, 2015:

CITY OF HITCHCOCK, TEXAS *Table A-2*
Changes in Net Position (in thousands)
For the Fiscal Year Ended September 30, 2015
With Comparative Totals for September 30, 2014

	2015			2014		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues						
Program Revenues:						
Charges for services	\$ 1,241	\$ 2,438	\$ 3,679	\$ 1,154	\$ 2,279	\$ 3,433
Operating grants and contributions	3,846	171	4,017	2,549	64	2,613
Capital grants and contributions	-	-	-	-	2,162	-
General revenues:						
Property taxes	1,053	-	1,053	1,037	-	1,037
Sales taxes	388	-	388	315	-	315
Franchise fees	1,903	-	1,903	1,164	-	1,164
Other	53	1	54	61	1	62
Total Revenues	8,484	2,610	11,094	6,280	4,506	10,786
Expenses						
General government	1,462	-	1,462	951	-	951
Public safety	1,777	-	1,777	1,671	-	1,671
Public works	1,152	-	1,152	2,871	-	2,871
Health, welfare and sanitation	307	-	307	42	-	42
Culture and recreation	100	-	100	97	-	97
Water	-	1,741	1,741	-	1,747	1,747
Sewer	-	1,485	1,485	-	1,423	1,423
Total Expenses	4,798	3,226	8,024	5,632	3,170	8,802
Transfer in (out)				(94)	94	
Change in net position	3,686	(616)	3,070	554	1,430	1,984
Beginning Net Position	7,392	7,124	14,516	6,838	5,694	12,532
Prior period adjustment	121	45	166	-	-	-
Ending Net Position	\$ 11,199	\$ 6,553	\$ 17,752	\$ 7,392	\$ 7,124	\$ 14,516

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

Governmental activities. Governmental activities increased the City's net position by \$3.69 million. A comparison of program expenses to program revenues and revenues by source for governmental activities follows:

CITY OF HITCHCOCK, TEXAS

Table A-3

Expenses, Program Revenues and Net Cost of Services - Governmental Activities (in thousands)
For the Fiscal Year Ended September 30, 2015
With Comparative Totals for September 30, 2014

Program	2015			2014		
	Expenses	Program Revenues	Net (Cost) of Services	Expenses	Program Revenues	Net (Cost) of Services
General government	\$ 1,462	\$ -	\$ (1,462)	\$ 951	\$ -	\$ (951)
Public safety	1,777	478	(1,299)	1,671	673	(998)
Public works	1,152	4,272	3,120	2,871	2,997	126
Health, welfare and sanitation	307	337	30	42	33	(9)
Culture and recreation	100	-	(100)	97	-	(97)
	<u>\$ 4,798</u>	<u>\$ 5,087</u>	<u>\$ 289</u>	<u>\$ 5,632</u>	<u>\$ 3,703</u>	<u>\$ (1,929)</u>

Revenue sources for governmental activities were distributed as follows:

CITY OF HITCHCOCK, TEXAS

Table A-4

Revenues by Source - Governmental Activities (in thousands)
For the Fiscal Year Ended September 30, 2015
With Comparative Totals for September 30, 2014

	2015		2014	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 1,241	16%	\$ 1,154	18%
Operating grants and contributions	3,846	45%	2,549	41%
Property taxes	1,053	12%	1,037	17%
Franchise fees	388	5%	315	5%
Sales tax	1,903	22%	1,164	18%
Other taxes	53	1%	61	1%
	<u>\$ 8,484</u>	<u>101%</u>	<u>\$ 6,280</u>	<u>100%</u>

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

Business-type activities. The net position of the City's business-type activities decreased by approximately \$0.6 million. A comparison between expenses relating to water and sewer operations and program revenues (charges for services and operating grants) follows.

CITY OF HITCHCOCK, TEXAS *Table A-5*
Expenses, Program Revenues, and Net Cost of Services - Business Type Activities (in thousands)
For the Fiscal Year Ended September 30, 2015
With Comparative Totals for September 30, 2014

Program	2015		2014	
	Expenses	Program Revenues	Net (Cost) of Services	Net (Cost) of Services
Water	\$ 1,741	\$ 1,494	\$ (247)	\$ 842
Sewer	1,485	1,116	(369)	493
Total	\$ 3,226	\$ 2,610	\$ (616)	\$ 1,335

Revenue sources for business-type activities were distributed as follows:

CITY OF HITCHCOCK, TEXAS *Table A-6*
Revenues by Source- Business Type Activities (in thousands)
For the Fiscal Year Ended September 30, 2015
With Comparative Totals for September 30, 2014

	2015		2014	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 2,438	93%	\$ 2,279	51%
Operating grants and contributions	171	7%	64	1%
Capital grants and contributions	-	0%	2,162	48%
Other revenue	1	0%	1	0%
Total	\$ 2,610	100%	\$ 4,506	100%

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 \$2.31 million.

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 \$2.23 million. This is approximately \$191 thousand more than September 30, 2014.

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

The Community Development Block Grant Fund (“CDBG”) is used to account for funds associated with the CDBG disaster recovery program. Since this is a reimbursement based grant, revenues equal expenditures, thus no fund balance was reported at year end.

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 \$246 thousand or 8% of annual operating and non-operating expenses for the fund.

General Fund Budgetary Highlights

The City did not amend the general fund budget during the fiscal year.

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, 2015, amounted to \$17.1 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. The total decrease in the City’s investment in capital assets for the current fiscal year was \$2.9 thousand.

A summary of capital assets, as of September 30, 2015, is as follows:

CITY OF HITCHCOCK, TEXAS

Table A-7

Capital Assets, net of depreciation where applicable (in thousands)

September 30, 2015

With Comparative Totals for September 30, 2014

	2015			2014		
	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	6,270	20	6,290	2,809	-	2,809
Infrastructure	-	7,442	7,442	-	7,821	7,821
Buildings	546	116	662	581	122	703
Equipment and furniture	551	691	1,242	641	752	1,393
	<u>\$ 8,792</u>	<u>\$ 8,331</u>	<u>\$ 17,123</u>	<u>\$ 5,456</u>	<u>\$ 8,757</u>	<u>\$ 14,213</u>

Additional information on the City’s capital assets can be found in Note 7 of the basic financial statements of this report.

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

Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$1.95 million which represents revenue bonds secured solely by specified revenue sources.

CITY OF HITCHCOCK, TEXAS
Outstanding Debt (in thousands)
September 30, 2015
With Comparative Totals for September 30, 2014

Table A-8

	2015			2014		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Certificates of obligation	\$ -	\$ 974	\$ 974	\$ -	\$ 1,098	\$ 1,098
Contract revenue bonds	-	972	972	-	1,046	1,046
Capital lease obligations	340	418	758	468	495	963
	<u>\$ 340</u>	<u>\$ 2,363</u>	<u>\$ 2,704</u>	<u>\$ 468</u>	<u>\$ 2,639</u>	<u>\$ 3,107</u>

The City's total debt decreased by approximately \$403 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.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the County in which the City is located is currently 4.9 percent, which is an increase of .2 percent from a year ago. This is higher than the State's unemployment rate of 4.5 percent and comparable to the nation's average unemployment rate of 4.9 percent.

The City approved a general fund budget of 3.86 million for the fiscal year 2015 - 2016, which is an increase of 11.7% over the current year. The tax rate of \$.413202 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.

BASIC FINANCIAL STATEMENTS

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	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
Assets				
Current Assets:				
Cash and temporary investments	\$ 2,514,880	\$ 497,998	\$ 3,012,878	\$ 2,041,638
Receivables	1,586,459	344,613	1,931,072	95,138
Internal balances	51,665	(51,665)	-	-
Prepaid items	5,096	2,230	7,326	-
Non-current Assets:				
Net pension asset	79,484	29,586	109,070	-
Restricted Assets:				
Cash and temporary investments	352,500	541,702	894,202	859,851
Total Current Assets	<u>4,590,084</u>	<u>1,364,464</u>	<u>5,954,548</u>	<u>2,996,627</u>
Capital Assets:				
Land	1,424,690	61,776	1,486,466	-
Construction in progress	6,269,809	19,643	6,289,452	-
Capital assets, net of depreciation/amortization:				
Infrastructure	-	7,442,144	7,442,144	-
Buildings	546,086	116,270	662,356	-
Furniture, equipment and vehicles	550,807	690,732	1,241,539	-
Total Capital Assets	<u>8,791,392</u>	<u>8,330,565</u>	<u>17,121,957</u>	<u>-</u>
Total Assets	<u>13,381,476</u>	<u>9,695,029</u>	<u>23,076,505</u>	<u>2,996,627</u>
Deferred Outflows of Resources:				
Deferred outflows - pension	66,473	24,744	91,217	-
Total Deferred Outflows of Resources	<u>66,473</u>	<u>24,744</u>	<u>91,217</u>	<u>-</u>
Liabilities				
Accounts payable and other current liabilities	1,869,653	685,983	2,555,636	32,213
Due to other governmental agencies	-	5,020	5,020	-
Unearned revenue	-	36,277	36,277	-
Long-term liabilities:				
Due within one year:				
Bonds, capital leases and contracts	56,955	178,484	235,439	525,000
Accrued interest	-	11,410	11,410	77,050
Compensated absences	35,090	11,979	47,069	-
Due in more than one year:				
Bonds, capital leases and contracts	283,218	2,236,534	2,519,752	3,940,000
Total Liabilities	<u>2,244,916</u>	<u>3,165,687</u>	<u>5,410,603</u>	<u>4,574,263</u>
Deferred Inflows of Resources:				
Deferred inflows - pension	4,337	1,614	5,951	-
Total Deferred Inflows of Resources	<u>4,337</u>	<u>1,614</u>	<u>5,951</u>	<u>-</u>
Net Position				
Net investment in capital assets	8,451,219	5,915,547	14,366,766	-
Restricted for:				
Debt service	-	390,527	390,527	-
Public Safety	62,559	-	62,559	-
Grants	-	-	-	-
Unrestricted	2,684,918	246,398	2,931,316	(1,577,636)
Total Net Position	<u>\$ 11,198,696</u>	<u>\$ 6,552,472</u>	<u>\$ 17,751,168</u>	<u>\$ (1,577,636)</u>

See Notes to Basic Financial Statements

CITY OF HITCHCOCK, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 1,462,482	\$ -	\$ -	\$ -
Public safety	1,777,426	475,850	2,350	-
Public works	1,152,050	428,586	3,843,227	-
Health, welfare and sanitation	307,205	336,683	-	-
Culture and recreation	99,562	-	-	-
Total Governmental Activities	4,798,725	1,241,119	3,845,577	-
Business-type Activities:				
Water	1,741,415	1,322,730	171,424	-
Sewer	1,485,806	1,115,558	-	-
Total Business-type Activities	3,227,221	2,438,288	171,424	-
Total Primary Government	\$ 8,025,946	\$ 3,679,407	\$ 4,017,001	\$ -
Component Units				
Hitchcock Industrial Development Corporation	\$ 566,599	\$ -	\$ -	\$ -
Reinvestment Zone Number One	246,310	-	-	-
Total component units	\$ 812,909	\$ -	\$ -	\$ -

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, Reinvestment Zone Number One

Franchise taxes

Public service taxes

Unrestricted investment earnings

Miscellaneous

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
\$ (1,462,482)	\$ -	\$ (1,462,482)	
(1,299,226)	-	(1,299,226)	
3,119,763	-	3,119,763	
29,478	-	29,478	
(99,562)	-	(99,562)	
<u>287,971</u>	<u>-</u>	<u>287,971</u>	
-	(247,261)	(247,261)	
-	(370,248)	(370,248)	
-	(617,509)	(617,509)	
<u>287,971</u>	<u>(617,509)</u>	<u>(329,538)</u>	
			\$ (566,599)
-	-	-	<u>(246,310)</u>
-	-	-	<u>(812,909)</u>
1,053,413	-	1,053,413	-
-	-	-	829,245
388,391	-	388,391	-
1,902,565	-	1,902,565	635,028
12,202	700	12,902	4,880
41,157	-	41,157	-
<u>3,397,728</u>	<u>700</u>	<u>3,398,428</u>	<u>1,469,153</u>
3,685,699	(616,809)	3,068,890	656,244
7,392,361	7,124,376	14,516,737	(2,233,880)
120,636	44,905	165,541	-
<u>\$ 11,198,696</u>	<u>\$ 6,552,472</u>	<u>\$ 17,751,168</u>	<u>\$ (1,577,636)</u>

CITY OF HITCHCOCK, TEXAS

Exhibit B-1

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current assets:				
Cash and temporary investments	\$ 2,437,875	\$ -	\$ 77,005	\$ 2,514,880
Due from other funds	51,665	-	-	51,665
Accounts receivable, less allowance for doubtful accounts:				
Property taxes	325,943	-	-	325,943
Due from others	332,929	927,587	-	1,260,516
Prepaid Items	5,096	-	-	5,096
Restricted Assets:				
Cash and temporary investments	352,500	-	-	352,500
Total Assets	<u>\$ 3,506,008</u>	<u>\$ 927,587</u>	<u>\$ 77,005</u>	<u>\$ 4,510,600</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	\$ 347,251	\$ 927,587	\$ -	\$ 1,274,838
Other liabilities	242,317	-	-	242,317
Payable from restricted assets:				
Refundable deposits and bonds	352,500	-	-	352,500
Total Liabilities	<u>942,068</u>	<u>927,587</u>	<u>-</u>	<u>1,869,655</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	314,564	-	-	314,564
Unavailable revenue - court fines and fees	16,065	-	-	16,065
	<u>330,629</u>	<u>-</u>	<u>-</u>	<u>330,629</u>
Fund Balance:				
Non-spendable:				
Prepaid items	5,096	-	-	5,096
Restricted:				
Culture and recreation	-	-	14,446	14,446
Public safety	-	-	62,559	62,559
Unassigned	2,228,215	-	-	2,228,215
Total Fund Balance	<u>2,233,311</u>	<u>-</u>	<u>77,005</u>	<u>2,310,316</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,506,008</u>	<u>\$ 927,587</u>	<u>\$ 77,005</u>	<u>\$ 4,510,600</u>

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

Exhibit B-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET POSITION

September 30, 2015

Total fund balance, governmental funds \$ 2,310,316

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. 8,791,392

Net pension asset 79,484

Deferred outflows for pension related activities 66,473

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 314,564

Court fines and fees 16,066

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 (340,173)

Compensated absences (35,090)

Deferred inflows for pension related activities (4,337)

Net position of governmental activities in the statement of net position \$ 11,198,695

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

Exhibit B-3

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 1,062,278	\$ -	\$ -	\$ 1,062,278
Sales, franchise and local taxes	2,290,956	-	-	2,290,956
Licenses and permits	428,586	-	-	428,586
Charges for services	452,238	-	-	452,238
Fines and forfeitures	274,980	-	8,650	283,630
Earnings on investments	12,202	-	-	12,202
Intergovernmental	76,538	3,843,227	-	3,919,765
Other	25,219	-	2,350	27,569
Total Revenues	<u>4,622,997</u>	<u>3,843,227</u>	<u>11,000</u>	<u>8,477,224</u>
Expenditures				
Current:				
General government	1,434,137	-	-	1,434,137
Public safety	1,597,264	-	2,310	1,599,574
Public works	685,626	382,769	-	1,068,395
Health, welfare and sanitation	307,205	-	-	307,205
Culture and recreation	99,562	-	-	99,562
Capital outlay	164,360	3,460,458	-	3,624,818
Debt service:				
Principal retirement	145,676	-	-	145,676
Interest and fees	15,727	-	-	15,727
Total Expenditures	<u>4,449,557</u>	<u>3,843,227</u>	<u>2,310</u>	<u>8,295,094</u>
Excess (deficiency) of revenues over expenditures	173,440	-	8,690	182,130
Other Financing Sources (Uses)				
Proceeds from capital lease	17,250	-	-	17,250
Operating transfers in	100	-	-	100
Operating transfers out	-	(100)	-	(100)
Total Other Financing Sources (Uses)	<u>17,350</u>	<u>(100)</u>	<u>-</u>	<u>17,250</u>
Net change in fund balances	190,790	(100)	8,690	199,380
Fund balances - beginning of year	<u>2,042,521</u>	<u>100</u>	<u>68,315</u>	<u>2,110,936</u>
Fund balances - end of year	<u>\$ 2,233,311</u>	<u>\$ -</u>	<u>\$ 77,005</u>	<u>\$ 2,310,316</u>

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

Exhibit B-4

**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, 2015**

Net change in fund balances - total governmental funds: \$ 199,380

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 \$3,624,818 exceeded depreciation in the amount of \$288,733 in the current period. 3,336,085

Property tax revenues in the statement of activities that do not provide current financial resources are reported as unavailable revenue in the fund statements. (8,865)

Proceeds from capital leases are reported as other sources in the fund statements and are reported as a liability in the statement of activities. (17,250)

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 16,065

Pension expense (33,774)

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. 145,097

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. (5,797)

Pension contributions made after the pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position 54,758

Change in net position of governmental activities \$ 3,685,699

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2015

	<u>2015</u>
Assets	
Current assets:	
Cash and temporary investments	\$ 497,996
Customer receivables (net of allowance for uncollectibles)	344,613
Prepaid items	<u>2,230</u>
Total current assets	<u>844,839</u>
Non-current assets:	
Restricted cash and temporary investments	541,702
Net pension asset	<u>29,586</u>
Total non-current assets	<u>571,288</u>
Capital assets (net of depreciation):	
Land	61,776
Construction in progress	19,643
Buildings	116,270
Infrastructure	7,442,144
Machinery and equipment	<u>690,732</u>
Total capital assets (net of depreciation)	<u>8,330,565</u>
Total Assets	<u>9,746,692</u>
Deferred Outflows of Resources	
Deferred outflows - pension	<u>24,744</u>
Total Deferred Outflows of Resources	<u>24,744</u>

	<u>2015</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	\$ 546,140
Unearned revenues	36,277
Due to other funds	<u>56,763</u>
Total current liabilities	<u>639,180</u>
Current liabilities (payable from restricted assets):	
Customer deposits	139,765
Current portion of long-term debt payable	190,463
Current portion of capital leases payable	46,099
Accrued interest payable	11,410
Compensated absences	<u>11,979</u>
Total current liabilities (payable from restricted assets)	<u>399,716</u>
Non-current liabilities:	
Long term debt payable	1,807,033
Capital leases payable	<u>371,423</u>
Total non-current liabilities (net of current portion)	<u>2,178,456</u>
Total Liabilities	<u>3,217,352</u>
Deferred Inflows of Resources	
Deferred inflows - pension	<u>1,614</u>
Total Deferred Inflows of Resources	<u>1,614</u>
Net Position:	
Net investment in capital assets	5,915,547
Restricted for debt service	390,527
Unrestricted	<u>246,396</u>
Total Net Position	<u>\$ 6,552,470</u>

See notes to basic financial statements.

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CITY OF HITCHCOCK, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
PROPRIETARY FUND
Year Ended September 30, 2015

Exhibit C-2

	<u>2015</u>
Operating Revenues	
Charges for services	\$ 2,438,288
Operating Expenses	
Personnel services	641,100
Contract Services	1,220,437
Supplies	160,161
Repair and maintenance	267,746
Depreciation	880,590
Total Operating Expenses	<u>3,170,034</u>
Operating income (loss)	<u>(731,746)</u>
Non-Operating Revenues (Expenses)	
Investment earnings	700
Interest expense and fiscal agent fees	<u>(57,187)</u>
Total Non-Operating Revenues (Expenses)	<u>(56,487)</u>
Income (loss) before contributions	(788,233)
Capital contributions	171,424
Change in net position	<u>(616,809)</u>
Total Net Position - beginning	7,124,374
Prior period adjustment	44,905
Total Net Position - ending	<u>\$ 6,552,470</u>

See notes to basic financial statements.

CITY OF HITCHCOCK, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended September 30, 2015

	<u>2015</u>
Cash flows from operating activities	
Receipts from customers and users	\$ 2,321,513
Payments to suppliers	(1,499,922)
Payments to employees	(660,809)
Net cash provided (used) by operating activities	<u>160,782</u>
Cash flows from capital and related activities	
Proceeds from capital leases	5,750
Capital contributions	171,424
Purchase of assets	(455,224)
Principal payments on debt	(197,765)
Payments on capital leases	(82,731)
Interest and fiscal agent fees paid	(50,936)
Net cash provided (used) by capital and related activities	<u>(609,482)</u>
Interest earned on investments	700
Net cash provided by investing activities	<u>700</u>
Net increase (decrease) in cash and cash equivalents	(448,000)
Cash and cash equivalents, beginning	<u>1,487,698</u>
Cash and cash equivalents, ending	<u>\$ 1,039,698</u>
Cash and temporary investments per balance sheet	
Unrestricted	\$ 497,996
Restricted	541,702
Cash and cash equivalents at end of year	<u>\$ 1,039,698</u>

	<u>2015</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (731,746)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	880,590
Changes in current assets and liabilities:	
(Increase) decrease in accounts receivable	(122,345)
(Increase) decrease in prepaid items	151
(Increase) decrease in net pension asset	888
(Increase) decrease in deferred outflows - pensions	(24,744)
Increase (decrease) in deferred inflows - pensions	1,614
Increase (decrease) in accounts payable and accrued expenses	129,542
Increase (decrease) in customer deposits	5,570
Increase (decrease) in compensated absences	2,533
Increase (decrease) in interfund payables	18,729
Total adjustments	<u>892,528</u>
Net cash provided (used) by operating activities	<u>\$ 160,782</u>

See 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 Council 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.

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, 2015, 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, 2015, 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.

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 *Community Development Block Grant ("CDBG") Fund* is used to account for a federal disaster recovery grant from the United States Department of Housing and Urban Development. The CDGB Fund is used for water and sewer improvements necessary as a result of Hurricane Ike.

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.

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

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the reclassification of 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 asset use through external constraints imposed by creditors, grantors, contributors, laws, regulations of other governments, constraints imposed by law through contractual provisions or enabling legislation.

Note 2 - Summary of Significant Accounting Policies (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 and temporary investments (Cash Equivalents)

The City’s cash and temporary investments consist of cash on hand, amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City.

E. 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.

F. 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.

G. 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 estimated fair 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.

<u>Asset</u>	<u>Estimated Useful Life</u>
Building	40 years
Improvements	20-40 years
Water and sewer system	33 years
Heavy Equipment	10 years
Automobiles, trucks and equipment	5 years

H. 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, 2015, has been recorded as a liability in the Government-Wide Statement of Net Position.

Note 2 - Summary of Significant Accounting Policies (continued)

I. 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.

J. 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.

K. Fund equity

The City reports fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority.

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

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

L. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position for net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

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.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

O. Deferred outflows/inflows of resources (continued)

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

The City reports a net pension asset and related deferred inflows and deferred outflows of resources in accordance with Governmental Accounting Standards Board Statement (“GASB”) No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Changes in the net pension asset or liability from year to year will be recognized either as a reduction of pension expense or a pension expense, on the government wide Statement of Activities and the proprietary fund Statement of Activities, or reported as a deferred inflow or outflow of resources on the government wide Statement of Net Position and the proprietary funds Statement of Net Position, depending on the nature of the change. Transactions giving rise to deferred inflows and outflows of resources are not entirely recognized in the Statement of Activities in the period in which they arise, but are instead amortized over multiple years.

Q. Implementation of New Accounting Standards

In the current fiscal year, the City implemented the following new accounting standards:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting standards for pension that are provided to the employees through the state and local government employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, amends the transition provisions of GASB Statement No. 68. GASB Statement No. 71 requires that at transition, a government must recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

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, 2015 , are summarized below.

	Cash Equivalents	Certificates of Deposit	US Treasury Money Market	Total
Primary government	\$ 2,801,335	\$ 1,105,745	\$ -	\$ 3,907,080
Component units	869,746	91,634	1,940,109	2,901,489
	<u>\$ 3,671,081</u>	<u>\$ 1,197,379</u>	<u>\$ 1,940,109</u>	<u>\$ 6,808,569</u>

“Custodial Credit Risk” is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. At September 30, 2015, the carrying values of the City’s deposits totaled \$5,609,741 and the related bank balances totaled \$3,697,849, all of which was fully insured and collateralized.

Note 4 - Restricted Assets

As of September 30, 2015, the City held restricted cash and temporary investments for the following purposes:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Component Units</u>
Restricted for:			
Customer deposits	\$ -	\$ 139,765	\$ -
Debt service	-	401,937	859,851
Bond escrow deposits	352,500	-	-
	<u>\$ 352,500</u>	<u>\$ 541,702</u>	<u>\$ 859,851</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, 2015, was 41.3202 cents based on an assessed property valuation of approximately of \$288.8 million resulting in a tax levy of approximately \$1.3 million, all of which was to finance general governmental services.

Property taxes receivable, as of September 30, 2015, includes penalty and interest on delinquent accounts and an estimated allowance for uncollectible as follows:

<u>Tax Year</u>	<u>Taxes</u>	<u>Penalty and Interest</u>	<u>Less Allowance for Uncollectible Accounts</u>	<u>Net Property Taxes Receivable - Governmental Funds</u>
Prior	\$ 61,600	\$ 108,418	\$ (130,425)	\$ 39,593
2006	12,526	14,530	(541)	26,515
2007	12,178	12,665	(497)	24,346
2008	12,324	11,338	(473)	23,189
2009	14,248	11,398	(513)	25,133
2010	17,366	11,809	(584)	28,591
2011	15,667	8,774	(489)	23,952
2012	23,401	10,296	(674)	33,023
2013	32,359	10,355	(854)	41,860
2014	50,800	10,160	(1,219)	59,741
	<u>\$ 252,469</u>	<u>\$ 209,743</u>	<u>\$ (136,269)</u>	<u>\$ 325,943</u>

Note 6 - Receivables

Amounts recorded as receivables, as of September 30, 2015, for the government's individual major and nonmajor funds, including the applicable allowance for uncollectible accounts, are as follows:

	General	Community Development Block Grant	Water and Wastewater	Component Units
Receivables:				
Property taxes	\$ 462,212	\$ -	\$ -	\$ -
Franchise taxes	30,755	-	-	-
Sales taxes	285,414	-	-	95,138
Court fines	160,643			
Intergovernmental				
Accounts	-	927,587	429,987	-
Other	695	-	17,400	-
Gross receivables	939,719	927,587	447,387	95,138
Less: allowance for uncollectibles	(280,847)	-	(102,774)	
Net Total Receivables	<u>\$ 658,872</u>	<u>\$ 927,587</u>	<u>\$ 344,613</u>	<u>\$ 95,138</u>

Note 7 - Capital Assets

A summary of activity for capital assets, for the year ended September 30, 2015, follows:

	Balance October 1, 2014	Additions	Deletions/ Adjustments	Balance September 30, 2015
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 1,424,690	\$ -	\$ -	\$ 1,424,690
Construction in progress	2,809,351	3,460,458		6,269,809
Total capital assets not being depreciated	<u>4,234,041</u>	<u>3,460,458</u>	<u>-</u>	<u>7,694,499</u>
Capital assets being depreciated:				
Buildings and improvements	1,291,115	-	-	1,291,115
Machinery and equipment	1,954,910	164,360	-	2,119,270
Total capital assets being depreciated	<u>3,246,025</u>	<u>164,360</u>	<u>-</u>	<u>3,410,385</u>
Less accumulated depreciation for:				
Building and improvements	(710,430)	(34,000)	(599)	(745,029)
Machinery and equipment	(1,314,329)	(254,733)	599	(1,568,463)
Total accumulated depreciation	<u>(2,024,759)</u>	<u>(288,733)</u>	<u>-</u>	<u>(2,313,492)</u>
Total capital assets being depreciated, net	<u>1,221,266</u>	<u>(124,373)</u>	<u>-</u>	<u>1,096,893</u>
Governmental activities capital assets, net	<u>\$ 5,455,307</u>	<u>\$ 3,336,085</u>	<u>\$ -</u>	<u>\$ 8,791,392</u>

Note 7 - Capital Assets (continued)

	Balance October 1, 2014	Additions	Deletions/ Adjustments	Balance September 30, 2015
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 61,776		\$ -	\$ 61,776
Construction in progress	-	19,643	-	19,643
Total capital assets, not being depreciated	<u>61,776</u>	<u>19,643</u>	<u>-</u>	<u>81,419</u>
Capital assets being depreciated:				
Water/sewer system	21,792,704	318,178	-	22,110,882
Buildings and improvements	130,853	-	-	130,853
Machinery and equipment	1,734,098	117,403	-	1,851,501
Total capital assets being depreciated	<u>23,657,655</u>	<u>435,581</u>	<u>-</u>	<u>24,093,236</u>
Less accumulated depreciation for:				
Water/sewer system	(13,971,461)	(697,277)	-	(14,668,738)
Buildings and improvements	(8,750)	(5,833)	-	(14,583)
Machinery and equipment	(983,288)	(177,480)	-	(1,160,769)
Total accumulated depreciation	<u>(14,963,499)</u>	<u>(880,590)</u>	<u>-</u>	<u>(15,844,090)</u>
Total capital assets being depreciated, net	<u>8,694,156</u>	<u>(445,009)</u>	<u>-</u>	<u>8,249,146</u>
Business-type activities capital assets, net	<u>\$ 8,755,932</u>	<u>\$ (425,366)</u>	<u>\$ -</u>	<u>\$ 8,330,565</u>

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

Governmental activities:	
General	\$ 8,884
Garage	14,192
Public safety	187,249
Public works	76,673
Culture and recreation	1,735
Total Governmental activities	<u>\$ 288,733</u>
Business-type activities:	
Water	\$ 336,545
Sewer	544,045
Total Business-type activities	<u>\$ 880,590</u>

As of September 30, 2015, the City had the following construction contract commitments outstanding related to construction in progress in the governmental activities:

	Total Commitment	Construction in Progress	Remaining Commitment
Sanitary Sewer System Improvements	\$ 2,002,466	\$ 1,232,277	\$ 770,189
Sewer Facilities	2,846,271	2,651,278	194,993
Water Facilities	1,093,701	1,361,555	(267,854)
Flood & Drainage Facilities	1,205,691	1,024,699	180,992
	<u>\$ 7,148,129</u>	<u>\$ 6,269,809</u>	<u>\$ 878,320</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 general obligation bonds, certificates of obligation, notes payable and revenue 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, 2015, 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	\$ 468,020	\$ 17,250	\$ (145,097)	\$ 340,173	\$ 56,955
Compensated absences	29,293	35,088	(29,291)	35,090	35,090
Long-term liabilities	<u>\$ 497,313</u>	<u>\$ 52,338</u>	<u>\$ (174,388)</u>	<u>\$ 375,263</u>	<u>\$ 92,045</u>
Business-type Activities					
Certificates of obligation	\$ 1,098,000	\$ -	\$ (124,500)	\$ 973,500	\$ 17,000
Contract revenue bonds	1,045,684	-	(73,265)	972,419	76,292
Less amounts:					
For issuance premiums/discounts	58,946	-	(7,369)	51,577	-
Capital leases	494,503	5,750	(82,731)	417,522	85,192
Compensated absences	9,466	25,532	(23,019)	11,979	11,979
Long-term liabilities	<u>\$ 2,706,599</u>	<u>\$ 31,282</u>	<u>\$ (310,884)</u>	<u>\$ 2,426,997</u>	<u>\$ 190,463</u>
Component Units					
Tax increment bonds	<u>\$ 4,965,000</u>	<u>\$ -</u>	<u>\$ (500,000)</u>	<u>\$ 4,465,000</u>	<u>\$ 525,000</u>

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

Fiscal Year Ending September 30	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 17,000	41,374
2017	18,000	40,651
2018	19,000	39,886
2019	20,000	39,079
2020	21,000	38,229
2021 - 2025	116,000	177,161
2026 - 2030	144,000	150,301
2031 - 2035	177,000	116,939
2036 - 2040	218,000	76,011
2041 - 2045	223,500	25,961
	<u>\$ 973,500</u>	<u>\$ 745,592</u>

Note 8 - Long-Term Debt (continued)

Annual debt service requirements to retire outstanding contract revenue bonds are as follows:

Fiscal Year Ending September 30	Business-type Activities	
	Principal	Interest
2016	\$ 76,292	\$ 41,244
2017	138,052	38,956
2018	138,960	34,633
2019	144,409	29,074
2020	151,373	22,050
2021-2022	323,332	23,793
	<u>\$ 972,418</u>	<u>\$ 189,750</u>

The following is a summary of the terms of certificates of obligation and revenue bonds outstanding as of September 30, 2015:

Business-type Activities

Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Contract Revenue Bonds				
2011-B Contract Revenue Refunding Bonds	\$ 1,286,064	2.00 - 4.00%	2012 - 2022	\$ 972,419
General Obligation Bonds				
Certificates of Obligation				
2006 Tax and Revenue Certificates of Obligations	1,185,000	4.25%	2011-2050	973,500
Total Business-Type Activities				<u>\$ 1,945,919</u>

Long-Term Contract Revenue Bonds

On July 1, 1998, the City of Hitchcock entered into a long-term contract with the Gulf Coast Water Authority (GCWA) to build and improve facilities for potable water transportation to the City of Hitchcock. The GCWA is a conservation and reclamation district created by Chapter 712, Acts of the 59th Texas Legislature, 1965, as amended (compiled as Article 8280-339, Vernon's Texas Civil Statutes, as amended). The GCWA issued bonds totaling \$4,835,000 in 1998 under the title "Gulf Coast Water Authority Water System Contract Revenue Bonds (South Project), Series 1998 B." Under the contract, the City of Hitchcock agrees to provide sufficient sums to retire the bonds.

On May 12, 2011, the GCWA redeemed the Series 1998 B Water System Contract Revenue Bonds and issued Water System Contract Revenue Refunding Bonds, Series 2011-B totaling \$3,510,000, of which the City was responsible for 36.64%, or \$1,286,064.

The balances for GCWA activity are presented as of their fiscal year end, August 31, 2015. Any amounts related to the timing of the fiscal year end between GCWA and the City are not considered material to the financial statements.

Note 8 - Long-Term Debt (continued)

Component Units

The City of Hitchcock Reinvestment Zone Number One issued bonds in 2006. The proceeds are for the economic development inside the zone's boundary. Substantially all the project costs have been advanced by the developer for projects related to Harborwalk community and marina. Harborwalk community is a waterfront residential and commercial development on the West Galveston, Texas Bay. These bonds are payable from tax collections resulting from increases to the zone's tax base.

Fiscal Year Ending September 30	City of Hitchcock Tax Reinvestment Zone #1		
	Principal	Interest	Total
2016	\$ 525,000	\$ 227,360	\$ 752,360
2017	555,000	201,110	756,110
2018	585,000	173,360	758,360
2019	615,000	144,110	759,110
2020	650,000	112,745	762,745
2021-2025	1,240,000	276,415	1,516,415
2026	295,000	15,340	310,340
	<u>\$ 4,465,000</u>	<u>\$ 1,150,440</u>	<u>\$ 5,615,440</u>

The following is a summary of the Tax Increment Bonds outstanding as of September 30, 2015:

Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Tax Increment Bonds				
2006 Tax Increment Bonds	\$ 7,800,000	4.50% - 5.25%	2012-2026	\$ 4,465,000
Total Component Units				<u>\$ 4,465,000</u>

Capital Leases

Governmental Activities

During fiscal year 2012, the City entered into capital lease agreements totaling \$832,150 for the purchase of vehicles and other equipment. In fiscal year 2014, the City entered into a capital lease agreement in the amount of \$66,376 for the purchase of a utility backhoe. In fiscal year 2015, the City entered into capital lease agreements in the amount of \$11,500 for copiers. Additional information on the leases is as follows:

	Interest Rate	Original Balance	Maturity
Police vehicles	3.237%	\$ 358,532	2015
Tractor/mowing equipment	3.100%	78,819	2017
Police radio equipment	3.420%	394,799	2022
Copiers	6.014%	11,500	2020
		<u>\$ 843,650</u>	

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

Note 8 - Long-Term Debt (continued)

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

Fiscal Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2016	\$ 56,955	\$ 11,859	\$ 68,814
2017	59,058	9,869	68,927
2018	43,751	7,802	51,553
2019	45,345	6,209	51,554
2020 - 2022	135,064	9,252	144,316
	<u>\$ 340,173</u>	<u>\$ 44,991</u>	<u>\$ 385,164</u>

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:

	Interest Rate	Original Balance	Maturity
Utility backhoe	2.890%	\$ 66,376	2017
Water meters	2.350%	508,171	2020
Copiers	6.014%	5,750	2020
		<u>\$ 580,297</u>	

General fund revenues are transferred to the water and sewer operating fund to retire these lease obligations

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
2016	\$ 85,192	\$ 10,172	\$ 95,364
2017	87,298	8,067	95,365
2018	89,459	5,904	95,363
2019	77,249	3,688	80,937
2020	78,324	1,836	80,160
	<u>\$ 417,522</u>	<u>\$ 29,667</u>	<u>\$ 447,189</u>

Note 9 - Interfund Receivables, Payables and Transfers

The composite of the interfund balances as of September 30, 2015, is as follows.

<u>Receivable Fund</u>	<u>Payable Fund</u> <u>Utility Fund</u>
General Fund	\$ 51,655
Totals	<u>\$ 51,655</u>

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

<u>Transfer in fund</u>	<u>Transfer out fund</u> <u>Community</u> <u>Development</u> <u>Block Grant</u>
General Fund	\$ 100
Totals	<u>\$ 100</u>

A transfer of \$100 was made from the Community Development Block Grant fund to the General Fund to eliminate fund balance.

Note 10 - Pension Plan

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

Note 10 - Pension Plan (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	50% Ad Hoc, Transfers
Annuity Increase (to retirees)	70% of CPI Ad Hoc

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

Number of	
Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	49
Active employees	47
Total	<u>107</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 4.21% and 4.40% in calendar years 2014 and 2015 respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$78,542, and were equal to the required contributions.

Net Pension Asset

The City's Net Pension Asset (NPA) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

Note 10 - Pension Plan (continued)

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

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

Actuarial Assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7%. 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:

Note 10 - Pension Plan (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in 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

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 12/31/2013	\$ 3,087,439	\$ 3,199,781	\$ (112,342)
Changes for the year:			
Service cost	133,102		133,102
Interest (on the Total Pension Liability)	215,538		215,538
Difference between expected and actual experience	(8,473)		(8,473)
Contributions - employer		69,866	(69,866)
Contributions - employee		86,042	(86,042)
Net investment income		183,055	(183,055)
Benefit payments, including refunds of employee contributions	(149,740)	(149,740)	149,740
Administrative expense		(1,911)	1,911
Other		(157)	157
Balance at 12/31/2014	\$ 3,277,866	\$ 3,386,936	\$ (109,070)

Note 10 - Pension Plan (continued)

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

The following presents the net pension asset of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability or net pension asset would be if it were calculated using a discount rate that is 1 percentage-point lower (6%) or 1 percentage-point higher (8%) than the current rate:

1% Decrease	Current Single Rate Assumption	1% Increase
6.00%	7.00%	8.00%
\$324,530	(\$109,070)	(\$467,939)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the City recognized a pension expense of \$33,774 for the governmental activities and \$12,572 for the business-type activities.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources Governmental Activities	Deferred Inflows of Resources - Governmental Activities	Deferred Outflows of Resources - Business-type Activities	Deferred Inflows of Resources - Business- type Activities
Difference in expected and actual experience	\$ -	\$ 4,337	\$ -	\$ 1,614
Difference in projected and actual earnings on pension plan investments.	23,862	-	8,882	-
Employer contributions made after the measurement date	42,611	-	15,862	-
Totals	<u>\$ 66,473</u>	<u>\$ 4,337</u>	<u>\$ 24,744</u>	<u>\$ 1,614</u>

Note 10 - Pension Plan (continued)

\$58,473 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	Net Deferred Outflows (Inflows) of Resources - Governmental Activities	Net Deferred Outflows (Inflows) of Resources - Business-Type Activities
2016	\$ 4,128	\$ 1,536
2017	4,128	1,536
2018	5,305	1,975
2019	5,965	2,221
Total	<u>\$ 19,526</u>	<u>\$ 7,268</u>

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.

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 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, 2015, the City and HIDC reimbursed the developer a total of \$1,019,541. 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 - Segment Information

The City issues separate revenue bonds to finance its water and sewer departments. The two departments are accounted for in a single fund, but investors in those bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each department is presented below. The Water Department operates the City’s water supply system. The Sewer Department operates the City’s sewage treatment plant, sewage pumping stations, and collection systems.

Condensed Statement of Revenues, Expenses, and Changes in Net Position	<u>Water Department</u>	<u>Sewer Department</u>
Operating revenues	\$ 1,205,014	1,115,558
Depreciation expense	(336,545)	(544,045)
Other operating expenses	<u>(1,225,003)</u>	<u>(946,773)</u>
Operating income (loss)	(356,534)	(375,260)
Nonoperating revenues (expenses):		
Investment income	700	-
Interest expense	(55,659)	(1,528)
Capital contributions	<u>171,472</u>	<u>-</u>
Change in net position	<u>\$ (240,021)</u>	<u>\$ (376,788)</u>

Note 15 - Prior Period Adjustment

During the current fiscal year, the City made a prior period adjustment to the government-wide statement of net position.

The adoption of Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended September 30, 2015 has resulted in a prior period adjustment to the City’s beginning net position on the statement of net position for the governmental activities, the business-type activities and the enterprise fund (water and sewer operating Fund) to reflect the reporting of net pension assets and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with provisions of these statements.

A summary of the prior period adjustment follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities & Enterprise Fund</u>
Beginning net position, as originally presented	\$ 7,392,361	\$ 7,124,376
Prior period adjustment:		
Change in accounting principle for		
Beginning net pension asset	81,868	30,474
Deferred Outflows - 2014 year pension contributions made after previous net pension liability measurement date	<u>38,768</u>	<u>14,431</u>
Beginning net position, as restated	<u>\$ 7,512,997</u>	<u>\$ 7,169,281</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HITCHCOCK, TEXAS

Exhibit G-1

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS

For the Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis</u>	<u>Variance with Final Budget Positive / (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 898,987	\$ 898,987	\$ 1,062,278	\$ 163,291
Sales, franchise and local taxes	1,330,000	1,330,000	1,990,656	660,656
Licenses and permits	437,880	437,880	428,586	(9,294)
Charges for services	170,000	170,000	452,238	282,238
Fines and forfeitures	371,000	371,000	274,980	(96,020)
Earnings on investments	6,000	6,000	12,202	6,202
Intergovernmental	75,909	75,909	76,538	629
Other	166,314	166,314	25,219	(141,095)
Total Revenues	<u>3,456,090</u>	<u>3,456,090</u>	<u>4,322,697</u>	<u>866,607</u>
Expenditures				
Current:				
General government	684,516	684,516	1,133,837	(449,321)
Public safety	1,898,613	1,898,613	1,597,264	301,349
Public works	726,561	726,561	685,626	40,935
Health, welfare and sanitation	45,000	45,000	307,205	(262,205)
Culture and recreation	101,400	101,400	99,562	1,838
Capital outlay			164,360	(164,360)
Debt service:				
Principal retirement			145,676	(145,676)
Interest and fees			15,727	(15,727)
Total Expenditures	<u>3,456,090</u>	<u>3,456,090</u>	<u>4,149,257</u>	<u>(693,167)</u>
Excess (deficiency) of revenues over expenditures	-	-	173,440	173,440
Other Financing Sources (Uses)				
Operating transfers in	-	-	100	100
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>100</u>	<u>100</u>
Net change in fund balance	-	-	173,540	173,540
Fund Balance (Budgetary Basis), Beginning of Year	<u>2,042,521</u>	<u>2,042,521</u>	<u>2,042,521</u>	<u>-</u>
Fund Balance (Budgetary Basis), End of Year	<u>\$ 2,042,521</u>	<u>\$ 2,042,521</u>	<u>\$ 2,216,061</u>	<u>\$ 173,540</u>

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, 2015, expenditures exceeded appropriations at the department level (the legal level of compliance) in the following departments.

<u>Fund / Department</u>	<u>Amount</u>
General Fund:	
General government	\$ 449,321
Health and Welfare	262,205
Capital outlay	164,360
Debt service:	
Principal retirement	145,676
Interest and fees	15,727

C. Revenue and Expenditures Analysis in Comparison to Budget

	<u>General Fund</u>		
	<u>Budgetary Basis</u>	<u>Unbudgeted Activities</u>	<u>GAAP Basis</u>
Revenues	\$ 4,322,697	\$ 300,300	\$ 4,622,997
Expenditures	4,149,257	300,300	4,449,557
Revenues over (under) expenditures	173,440	-	173,440
Other financing sources (uses)	100	17,250	17,350
Revenues and other financing sources over (under) expenditures and other financing (uses)	173,540	17,250	190,790
Fund balance at beginning of year	<u>2,042,521</u>	<u>-</u>	<u>2,042,521</u>
Fund balance at end of year	<u>\$ 2,216,061</u>	<u>\$ 17,250</u>	<u>\$ 2,233,311</u>

CITY OF HITCHCOCK, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Changes in Net Pension Asset and Related Ratios
Year Ended September 30, 2015

Exhibit G-3

	<u>2014</u>
Total pension liability:	
Service cost	\$ 133,102
Interest	215,538
Difference between expected and actual experience	(8,473)
Benefit payments, including refunds of employee contributions	(149,740)
Net change in total pension liability	190,427
Total pension liability - beginning	3,087,439
Total pension liability - ending (a)	<u>\$ 3,277,866</u>
 Plan fiduciary net position:	
Contributions - employer	\$69,866
Contributions - employee	86,042
Net investment income	183,055
Benefit payments, including refunds of employee contributions	(149,740)
Administrative expense	(1,911)
Other	(157)
Net change in plan fiduciary net position	187,155
Plan fiduciary net position - beginning	3,199,781
Plan fiduciary net position - ending (b)	<u>\$ 3,386,936</u>
 Net pension asset - ending (a) - (b)	\$ (109,070)
 Plan fiduciary net position as a percentage of total pension liability	103.33%
 Covered employee payroll	\$1,720,845
 Net pension asset as a percentage of covered employee payroll	-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 Contributions
Year Ended September 30, 2015

Exhibit G-4

	Fiscal Year	
	2015	2014
Actuarially Determined Contributions	\$ 168,682	\$ 143,899
Contributions in relation to the actuarially determined contribution	168,682	143,899
Contribution deficiency(excess)	-	-
Covered employee payroll	1,802,750	1,703,174
Contributions as a percentage of Covered employee payroll	9.36%	8.45%

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:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation to an experience study for the period 2005-2009.
Mortality	RP2 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:
- 1) Granted 100% ad hoc USC with transfer
 - 2) Granted 70% ad hoc COLA

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NON MAJOR GOVERNMENTAL

SPECIAL REVENUE FUNDS

These funds are used to account for the proceeds of revenue sources that are legally restricted or committed for certain activities.

CITY OF HITCHCOCK, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2015

	<i>Special Revenue Funds</i>		
	Court Security and Technology Fund	Parks and Recreation	Donation Fund
Assets			
Cash and cash equivalents	\$ 58,285	\$ 5,273	\$ 9,173
Total Assets	<u>\$ 58,285</u>	<u>\$ 5,273</u>	<u>\$ 9,173</u>
Fund Balance:			
Restricted:			
Public safety	58,285	-	-
Culture and recreation	-	5,273	9,173
Total Fund Balance	<u>58,285</u>	<u>5,273</u>	<u>9,173</u>
Total Liabilities and Fund Balance	<u>\$ 58,285</u>	<u>\$ 5,273</u>	<u>\$ 9,173</u>

Exhibit H-1

<u>Seizure Fund</u>	<u>Total NonMajor Governmental Funds</u>
\$ 4,274	\$ 77,005
<u>\$ 4,274</u>	<u>\$ 77,005</u>
4,274	62,559
-	14,446
<u>4,274</u>	<u>77,005</u>
<u>\$ 4,274</u>	<u>\$ 77,005</u>

CITY OF HITCHCOCK, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	<i>Special Revenue Funds</i>		
	<u>Court Security and Technology Fund</u>	<u>Parks and Recreation</u>	<u>Donation Fund</u>
Revenues			
Fines and forfeitures	\$ 8,650	\$ -	\$ -
Intergovernmental	-	-	-
Other	-	-	2,350
Total Revenues	<u>8,650</u>	<u>-</u>	<u>2,350</u>
Expenditures			
Current:			
Public safety	<u>2,310</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>2,310</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenditures	6,340	-	2,350
Fund Balances, Beginning of Year	<u>51,945</u>	<u>5,273</u>	<u>6,823</u>
Fund Balances, End of Year	<u>\$ 58,285</u>	<u>\$ 5,273</u>	<u>\$ 9,173</u>

Exhibit H-2

<u>Seizure Fund</u>	<u>Total NonMajor Governmental Funds</u>
\$ -	\$ 8,650
-	-
-	2,350
<u>-</u>	<u>11,000</u>
-	2,310
<u>-</u>	<u>2,310</u>
-	8,690
<u>4,274</u>	<u>68,315</u>
<u>\$ 4,274</u>	<u>\$ 77,005</u>

CITY OF HITCHCOCK
ANALYSIS OF TAXES LEVIED AND RECEIVABLE
September 30, 2015

<u>Tax Rate/\$100 Valuation</u>					
<u>Tax Year</u>	<u>Maintenance and Operations</u>	<u>Debt Service</u>	<u>Total</u>	<u>Beginning Balance</u>	<u>Taxes Levied</u>
Prior	Various	Various	Various	\$ 71,002	\$ -
2006	0.375140	0.17991	0.555050	13,170	-
2007	0.395350	0.11573	0.511080	13,119	-
2008	0.370790	0.10244	0.473230	13,874	-
2009	0.325910	0.14732	0.473230	18,042	-
2010	0.335700	0.13660	0.472300	22,759	-
2011	0.396460	-	0.396460	22,498	-
2012	0.396105	-	0.396105	34,628	-
2013	0.413202	-	0.413202	56,298	-
2014	0.413202	-	0.413202	-	1,256,010
				<u>\$ 265,390</u>	<u>\$ 1,256,010</u>

Exhibit H-3

<u>Collections</u>	<u>Adjustments and Refunds</u>	<u>Ending Balance</u>
\$ (2,343)	\$ (7,060)	\$ 61,599
(500)	(144)	12,526
(752)	(190)	12,177
(1,354)	(196)	12,324
(3,619)	(176)	14,247
(6,180)	788	17,367
(7,421)	591	15,668
(11,745)	518	23,401
(24,287)	348	32,359
(1,264,873)	59,664	50,801
<u>\$ (1,323,074)</u>	<u>\$ 54,143</u>	<u>\$ 252,469</u>

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FEDERAL AWARDS SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the 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, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated May 20, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiencies and are identified as items # 2015-001 and item #2015-004.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items #2015-002, and 2015-003.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

Texas City, Texas
May 20, 2016

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Program

We have audited the City of Hitchcock, Texas’ (the “City”) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended September 30, 2015. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the City’s major federal program based on our audit of the types of compliance referred to above. We conducted our audit of the compliance in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item #2015-005. Our opinion on the major program is not modified with respect to these matters.

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item #2015-005, that we consider to be a significant deficiency.

Management's response to the internal control over compliance finding identified in our audit is described on the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB A-133. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Texas City, Texas
May 20, 2016

CITY OF HITCHCOCK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2015

Section I. - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Item #2015-001 and #2015-004
Noncompliance material to financial statements noted?	Yes, Items #2015-002, #2015-003

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Item #2015-005
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	No

Identification of Major Programs:

CFDA Number	Name of Federal Program
14.228	Community Development Block Grant-Small Cities-Disaster Recovery

Dollar threshold used to distinguish between type A and type B federal programs:	\$300,000
Auditee qualified as low-risk auditee?	No

CITY OF HITCHCOCK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2015

Section II. - Financial Statement Findings

Significant Deficiency

Finding #2015-001-Water and Sewer Adjustments

Criteria: The City is responsible for maintaining internal controls and supporting documentation over utility revenues.

Condition: The City is not maintaining supporting documentation for utility billing adjustments.

Context: During our walkthrough procedures of the utility department, we noted that supporting documentation for billing adjustments is not being maintained.

Cause: The City did not have policies in procedures in place for maintaining supporting documentation for utility billing adjustments.

Effect: Failure to establish and maintain internal controls over utility billing can result in fraud or errors occurring, and not being detected in a timely manner.

Recommendation: The City should establish procedures to monitor utility billing adjustments and supporting documentation for all adjustments should be maintained.

Compliance

Finding #2015-002 - Competitive Procurement Procedures

Criteria: Competitive procurement procedures are required for making purchases involving dollar amounts in excess of \$50,000 or more, in the aggregate, over a twelve month period.

Condition: The City is not monitoring cumulative purchases of similar items, which in the aggregate over a twelve month period, could be subject to State bidding requirements.

Context: During our audit, we noted instances of purchases of similar items aggregating amounts in excess of \$50,000 which were not purchased through competitive procurement procedures.

Cause: The City does not have polices in procedures in place to ensure that items either individually or in the aggregate follow the competitive procurement guidelines as set forth by the State.

Effect: This condition may cause the City to be in technical noncompliance with the state bidding requirements for some purchases. In addition, competitive procurement procedures may result in lower costs per unit or in the aggregate.

Recommendation: The City should establish procedures to monitor purchases of similar commodities on a regular basis to identify items which should be purchased under competitive procurement procedures.

CITY OF HITCHCOCK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2015

Section II. - Financial Statement Findings (continued)

Finding #2015-003 Expenditures in Excess of Appropriations

Criteria: State law mandates that expenditures do not exceed appropriations at the functional level.

Condition: Expenditures exceeded appropriations in the general fund as follows:

<u>Fund / Department</u>	<u>Amount</u>
General Fund:	
General government	\$ 449,321
Health and Welfare	262,205
Capital outlay	164,360
Debt service:	
Principal retirement	145,676
Interest and fees	15,727

Context: During the course of the audit, we noted that expenditures exceeded appropriations at the departmental level.

Cause: The budget was not amended for expenditures in excess of appropriations.

Effect: Noncompliance with state law.

Recommendation: The City should implement procedures to review budget to actual comparisons, and budget amendments should be presented and approved prior to expending funds for which appropriations are not available.

Finding #2015-004 Segregation of Duties

Criteria: The City is responsible for maintaining internal controls in order to minimize the risk of misstatement due to fraud or errors.

Condition: Proper segregation of duties did not exist for wire transfers, payroll and bank reconciliations. Wire transfers do not require a second approval and there is no limit as to the amount of wire transfers that can be processed. The employees who have system access to change pay rates and process payroll, also perform the bank reconciliations.

Cause: Staffing limitations make proper segregation of duties a challenge for the City. However, in the absence of key controls, mitigating controls should be put in place.

Effect: Lack of segregation of duties can cause misstatements due to fraud or errors to occur and go undetected during the normal course of operations. Lack of segregation of duties over wire transfers combined with lack of segregation of duties over payroll and the bank reconciliation process places the City at greater risk for fraud or errors to occur.

Recommendation: All wire transfers should require at least two levels of authorization in order to process a transaction. Personnel who have the ability to change pay rates and process payroll. In the event of a system or staffing limitation, a mitigating control, such as review of all pay rate changes, should be performed by a supervisor. Bank reconciliations should be performed by personnel who do not have the ability to process any type of check.

CITY OF HITCHCOCK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2015

Section III. - Federal Award Findings and Questioned Costs

Finding #2015-005 – Cash Management

Program: Community Development Block Grant (“CDBG”)
CFDA: 14.228
Federal Award #12-203-5044/010069; 12-203-5503/210069; 12-608-000-6995/22069; 713229
Department of Housing and Urban Development
Passed Through: Texas General Land Office

Criteria: When federal funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Interest earned in excess of \$100 on advances is required to be submitted promptly, but at least quarterly, to the federal agency.

Condition: The City draws CDGB funds once an invoice is submitted by the vendor for payment. The City disburses funds to the vendor upon receipt of the payment from the federal agency. Often times, the City will pay the vendor up to three weeks after receipt of funds from the federal agency.

Context: We noted this while performing a test of disbursements for the CDBG program.

Questioned Costs: None

Cause: Staffing limitations create challenges in timely processing of disbursements for the program.

Effect: Failure to follow internal controls over the cash management process could result in noncompliance with the Cash Management compliance requirement as established in OMB Circular A-133. It was noted that the funds were not left in an interest bearing account long enough to earn interest in excess of \$100.

Recommendation: The City should have written policies to ensure that all requirements listed in the OMB Circular A-133 compliance supplement are met. Management should be aware of all applicable compliance requirements per OMB Circular A-133 and should communicate those requirements to the appropriate personnel.

CITY OF HITCHCOCK, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2015

Section IV. - Status of Prior Year Findings and Questioned Costs

Finding #2014-001 **Partially Resolved:** See current year finding 2015-001. The City
Water and Sewer Commission adopted a utility adjustment policy in September 2015.
Adjustments

Finding #2013-002 **Not Resolved:** See current year finding 2015-002
Competitive Procurement
Procedures

Finding #2013-003 **Not Resolved:** See current year finding 2015-003
Expenditures in Excess of
Appropriations

Finding #2013-004 **Not Resolved:** See current year finding 2015-005
Cash Management

Section V. - Views of Responsible Officials and Planned Corrective Action

Finding #2014-001
Water and Sewer
Adjustments

Description: The City Commission adopted formal policies and procedures regarding utility adjustments in September 2015.

Responsible party: Anthony Matranga, Mayor

Estimated completion date: Resolved as of the date of this report

Finding #2013-002
Competitive Procurement
Procedures

Description: To the extent possible, the City will consider approving interlocal agreements with other governmental entities to utilize their contract to purchase similar commodities. In addition, the City will utilize other cooperative purchasing arrangements to purchase needed commodities.

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2016

Finding #2013-003
Expenditures in Excess of
Appropriations

Description: The City will implement procedures to review budget to actual comparisons, and amend the budget prior to expending funds for which appropriations are not available.

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2016

Finding #2013-004
Cash Management

Description: As of the date of this report, the City has implemented procedures to ensure that federal funds are disbursed within three days after the funds are received from the U.S. Treasury.

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2016

Finding #2015-001
Segregation of Duties

Description: For areas in which lack of segregation of duties exist, the City will implement internal controls to mitigate the risk, including monitoring of certain processes by the Mayor and by having reconciliations and change reports reviewed by the accounting consultant.

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2016

CITY OF HITCHCOCK, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2015

Exhibit K-1

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Disbursement/ Expenditures
U.S. Department of Housing and Urban Development Passed through the General Land Office			
<i>Community Development Block Grant - Small Cities Program - Disaster Recovery*</i>	14.228	12-203-5044/010069	\$ 212,678
<i>Community Development Block Grant - Small Cities Program - Disaster Recovery*</i>	14.228	12-203-5503/210069	3,363,412
<i>Community Development Block Grant - Small Cities Program - Disaster Recovery*</i>	14.228	12-608-000-6995/22069	<u>267,137</u>
Total U.S. Department of Housing and Urban Development			<u><u>3,843,227</u></u>
Total Federal Awards			<u><u>\$ 3,843,227</u></u>

* Denotes Major Program

Note 1 - Basis of Accounting

City of Hitchcock, Texas accounts for federal funding using the modified accrual method of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Equipment purchases for grant purposes are treated as expenditures in the schedule of expenditures of federal awards and typically capitalized for financial statement purposes.

Federal grant funds are considered to be earned to the extent of expenses made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "SEFA") includes the federal grant activity of the City under a program of the federal government for the year ended September 30, 2015. The information in this SEFA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the SEFA presents only a selected portion of the operations of the City, it is not intended and does not present the financial position, changes in net position, or cash flows of the City.

Note 3 - U.S.D.A. Rural Development Loan

The City in prior fiscal years received proceeds from a U.S.D.A. Rural Development Loan. At September 30, 2015, the loan balance was \$973,500. In accordance with OMB Circular A-133, the prior loan balances are not considered to have continuing compliance requirements.