

ANNUAL FINANCIAL REPORT

CITY OF HALE CENTER, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

CITY OF HALE CENTER
Hale Center, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2016

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INTRODUCTORY SECTION

CITY OF HALE CENTER
Hale Center, Texas

September 30, 2016

CITY COUNCIL

W.H. Johnson	Mayor
Shane Rowell	Mayor Pro Tem
Karen Boyce	Councilmember
Richard Castillo	Councilmember
Roger Mahagan	Councilmember
Christine Reyna	Councilmember

ADMINISTRATIVE STAFF

Dennis Burton	City Manager
Patricia Isaguirre	City Secretary

FINANCIAL SECTION

Terry & King, CPAs, P.C.

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Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council
City of Hale Center, Texas
P.O. Box 532
Hale Center, Texas 79041

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hale Center, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

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

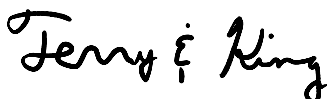
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hale Center's basic financial statements. The accompanying other schedules listed in the table of contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2017 on our consideration of the City of Hale Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hale Center's internal control over financial reporting and compliance.

Respectfully submitted,



Terry & King, CPAs, P.C.
Lubbock, Texas
February 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hale Center's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2016. Please read this in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net position increased as a result of this year's operations. While net position of our business-type activities increased by \$91,222 or 7%, net position of our governmental activities increased by \$147,448.
- During the year, the City had expenses that were \$114,825 less than the \$840,717 generated in tax and other revenues for governmental programs before transfers.
- In the City's business type activities, charges for services increased \$7,988 to \$558,993 (or 1%) while operating expenses increased \$25,660 to \$435,148.
- The General Fund reported a deficit this year of \$10,288 prior to inter-fund transfers in (\$71,538).
- The resources available for appropriation were \$63,766 more than budgeted for the General Fund. Expenditures for the General Fund were less than the budgeted amounts by \$76,256.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole -- The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in it. You can think of the City's net position—the differences between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the ambulance, fire, police, sanitation, streets, and parks departments, and general administration. Property taxes, franchise taxes, charges to customers, and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover the cost of certain services it provides. The City's water and sewer services are reported here.

Reporting the City's Most Significant Funds – Fund Financial Statements

Our analysis of the City's major funds begins on page 10. The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. At times a city council may establish other funds to help it control and manage money for particular purposes, such as special projects or to show that it is meeting legal responsibilities for using certain Federal or State grants. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds*—Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in reconciliation on Exhibits C-1R and C-3.
- *Proprietary funds*—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City’s combined net position was \$ 2,200,468. Our following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City’s government and business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$2,200,468 at September 30, 2016. (See Table A-1).

Table A-1
City of Hale Center's Net Position

	Governmental Activities			Business-type Activities			Total Primary Government		
	2016	2015	Percentage Change	2016	2015	Percentage Change	2016	2015	Percentage Change
Current assets:									
Cash in Bank	289,704	152,743	90%	-	44,096	-100%	289,704	196,839	47%
Accounts Receivable-Utilities, net	-	-	0%	56,012	61,685	-9%	56,012	61,685	-9%
Taxes Receivable, net	64,253	64,289	0%	-	-	0%	64,253	64,289	0%
Due from Other Governments	1,188	1,102	8%	-	-	0%	1,188	1,102	8%
Internal Balances	-	64,638	-100%	-	(64,638)	-100%	-	-	0%
Total current assets:	355,145	282,772	26%	56,012	41,143	36%	411,157	323,915	27%
Noncurrent assets:									
Land	3,778	3,778	0%	195,247	195,247	0%	199,025	199,025	0%
Infrastructure	1,253,886	1,139,680	10%	-	-	0%	1,253,886	1,139,680	10%
Less accumulated depreciation, infrastructure	(857,749)	(827,296)	4%	-	-	0%	(857,749)	(827,296)	4%
Buildings and Improvements	245,355	245,355	0%	2,761,368	2,761,369	0%	3,006,723	3,006,724	0%
Less accumulated depreciation, buildings & improvements	(214,509)	(211,632)	1%	(1,337,197)	(1,275,977)	5%	(1,551,706)	(1,487,609)	4%
Furniture & Equipment	327,667	327,667	0%	266,865	266,865	0%	594,532	594,532	0%
Less accumulated depreciation, furniture & equipment	(267,771)	(243,827)	10%	(224,822)	(211,637)	6%	(492,593)	(455,464)	8%
Total noncurrent assets	490,657	433,725	13%	1,661,461	1,735,867	-4%	2,152,118	2,169,592	-1%
Total Assets	845,802	716,497	18%	1,717,473	1,777,010	-3%	2,563,275	2,493,507	3%
Deferred Outflows of Resources									
Deferred Outflows - Pension	17,920	6,482	176%	8,851	2,890	206%	26,771	9,372	186%
Total Deferred Outflows	17,920	6,482	176%	8,851	2,890	206%	26,771	9,372	186%
Current liabilities:									
Accounts Payable	32,480	23,468	38%	5,248	6,285	-16%	37,728	29,753	27%
Accrued Interest Expense	-	-	0%	1,648	2,426	-32%	1,648	2,426	-32%
Total current liabilities	32,480	23,468	38%	6,896	8,711	-21%	39,376	32,179	22%
Noncurrent liabilities:									
Customer Deposits	-	-	0%	64,065	63,995	0%	64,065	63,995	0%
Due within one year	17,358	16,633	4%	148,930	143,511	4%	166,288	160,144	4%
Net Pension Liability	1,840	4,756	-61%	666	2,120	-69%	2,506	6,876	-64%
Due in more than one year	17,851	35,214	-49%	25,304	174,235	-85%	43,155	209,449	-79%
Total noncurrent liabilities	37,049	56,603	-35%	238,965	383,861	-38%	276,014	440,464	-37%
Deferred Inflows of Resources									
Deferred Inflows - Pension	51,175	47,338	8%	23,013	21,100	9%	74,188	68,438	8%
Total Deferred Inflows	51,175	47,338	8%	23,013	21,100	9%	74,188	68,438	8%
Net Position:									
Net investment in capital assets	455,448	381,878	19%	1,487,227	1,418,121	5%	1,942,675	1,799,999	8%
Restricted For:									
Debt Service	64,638	64,638	0%	-	-	0%	64,638	64,638	0%
Specific Programs	10,254	9,466	8%	-	-	0%	10,254	9,466	8%
Unrestricted	212,678	139,588	52%	(29,777)	(51,893)	-43%	182,901	87,695	109%
Total Net Position	743,018	595,570	25%	1,457,450	1,366,228	7%	2,200,468	1,961,798	12%

Net position of the City's governmental activities increased (\$743,018 compared to \$595,570). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$139,588 at September 30, 2015 to \$212,678 at the end of this year. Net position of the City's business-type activities increased by 7%, from \$1,366,228 to \$1,457,450.

Table A-2
Changes in City of Hale Center's Net Position

	Governmental Activities			Business-type Activities			Total Primary Government		
	2016	2015	Percentage Change	2016	2015	Percentage Change	2016	2015	Percentage Change
Program Revenues:									
Charges for Services	317,852	251,571	26%	558,993	551,005	1%	876,845	802,576	9%
Grants & Contributions	61,132	190,742	-68%	-	-	0%	61,132	190,742	-68%
General Revenues:									
Property Taxes	275,784	270,410	2%	-	-	0%	275,784	270,410	2%
Nonproperty Taxes	145,756	173,832	-16%	-	-	0%	145,756	173,832	-16%
Investment Earnings	428	157	173%	-	415	-100%	428	572	-25%
Other	39,765	8,813	351%	-	-	0%	39,765	8,813	351%
	<u>840,717</u>	<u>895,525</u>	<u>-6%</u>	<u>558,993</u>	<u>551,420</u>	<u>1%</u>	<u>1,399,710</u>	<u>1,446,945</u>	<u>-3%</u>
Expenses:									
General Government	238,427	286,009	-17%	-	-	0%	238,427	286,009	-17%
Public Safety	237,986	182,820	30%	-	-	0%	237,986	182,820	30%
Public Works	238,606	246,735	-3%	-	-	0%	238,606	246,735	-3%
Culture and Recreation	8,857	6,252	42%	-	-	0%	8,857	6,252	42%
Interest on L-T Debt	2,016	1,182	71%	-	-	0%	2,016	1,182	71%
Water and Sewer	-	-	0%	435,148	409,488	6%	435,148	409,488	6%
	<u>725,892</u>	<u>722,998</u>	<u>0%</u>	<u>435,148</u>	<u>409,488</u>	<u>6%</u>	<u>1,161,040</u>	<u>1,132,486</u>	<u>3%</u>
Excess (Deficiency) Before Other Resources, Uses & Transfers	114,825	172,527	33%	123,845	141,932	-13%	238,670	314,459	-24%
Other Resources (Uses) Transfers In (Out)	32,623	97,146	-66%	(32,623)	(97,146)	66%	-	-	0%
Increase (Decrease) in Net Position	147,448	269,673	45%	91,222	44,786	104%	238,670	314,459	-24%
Net Position - Beginning	595,570	379,830	57%	1,366,228	1,345,481	2%	1,961,798	1,725,311	14%
Change in GASB Standard	-	(53,933)	-100%	-	(24,039)	-100%	-	(77,972)	-100%
Net Position - Ending	<u>743,018</u>	<u>595,570</u>	<u>25%</u>	<u>1,457,450</u>	<u>1,366,228</u>	<u>7%</u>	<u>2,200,468</u>	<u>1,961,798</u>	<u>12%</u>

The City's total revenues were \$1,399,710. A significant portion, 40%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (33%), non-property taxes (17%), charges for services (38%), grants and contributions (7%), and other (5%).

The total cost of all programs and services was \$1,161,040; 37% of these costs were for water and sewer production and administration expenses. Expenses for governmental activities consisted of costs for general administration (33%), public safety (33%), public works (33%), and culture and recreation (1%).

Governmental Activities

Revenues for the City's governmental activities decreased approximately 6%, while total expenses increased less than 1%.

- Property tax rates increased slightly from \$0.6452 to \$0.6592 per \$100 valuation. The ad valorem tax levy for the previous fiscal year was \$266,911, compared to \$278,028 for the current year. Total tax collections were \$270,938 in the current year.
- Franchise tax revenues decreased \$29,440 to \$80,391.
- City court fines increased \$61,942 to \$93,224.
- Grant revenue received for street improvements was \$136,218 less than the previous year.
- The cost of all *governmental* activities this year was \$725,892. As shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through tax collections was \$275,784 because some of the costs were paid by those who directly benefited from the programs (\$317,852), by nonproperty taxes (\$145,756), or grants and contributions (\$61,132).

Business-type Activities

Revenues of the City's business-type activities (see table A-2) increased by 1% (\$558,993 from \$551,420) and expenses increased 6% (\$435,148 from \$409,488).

THE CITY’S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a *combined* fund balance of \$290,081, which is an increase from the prior year’s total of \$228,043. The following items effecting fund balance should be noted:

- In the prior year, expenditures were more than revenues by \$74,302 prior to transfers. In the current year, expenditures were more than revenues by \$10,288 prior to transfers.
- The revenues in the governmental funds decreased approximately 7% from the prior period and expenses for the governmental funds decreased 13% from the prior period. These decreases were primarily a result of grant revenues and related expenditures.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City’s budget once. Even with these adjustments, actual revenues were \$63,766 more than budgeted amounts and expenditures were \$76,256 less than final budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had \$5,054,167 invested in a broad range of capital assets, including buildings, furniture and equipment, and utilities facilities (see Table A-3). This amount represents a net increase (including additions and deductions) of \$114,206 over last year.

Table A-3
Fixed Assets

Governmental	Balance		Deletions/	Balance
<u>Activities:</u>	<u>10-01-15</u>	<u>Additions</u>	<u>Reclassifications</u>	<u>09-30-16</u>
Land	\$ 3,778	-	-	3,778
Infrastructure	1,139,680	114,206	-	1,253,886
Buildings& Improvements	245,355	-	-	245,355
Furniture & Equipment	327,667	-	-	327,667
Accumulated Depreciation	<u>(1,282,755)</u>	<u>(57,274)</u>	<u>-</u>	<u>(1,340,029)</u>
Net Capital Assets	<u>\$ 433,725</u>	<u>\$ 56,932</u>	<u>\$ -</u>	<u>\$ 490,657</u>

Business-Type <u>Activities:</u>	Balance <u>10-01-15</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	Balance <u>09-30-16</u>
Land	\$ 195,247	-	-	195,247
Improvements	2,761,369	-	-	2,761,369
Vehicles & Equipment	266,865	-	-	266,865
Accumulated Depreciation	<u>(1,487,613)</u>	<u>(74,405)</u>	<u>-</u>	<u>(1,562,018)</u>
Net Capital Assets	<u>\$ 1,735,868</u>	<u>\$ (74,405)</u>	<u>\$ -</u>	<u>\$ 1,661,463</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Debt

A municipal government can finance activities such as capital improvements and acquisitions through general tax bonds or revenue bonds. Additionally, a government may purchase items through the use of capital leases or notes payable with a financial institution.

At September 30, 2016, the City had 5 outstanding debt obligations. The City's governmental activities carried two bank notes for the purchase of police cars. The City's business-type activities carried Revenue Bonds-Series 1979, Tax Notes-Series 2010, and a note for the purchase of a tractor.

Governmental <u>Activities:</u>	Balance <u>10-01-15</u>	<u>Additions</u>	<u>Decreases</u>	Balance <u>09-30-16</u>	Due Within <u>One Year</u>
Notes Payable-Police Cars	\$ 51,848	\$ -	\$ 16,639	\$ 35,209	\$ 17,358
Business-Type <u>Activities:</u>	Balance <u>10-01-15</u>	<u>Additions</u>	<u>Decreases</u>	Balance <u>09-30-16</u>	Due Within <u>One Year</u>
Revenue Bonds-1979	\$ 43,000	\$ -	\$ 10,000	\$ 33,000	\$ 10,000
Tax Notes-2010	255,000	-	125,000	130,000	130,000
Note Payable	<u>19,745</u>	<u>-</u>	<u>8,510</u>	<u>11,235</u>	<u>8,930</u>
Total Notes Payable	<u>\$ 317,745</u>	<u>\$ -</u>	<u>\$ 145,510</u>	<u>\$ 174,235</u>	<u>\$ 148,930</u>

More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials considered many factors when setting the fiscal year 2017 budget, tax rates, and fees. Factors considered include the current economy, property tax values and the needs of the City in the coming year. The Council has adopted tax rates, budgets and set fees accordingly.

If these estimates are realized, the City's budgetary general fund fund balance is expected to increase slightly by the close of 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Administrator at the City's office located in Hale Center, Texas.

BASIC FINANCIAL STATEMENTS

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF NET POSITION
September 30, 2016

	Primary Government			Component Unit	Total Reporting Entity
	Governmental Activities	Business-type Activities	Total		
ASSETS:					
Cash in Bank	\$ 289,704	\$ -	\$ 289,704	\$ 69,737	\$ 359,441
Accounts Receivable, net	-	56,012	56,012	-	56,012
Taxes Receivable, net	64,253	-	64,253	2,086	66,339
Internal Balances	-	-	-	-	-
Due from Primary Government	-	-	-	-	-
Due from Other Governments	1,188	-	1,188	-	1,188
Capital Assets:					
Land	3,778	195,246	199,024	-	199,024
Infrastructure	396,137	-	396,137	-	396,137
Buildings & Improvements, net	30,846	1,424,172	1,455,018	34,548	1,489,566
Furniture & Equipment, net	59,896	42,043	101,939	-	101,939
TOTAL ASSETS	\$ 845,802	\$ 1,717,473	\$ 2,563,275	\$ 106,371	\$ 2,669,646
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflows - Pension	17,920	8,851	26,771	-	26,771
TOTAL DEFERRED OUTFLOWS OF RESOURCES	17,920	8,851	26,771	-	26,771
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 32,480	\$ 5,248	\$ 37,728	\$ -	\$ 37,728
Accrued Interest	-	1,648	1,648	-	1,648
Noncurrent Liabilities:					
Customer Deposits	-	64,065	64,065	-	64,065
Due within one year	17,358	148,930	166,288	-	166,288
Net Pension Liability	1,840	666	2,506	-	2,506
Due in more than one year	17,851	25,304	43,155	-	43,155
Total Liabilities	\$ 69,529	\$ 245,861	\$ 315,390	\$ -	\$ 315,390
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - Pension	51,175	23,013	74,188	-	74,188
Total Deferred Inflows of Resources	51,175	23,013	74,188	-	74,188
NET POSITION					
Net Investment in Capital Assets	\$ 455,448	\$ 1,487,227	\$ 1,942,675	\$ 34,548	\$ 1,977,223
Restricted For:					
Debt Service	64,638	-	64,638	-	64,638
Specific Programs	10,254	-	10,254	-	10,254
Unrestricted	212,678	(29,777)	182,901	71,823	254,724
Total Net Position	\$ 743,018	\$ 1,457,450	\$ 2,200,468	\$ 106,371	\$ 2,306,839

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit	Total Reporting Entity
		Fees, Fines, Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government				
					Governmental Activities	Business-type Activities	Total		
Government Activities:									
General Government	\$ 238,427	\$ 19,459	\$ -	\$ -	\$ (218,968)	-	(218,968)	-	(218,968)
Public Safety	237,986	96,985	7,394	-	(133,607)	-	(133,607)	-	(133,607)
Public Works	238,606	201,408	-	53,738	16,540	-	16,540	-	16,540
Culture and Recreation	8,857	-	-	-	(8,857)	-	(8,857)	-	(8,857)
Interest on Long-Term Debt	2,016	-	-	-	(2,016)	-	(2,016)	-	(2,016)
Total Governmental Activities	<u>725,892</u>	<u>317,852</u>	<u>7,394</u>	<u>53,738</u>	<u>(346,908)</u>	<u>-</u>	<u>(346,908)</u>	<u>-</u>	<u>(346,908)</u>
Business-type Activities									
Water and Sewer	435,148	558,993	-	-	-	123,845	123,845	-	123,845
Total Primary Government	<u>\$ 1,161,040</u>	<u>\$ 876,845</u>	<u>\$ 7,394</u>	<u>\$ 53,738</u>	<u>\$ (346,908)</u>	<u>\$ 123,845</u>	<u>\$ (223,063)</u>	<u>\$ -</u>	<u>\$ (223,063)</u>
Component Unit:									
Economic Development Corporation	<u>\$ 10,708</u>	<u>\$ -</u>	<u>\$ 200</u>	<u>\$ -</u>				<u>\$ (10,508)</u>	<u>\$ (10,508)</u>
General Revenues									
Property Taxes, Levied for General Purpose					236,869	-	236,869	-	236,869
Property Taxes, Levied for Debt Service					38,915	-	38,915	-	38,915
Sales Taxes					65,365	-	65,365	31,999	97,364
Franchise Taxes					80,391	-	80,391	-	80,391
Unrestricted Investment Earnings					428	-	428	-	428
Miscellaneous					39,765	-	39,765	-	39,765
Transfers					32,623	(32,623)	-	-	-
Total General Revenues and Transfers					<u>494,356</u>	<u>(32,623)</u>	<u>461,733</u>	<u>31,999</u>	<u>493,732</u>
Change in Net Position					147,448	91,222	238,670	21,491	260,161
Net Position -- Beginning					595,570	1,366,228	1,961,798	84,880	2,046,678
Net Position -- Ending					<u>\$ 743,018</u>	<u>\$ 1,457,450</u>	<u>\$ 2,200,468</u>	<u>\$ 106,371</u>	<u>\$ 2,306,839</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 214,230	\$ 75,474	\$ 289,704
Investments	-	-	-
Taxes Receivable, net	60,879	3,374	64,253
Due from Other Governments	1,188	-	1,188
Due from Other Funds	<u>582</u>	<u>-</u>	<u>582</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 276,879</u>	 <u>\$ 78,848</u>	 <u>\$ 355,727</u>
 LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 32,480	\$ -	\$ 32,480
Due to Other Funds	<u>-</u>	<u>582</u>	<u>582</u>
<u>Total Liabilities</u>	<u>32,480</u>	<u>582</u>	<u>33,062</u>
 DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	<u>\$ 29,210</u>	<u>\$ 3,374</u>	<u>\$ 32,584</u>
 FUND BALANCES:			
Restricted For:			
Debt Service	-	64,638	64,638
Specific Programs	-	10,254	10,254
Committed For:			
Street Improvements	39,182	-	39,182
Paw Pals	3,260	-	3,260
Unassigned	<u>172,747</u>	<u>-</u>	<u>172,747</u>
<u>Total Fund Balances</u>	<u>215,189</u>	<u>74,892</u>	<u>290,081</u>
 <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	 <u>\$ 276,879</u>	 <u>\$ 78,848</u>	 <u>\$ 355,727</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2016

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 290,081
Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds	32,584
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	490,657
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds	(35,209)
Included in the items related to noncurrent assets is the recognition of the City's proportionate share of the net pension liability required by GASB 68 in the amount of \$4,756, a deferred resource outflow related to Pensions in the amount of \$6,482, and a deferred resource inflow in the amount of \$47,338. This resulted in a decrease in net position by \$45,612.	<u>(35,095)</u>
Net Position of Governmental Activities -- Statement of Net Position	<u>\$ 743,018</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	General Fund	Other Governmental Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES:			
Property Taxes (Including Penalty & Interest)	\$ 235,547	\$ 38,915	\$ 274,462
Sales Taxes	65,365	-	65,365
Franchise Taxes	80,391	-	80,391
Sanitation Fees	192,072	-	192,072
Mosquito Spraying Fees	9,336	-	9,336
Fees and Fines	96,985	-	96,985
Licenses and Permits	9,044	-	9,044
Leases and Rents	10,415	-	10,415
Investment Income	427	1	428
Grants	53,738	787	54,525
Donations	6,607	-	6,607
Miscellaneous	39,764	-	39,764
<u>Total Revenues</u>	<u>799,691</u>	<u>39,703</u>	<u>839,394</u>
EXPENDITURES			
Current			
General Government	241,701	-	241,701
Public Safety	219,503	-	219,503
Public Works	208,131	-	208,131
Culture and Recreation	7,784	-	7,784
Debt Service:			
Principal	16,638	-	16,638
Interest	2,016	-	2,016
Capital Outlay	114,206	-	114,206
<u>Total Expenditures</u>	<u>809,979</u>	<u>-</u>	<u>809,979</u>
Excess of Revenues Over (Under) Expenditures	(10,288)	39,703	29,415
OTHER FINANCING SOURCES (USES)			
Proceeds from Long-Term Debt	-	-	-
Transfers In/(Out)	71,538	(38,915)	32,623
<u>Total Other Sources (Uses)</u>	<u>71,538</u>	<u>(38,915)</u>	<u>32,623</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	61,250	788	62,038
Fund Balance--Beginning of Year	<u>153,939</u>	<u>74,104</u>	<u>228,043</u>
<u>Fund Balance--End of Year</u>	<u>\$ 215,189</u>	<u>\$ 74,892</u>	<u>\$ 290,081</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

Net Change in Fund Balances -- Total Governmental Funds \$ 62,038

Amounts reported for governmental activities in the statement of activities ("SOA") are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount of capital outlays during the current period. 114,207

The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets (57,274)

Certain property tax revenues are unavailable in the funds. These are the amounts that have not been collected and are therefore do not provide current financial resources. This is the amount that these accounts have changed during the current period. 1,322

The issuance of long-term debt is reported as an other resource in the governmental funds, but is an increase of long-term debt in the statement of net position. This amount is the total issuance of long-term debt in the current fiscal year. -

Repayment of debt principal is an expenditure in the governmental funds, but is a reduction of long-term debt in the statement of net position. This amount is the total debt principal repaid on long-term debt. 16,638

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/15 caused the change in the ending net position to increase in the amount of \$3,463. Contributions made before the measurement date and during the 2015 fiscal year were also expended in the 2015 fiscal year and recorded as an increase in net pension expense for the District. This caused a decrease in the change in net position totaling \$4,950. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded as an expense. The net pension expense increased the change in net position \$12,004. The result of these amounts is to decrease the change in net position by \$10,517. 10,517

Change in Net Position -- Statement of Activities \$ 147,448

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUND
September 30, 2016

	Business-Type Activities-- <u>Enterprise Funds</u>
	<u>Water & Sewer</u>
ASSETS	
<u>Current Assets:</u>	
Cash	\$ -
Accounts Receivable, net (allowance for uncollectible accounts of \$38,776)	56,012
<u>Total Current Assets</u>	<u>56,012</u>
<u>Capital Assets:</u>	
Land	195,246
Construction in Progress	-
Improvements other than buildings, net	1,424,172
Vehicles, Machinery and Equipment, net	42,043
<u>Total Fixed Assets</u>	<u>1,661,461</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 1,717,473</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Outflows - Pension	\$ 8,851
<u>TOTAL DEFERRED OUTFLOWS OF RESOURCES</u>	<u>\$ 8,851</u>
 LIABILITIES	
<u>Current Liabilities</u>	
Accounts Payable	\$ 5,248
Accrued Interest	1,648
Due to Other Funds	-
Bonds Payable - due within one year	148,930
<u>Non-current Liabilities</u>	
Customer Deposits	64,065
Net Pension Liability	666
Due in more than one year	25,304
<u>Total Liabilities</u>	<u>245,861</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred Inflows - Pension	23,013
<u>Total Deferred Inflows of Resources</u>	<u>23,013</u>
 NET POSITION	
Net investment in capital assets	1,487,227
Unrestricted	(29,777)
<u>Total Net Position</u>	<u>\$ 1,457,450</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION--
PROPRIETARY FUNDS

For the Year Ended September 30, 2016

	Business-Type Activities-- <u>Enterprise Funds</u>
	<u>Water & Sewer</u>
<u>Operating Revenues</u>	
Water Sales	\$ 401,982
Sewer Charges	130,697
Reconnect and Late Fees	24,517
Miscellaneous Income	1,797
<u>Total Operating Revenues</u>	<u>558,993</u>
<u>Operating Expenses</u>	
Salaries	135,810
Payroll Taxes	10,921
Employee Benefits	14,016
Insurance	12,774
Supplies	11,945
Repairs and Maintenance	93,677
Utilities and Fuel	56,808
Professional Fees	6,438
Miscellaneous	8,051
Depreciation	74,405
<u>Total Operating Expenses</u>	<u>424,845</u>
<u>Operating Income (Loss)</u>	134,148
<u>Non-Operating Revenues (Expenses)</u>	
Interest Revenue	-
Interest Expense	(10,303)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>(10,303)</u>
<u>Income Before Contributions and Transfers</u>	<u>123,845</u>
<u>Contributions and Transfers</u>	
Grant Revenues	-
Transfer from/(to) Other Funds	(32,623)
<u>Total Contributions and Transfers</u>	<u>(32,623)</u>
Change in Net Position	91,222
NET POSITION	
Net Position, Beginning of Year	<u>1,366,228</u>
Net Position, End of Year	<u>\$ 1,457,450</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF CASH FLOWS--
PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	<u>Business-Type Activities-- Enterprise Funds</u>
	<u>Water & Sewer</u>
<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 564,737
Payments to Suppliers	(190,730)
Payments to Employees	(166,249)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>207,758</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to Other Funds	(32,623)
Change in Due to Other Funds	(64,638)
<u>Net Cash Provided (Used) by Non-Capital Financing Activities</u>	<u>(97,261)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	-
Principal Paid on Long-Term Debt	(143,512)
Interest Paid on Long-Term Debt	(11,081)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	<u>(154,593)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends	-
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>-</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(44,096)
Cash & Cash Equivalents--Beginning of Year	44,096
<u>Cash & Cash Equivalents--End of Year</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 134,148
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:	
Depreciation	74,405
(Increase) Decrease in Receivables	5,673
(Increase) Decrease in Deferred Outflows	(5,961)
Increase (Decrease) in Liabilities	(2,420)
Increase (Decrease) in Deferred Inflows	1,913
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ 207,758</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2016

Note A: Summary of Significant Accounting Policies

The basic financial statements of the City of Hale Center have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants (AICPA).

1. The Reporting Entity

The City of Hale Center (the City) was founded in 1921. The City operates under the Council-Manager form of government. Prior to the year ended September 30, 2009, the City operated under a Council-Mayor form of government. The City provides a full range of municipal services including public safety (police and fire), highway and streets, sanitation, culture and recreation, public improvement, planning and zoning, and general administrative services. In addition, the City provides water and sewer service as a proprietary function of the City.

The City of Hale Center is a home rule municipality governed by an elected mayor and five member City Council who appoint a City Manager. The City's financial statements include its component units. The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, "The Financial Reporting Entity" (as amended by GASB Statement No. 39) in that the financial statements include all organizations, activities, functions and component units for which the City is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Discretely Presented Component Units

The Hale Center Economic Development Corporation (HCEDC), a non-profit corporation, was created to promote future economic development in Hale Center, Texas. The HCEDC is included in the reporting entity because the City Council appoints the five-member Board of Directors and approves its annual budget. Accordingly, the City is financially accountable and is able to impose its will on the organization. The HCEDC is reported as a governmental fund type component unit, HCEDC's fiscal year end is March 31st, which differs from that of the City's September 30th year end. Accordingly, HCEDC's financial information included in the basic financial statements is as of March 31, 2016 rather than September 30, 2016. The difference in fiscal year ends results in inconsistencies in amounts reported in due to/from accounts. Significant transactions between the City and HCEDC included the City's disbursement of HCEDC's share of sales tax revenues to HCEDC amounting to \$31,999 for the year ended March 31, 2016. Separate HCEDC financial information can be obtained by writing to Hale Center Economic Development Corporation, P.O. Box 957, Hale Center, TX 79041.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2
September 30, 2016

Note A: Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all of taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund: This is the primary operating fund of the City. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

In addition, the City reports the following fund types:

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds: Debt Service Funds are used to account for the accumulation of and use of property and sales tax revenue to meet the debt service requirements of the City's general and revenue bonded debt.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3
September 30, 2016

Note A: Summary of Significant Accounting Policies--Continued

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4
September 30, 2016

Note A: Summary of Significant Accounting Policies (continued)

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus utilizing the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The fund equity is segregated in net investment in capital assets, restricted net position, and unrestricted net position.

c. Fund Balance Classification

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Currently, the City's restricted fund balances are made up of \$64,638 restricted for Debt Service and \$10,254 restricted for Specific Programs.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. Currently, the City has \$39,182 committed for street improvements and \$3,260 committed for the Paw Pals program.

Unassigned: This classification includes the residual fund balance for the General Fund.

The City would typically use Restricted fund balances first, followed by Committed resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

3. Financial Statement Amounts

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments having a maturity of one year or more, when purchased, are stated at fair value. Short-term investments are stated a cost or amortized cost.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5
September 30, 2016

Note A: Summary of Significant Accounting Policies (continued)

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1st for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of September 30, 2016, the amount deemed uncollectible by this estimate was \$30,416. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect cost applicable to future periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The City has elected not to retroactively report its infrastructure assets. Infrastructure assets acquired after the implementation of GASB 34 will be capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20
Buildings	30
Building Improvements	15
System and Improvements	50
Vehicles	5-10
Office Equipment and Furniture	5-10
Computer Equipment	3

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6
September 30, 2016

Note A: Summary of Significant Accounting Policies (continued)

e. Receivable and Payable Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade receivables are shown net of an allowance for uncollectible. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectible.

f. Long-Term Debt

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7
September 30, 2016

Note A: Summary of Significant Accounting Policies (continued)

h. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has one item which qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has one type of item which arises under the modified accrual basis of accounting and one type of item that qualifies under the accrual basis of accounting. Accordingly, unavailable ad valorem tax revenue is only reported in the governmental funds balance sheet; and deferred inflows related to pensions is only reported in the statement of net position. These amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

i. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note B: Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violations</u>	<u>Action Taken</u>
None Reported	Not Applicable

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8
September 30, 2016

Note C: Deposits and Investments

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

Cash Deposits

At September 30, 2016, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$289,704 and the bank balance was \$294,685. The City's cash deposits at September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. However, the City's cash deposits were not entirely covered by FDIC insurance or by pledged collateral at various times during the fiscal year.

HCEDC's carrying and bank balance was \$69,737. All HCEDC's deposits were covered by FDIC insurance or pledged collateral held by the agent bank in HCEDC's name at March 31, 2016. Accordingly, the HCEDC had no custodial risk for deposits.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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

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

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2016

Note D: Receivables

Receivables as of September 30, 2016 for the City's major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts are as follows:

Governmental activities:			
General Fund	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Property taxes	\$ 56,022	\$ (26,812)	\$ 29,210
Franchise taxes	23,839	-	23,839
Sales taxes	<u>7,830</u>	<u>-</u>	<u>7,830</u>
Total governmental	<u>\$ 87,691</u>	<u>\$ (26,812)</u>	<u>\$ 60,879</u>
Business-type activities:			
Water and Sewer Fund			
Customer accounts	<u>\$ 94,788</u>	<u>\$ (38,776)</u>	<u>\$ 94,788</u>
Total business-type	<u>\$ 94,788</u>	<u>\$ (38,776)</u>	<u>\$ 94,788</u>
Component unit:			
Hale Center Economic Development Corporation			
Loans receivable	<u>\$ 17,000</u>	<u>\$ (17,000)</u>	<u>\$ -</u>
Total component unit	<u>\$ 17,000</u>	<u>\$ (17,000)</u>	<u>\$ -</u>

Note E: Capital Assets

Capital asset activity for the period ended September 30, 2016, was as follows:

Governmental Activities:	Balance <u>10-01-15</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	Balance <u>9-30-16</u>
Land	\$ 3,778	-	-	\$ 3,778
Infrastructure	1,139,680	114,206	-	1,253,886
Buildings & Improvements	245,355	-	-	245,355
Furniture & Equipment	<u>327,667</u>	<u>-</u>	<u>-</u>	<u>327,667</u>
Total Capital Assets	<u>\$ 1,716,480</u>	<u>\$114,206</u>	<u>\$ -</u>	<u>\$ 1,830,686</u>
<u>Less Accumulated Depreciation:</u>				
Infrastructure	\$ 827,296	\$ 30,453	-	\$ 857,749
Buildings & Improvements	211,632	2,877	-	214,509
Furniture & Equipment	<u>243,827</u>	<u>23,944</u>	<u>-</u>	<u>267,771</u>
Total Accumulated Depreciation	<u>\$ 1,282,755</u>	<u>\$ 57,274</u>	<u>\$ -</u>	<u>\$ 1,340,029</u>
Net Capital Assets	<u>\$ 433,725</u>	<u>\$ 56,932</u>	<u>\$ -</u>	<u>\$ 490,657</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2016

Note E: Capital Assets (continued)

Business-Type Activities:	Balance <u>10-01-15</u>	<u>Additions</u>	Deletions/ Reclassifications	Balance <u>9-30-16</u>
Land	\$ 195,247	-	-	\$ 195,247
Buildings& Improvements	2,761,369	-	-	2,761,369
Vehicles, Machinery & Furniture & Fixtures	<u>266,865</u>	<u>-</u>	<u>-</u>	<u>266,865</u>
Total Capital Assets	<u>\$ 3,223,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,223,481</u>
 <u>Less Accumulated Depreciation:</u>	 Balance <u>10-01-15</u>	 <u>Additions</u>	 Deletions/ Reclassifications	 Balance <u>9-30-16</u>
Buildings& Improvements	\$ 1,275,976	\$ 61,220	-	\$ 1,337,196
Vehicles, Machinery & Furniture & Fixtures	<u>211,637</u>	<u>13,185</u>	<u>-</u>	<u>224,822</u>
Total Accumulated Depreciation	<u>\$ 1,487,613</u>	<u>\$ 74,405</u>	<u>\$ -</u>	<u>\$ 1,562,018</u>
Net Capital Assets	<u>\$ 1,735,868</u>	<u>\$ (74,405)</u>	<u>\$ -</u>	<u>\$ 1,661,463</u>

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

General Government	\$ 858
Public Safety	23,797
Public Works	31,546
Culture and Recreation	1,073
Water and Sewer	<u>74,405</u>
	<u>\$131,679</u>

Component Unit HCEDC:	Balance <u>04-01-15</u>	<u>Additions</u>	Deletions/ Reclassifications	Balance <u>03-31-16</u>
Buildings& Improvements	\$ 37,484	\$ -	\$ -	\$ 37,484
Total Capital Assets	<u>\$ 37,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,484</u>
 <u>Less Accumulated Depreciation:</u>	 Balance <u>04-01-15</u>	 <u>Additions</u>	 Deletions/ Reclassifications	 Balance <u>03-31-16</u>
Buildings& Improvements	\$ 1,687	\$ 1,249	\$ -	\$ 2,936
Total Accumulated Depreciation	<u>\$ 1,687</u>	<u>\$ 1,249</u>	<u>\$ -</u>	<u>\$ 2,936</u>
Net Capital Assets	<u>\$ 35,797</u>	<u>\$ (1,249)</u>	<u>\$ -</u>	<u>\$ 34,548</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2016

Note F: Interfund Balances and Activities

Interfund balances at September 30, 2016 consisted of the following individual fund balances:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<u>General Fund:</u>		
Special Revenue Funds	\$ 582	\$ -
<u>Special Revenue Fund:</u>		
General Fund	<u>-</u>	<u>582</u>
 <u>Total</u>	 <u>\$ 582</u>	 <u>\$ 582</u>

These interfund receivables and payables were recorded to eliminate cash flow deficits of various funds.

Note G: Interfund Transfers

Interfund transfers for the year ended September 30, 2016 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund:</u>		
Proprietary Fund	\$ 71,538	<u>-</u>
<u>Total General Fund</u>	<u>71,538</u>	<u>-</u>
<u>Special Revenue Fund:</u>		
Proprietary Fund	<u>\$ -</u>	<u>38,915</u>
<u>Proprietary Fund:</u>		
General Fund	-	71,538
Special Revenue Fund	<u>38,915</u>	<u>-</u>
 <u>Total</u>	 <u>\$ 110,453</u>	 <u>\$ 110,453</u>

The Water & Sewer Fund transferred \$71,538 to the General Fund in the normal course of business. The Debt Service Fund transferred the amount of debt service tax collections (\$38,915) to the Water & Sewer Fund to fund a portion of the debt service payments.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2016

Note H: Long-Term Debt

Short term loans are accounted for through the applicable fund. General Fund proceeds from loans (except those issued and retired during the current year) are shown in the financial statements as Other Resources and principal payments as Other Uses. Enterprise fund loans are shown in the appropriate fund.

During the year ended September 30, 1979, the City issued \$135,000 in revenue bonds. The bonds are payable in annual installments of \$8,000 to \$9,000 from 2011 through 2019, with semi-annual interest payments at 5%. The final maturity date is December 31, 2019.

During the year ended September 30, 2011, the City issued \$600,000 in tax notes bonds. The bonds are payable in annual installments of \$69,773 to \$134,160 from 2011 through 2017, with semi-annual interest payments at 3.2%. The final maturity date is September 1, 2017.

The City borrowed \$40,486 to finance the purchase of a tractor. The note is secured by the equipment acquired. Interest accrues at 4.822%. The note is payable in quarterly payments of \$2,328 through November 1, 2017.

The City borrowed \$29,217 to finance the purchase of a police vehicle. The note is secured by the vehicle. Interest accrues at 4.25%. The note is payable in quarterly payments of \$2,003 through October 2, 2017.

The City borrowed \$38,874 to finance the purchase of a police vehicle. The note is secured by the vehicle. Interest accrues at 4.25%. The note is payable in quarterly payments of \$2,660 through July 2, 2019.

Interest expense incurred during the current fiscal year was \$2,016 for governmental activities and \$10,303 for business-type activities.

Changes in long-term obligations for the year ended September 30, 2016 are as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable-Vehicles	\$ 51,848	\$ -	\$ 16,639	\$ 35,209	\$ 17,358
<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Rev. Bonds-Series 1979	\$ 43,000	\$ -	\$ 10,000	\$ 33,000	\$ 10,000
Tax Notes-Series 2010	255,000	-	125,000	130,000	130,000
Note Payable-Tractor	<u>19,745</u>	<u>-</u>	<u>8,510</u>	<u>11,235</u>	<u>8,930</u>
<u>Total Business-Type Funds:</u>	<u>\$ 317,745</u>	<u>\$ -</u>	<u>\$ 145,510</u>	<u>\$ 174,235</u>	<u>\$ 148,930</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2016

Note H: Long-Term Debt (continued)

Debt service requirements on long-term debt at September 30, 2016 are as follows:

Year Ending September,	<u>Governmental Funds</u>		<u>Business-Type Funds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	17,358	1,228	148,930	6,193
2018	10,038	603	13,305	1,174
2019	<u>7,813</u>	<u>167</u>	<u>12,000</u>	<u>600</u>
Total	<u>\$ 35,209</u>	<u>\$ 1,998</u>	<u>\$ 174,235</u>	<u>\$ 7,967</u>

The general fund and debt service fund are used to liquidate the governmental activities long-term debt and the water and sewer fund liquidates the business-type activities long-term debt.

Note I: Pension Plan

Plan Description

The City of Hale Center participates as one of 866 plans in the non-traditional, 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's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2016

Note F: Pension Plan (continued)

	<u>Plan Year 2015</u>	<u>Plan Year 2016</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>10</u>
Total	19

Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings, and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the city. Under state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Hale Center were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Hale Center were 2.85% and 1.74% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$8,163, and were equal to the required contributions.

Net Pension Liability

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

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2016

Note F: Pension Plan (continued)

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%.

For Cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16
September 30, 2016

Note F: Pension Plan (continued)

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

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

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 17
September 30, 2016

Note F: Pension Plan (continued)

Change in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/14	\$ 247,382	\$ 240,505	\$ 6,877
Changes for the year:			
Service cost	22,383		22,383
Interest	17,477		17,477
Change of benefit terms			
Difference between expected and actual experience	(25,622)		(25,622)
Changes of assumptions	8,372		8,372
Contributions - employer		9,795	(9,795)
Contributions - employee		17,056	(17,056)
Net investment income		355	(355)
Benefit payments, including refunds of employee contributions	(17,813)	(17,813)	-
Administrative expense		(216)	216
Other changes		(11)	11
Net changes	<u>4,797</u>	<u>9,166</u>	<u>(4,369)</u>
Balance at 12/31/15	<u>\$ 252,179</u>	<u>\$ 249,671</u>	<u>\$ 2,508</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 38,335.00	\$ 2,508.00	\$ (26,646.00)

Pension Plan Fiduciary Net Position

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

CITY OF HALE CENTER
 Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 18
 September 30, 2016

Note F: Pension Plan (continued)

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

For the year ended September 30, 2016, the city recognized pension expense of (\$8,191).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 74,188
Changes in actuarial assumptions	\$ 6,737	\$ -
Difference between projected and actual investment earnings	\$ 14,845	\$ -
Contributions subsequent to the measure date December 31, 2015	\$ 5,189	\$ -
Total	\$ 26,771	\$ 74,188

\$5,189 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2016	\$ (14,387)
2017	(14,387)
2018	(14,388)
2019	(9,039)
2020	(405)
Thereafter	<u>-</u>
Total	\$ (52,606)

Note J: Supplemental Death Benefits Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 19
September 30, 2016

Note J: Supplemental Death Benefits Plan

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceeding the month of death). Retired employees are insured for \$7,500. This coverage is an “other postemployment benefit,” or OPEB.

Contributions

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

For the years ended September 30, 2016, 2015, and 2014, the City’s contributions to the SDBF were \$601, \$456, and \$459, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates
(Retiree-only portion of the rate)

Plan/Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.00%	0.00%	100.0%
2014	0.00%	0.00%	100.0%
2015	0.00%	0.00%	100.0%
2016	0.01%	0.01%	100.0%

Note K: Litigation

The City was a defendant in a lawsuit arising from the normal course of business. Subsequent to year-end, this case was settled at mediation. The City’s insurance carrier will pay the agreed upon settlement. No liability has been recorded in the financial statements related to this lawsuit.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HALE CENTER
Hale Center, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 237,290	\$ 237,290	\$ 235,547	\$ (1,743)
Sales Taxes	75,000	75,000	65,365	(9,635)
Franchise Taxes	99,250	99,250	80,391	(18,859)
Sanitation Fees	190,000	190,000	192,072	2,072
Mosquito Spraying Fees	10,000	10,000	9,336	(664)
Fees and Fines	46,885	46,885	96,985	50,100
Licenses and Permits	7,500	7,500	9,044	1,544
Leases and Rents	10,000	10,000	10,415	415
Investment Income	-	-	427	427
Grants	50,000	50,000	53,738	3,738
Donations	-	-	6,607	6,607
Miscellaneous	10,000	10,000	39,764	29,764
<u>Total Revenues</u>	<u>735,925</u>	<u>735,925</u>	<u>799,691</u>	<u>63,766</u>
<u>Expenditures</u>				
<u>Current</u>				
General Government	250,716	250,716	241,701	9,015
Public Safety	279,195	252,195	219,503	32,692
Public Works	224,670	224,670	208,131	16,539
Culture and Recreation	25,000	25,000	7,784	17,216
Debt Service:				
Principal	16,638	16,638	16,638	-
Interest	2,016	2,016	2,016	-
Capital Outlay	88,000	115,000	114,206	794
<u>Total Expenditures</u>	<u>886,235</u>	<u>886,235</u>	<u>809,979</u>	<u>76,256</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from the Sale of Assets	5,000	5,000	-	(5,000)
Transfer In/(Out)	145,310	145,310	71,538	(73,772)
<u>Total Other Financing Sources (Uses)</u>	<u>150,310</u>	<u>150,310</u>	<u>71,538</u>	<u>(78,772)</u>
<u>Excess of Revenues and Other Sources</u>				
<u>Over (Under) Expenditures and Other Uses</u>	-	-	61,250	61,250
Fund Balance, Beginning of Year	153,939	153,939	153,939	-
<u>Fund Balance, End of Year</u>	<u>\$ 153,939</u>	<u>\$ 153,939</u>	<u>\$ 215,189</u>	<u>\$ 61,250</u>

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
AND RELATED RATIOS - TMRS
(*unaudited*)

	December 31, 2015	December 31, 2014
Total Pension Liability		
Service Cost	\$ 22,383	\$ 24,345
Interest (on the Total Pension Liability)	17,477	21,375
Changes of benefit terms	-	-
Difference between expected and actual experience	(25,622)	(83,306)
Change of assumptions	8,372	-
Benefit payments, including refunds of employee contributions	(17,813)	(16,442)
Net change in Total Pension Liability	4,797	(54,028)
Total Pension Liability - Beginning	247,382	301,410
Total Pension Liability - Ending (a)	<u>\$ 252,179</u>	<u>\$ 247,382</u>
 Plan Fiduciary Net Position		
Contributions - employer	9,795	8,922
Contributions - employee	17,056	19,239
Net investment income	355	12,389
Benefit payments, including refunds of employee contributions	(17,813)	(16,442)
Administrative expense	(216)	(129)
Other	(11)	(11)
Net Change in Plan Fiduciary Net Position	9,166	23,968
Plan Fiduciary Net Position - Beginning	240,505	216,537
Plan Fiduciary Net Position - Ending (b)	<u>\$ 249,671</u>	<u>\$ 240,505</u>
 Net Pension Liability/(Asset) - Ending (a) - (b)	\$ 2,508	\$ 6,877
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	99.01%	97.22%
 Covered Employee Payroll	\$ 342,767	\$ 384,773
 Net Pension Liability/(Asset) as a Percentage of Covered Payroll	0.73%	1.79%

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF CONTRIBUTIONS - TMRS
(unaudited)

	<u>FYE 9/30/2016</u>	<u>FYE 9/30/2015</u>
Actuarially Determined Contribution	\$ 8,163	\$ 9,179
Contributions in relation to the actuarially determined contribution	<u>8,163</u>	<u>9,179</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 371,123	\$ 338,284
Contributions as a percentage of covered employee payroll	2.20%	2.71%

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2016

Schedule of Contributions – TMRS

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2016

Years Ended September 30	Original Tax Levy	Balance 10/01/15	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/16
2006 and Prior	\$ --	\$ 10,751	\$ -	\$ 160	\$ (406)	\$ 10,185
2007	206,388	2,140	-	5	-	2,135
2008	218,748	2,282	-	16	-	2,266
2009	227,654	2,554	-	178	-	2,376
2010	234,049	2,996	-	310	-	2,686
2011	233,709	4,412	-	769	-	3,643
2012	247,626	6,258	-	1,473	-	4,785
2013	251,506	10,587	-	3,096	-	7,491
2014	266,911	14,938	-	4,144	(201)	10,593
2015		-	278,028	260,787	(402)	16,839
	<u>Totals</u>	<u>\$ 56,918</u>	<u>\$ 278,028</u>	<u>\$ 270,938</u>	<u>\$ (1,009)</u>	<u>\$ 62,999</u>

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Independent Auditors' Report

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 Mayor and City Council
City of Hale Center, Texas
P.O. Box 532
Hale Center, Texas 79041

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hale Center, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Hale Center's basic financial statements, and have issued our report thereon dated February 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hale Center'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 of Hale Center'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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.



Independent Auditors' Report
Page 2

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. Therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

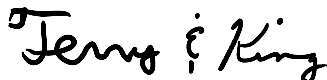
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hale Center'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.

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.

Respectfully submitted,



Terry & King, CPAs, P.C.
Lubbock, Texas
February 10, 2017

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

A. Findings Required to be Reported in Accordance with Government Auditing Standards

Finding 2016-1: Reconciliation of cash accounts

Comment: Our testing in the area of cash disclosed that monthly reconciliations for all of the various bank accounts are not occurring. The lack of this control feature allows for differences to occur and accumulate over a period of time and makes it possible for the cash to be misappropriated. In order to maintain proper control over cash, we suggest that the accounts be reconciled to the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate cash balance.

Recommendation: We recommend the City adopt policies to verify that all cash accounts are reconciled to the general ledger monthly, and those reconciliations are properly reviewed and approved.

Management response/corrective action plan: The City has new financial reporting personnel. These individuals are working diligently to learn the software and procedures. The reconciliations will be performed timely going forward.

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2016

A. Findings Required to be Reported in Accordance with Government Auditing Standards

Reconciliation of cash accounts

Comment: Our testing in the area of cash disclosed that monthly reconciliations for all of the various bank accounts are not occurring. The lack of this control feature allows for differences to occur and accumulate over a period of time and makes it possible for the cash to be misappropriated. In order to maintain proper control over cash, we suggest that the accounts be reconciled to the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate cash balance.

Management response/corrective action plan: See current year finding 2016-1.

Reconciliation of accounts receivable

Comment: Our testing in the area of accounts receivable for utilities disclosed that monthly reconciliations between the billing system and the general ledger are not being performed. The lack of this control feature allows for differences to occur and accumulate over a period of time. In order to maintain proper control over accounts receivable and cash receipts, we suggest that the billing system be reconciled with the balance in the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts receivable balance supported by the billing system.

Management response/corrective action plan: The accounts receivable clerk is now printing monthly accounts receivable aging reports. These aging reports are reconciled to the general ledger.