

CITY OF HITCHCOCK, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2016

CITY OF HITCHCOCK, TEXAS

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hitchcock, Texas (the "City") as of and for the year ended September 30, 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 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 on pages 7 through 14, budgetary comparison information on pages 54 through 55, and pension information on pages 56 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Uniform Guidance, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated May 30, 2017, on our consideration of the City's internal control over financial reporting on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
May 30, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF HITCHCOCK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$17.4 million (net position). Of this amount, \$14.4 million is net investment in capital assets, \$0.6 million is restricted, leaving \$2.4 million in unrestricted net position.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.54 million, a decrease of \$767 thousand from the prior year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Community Development Block Grant fund, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

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

The basic proprietary fund financial statements can be found on pages 24 through 29 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 30 through 52 of this report.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's total pension liability and net pension asset, information regarding City's obligation to provide pension benefits to its employees and general fund budgetary comparisons. Required supplementary information can be found on pages 54 through 57 of this report.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17.4 million.

By far the largest portion of the City's net position of \$14.4 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF HITCHCOCK, TEXAS
Net Position (in thousands)
September 30, 2016 and 2015

	2016			2015		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Current assets	\$ 3,264	\$ 1,686	\$ 4,950	\$ 4,590	\$ 1,364	\$ 5,954
Capital assets	3,909	12,971	16,880	8,791	8,331	17,122
Total Assets	7,173	14,657	21,830	13,381	9,695	23,076
Deferred outflows of resources	261	92	353	66	25	91
Current liabilities	1,386	679	2,065	1,869	727	2,596
Long-term liabilities	568	4,231	4,799	375	2,438	2,813
Total Liabilities	1,954	4,910	6,864	2,244	3,165	5,409
Deferred inflows of resources	97	54	151	4	2	6
Net position						
Net investment in capital assets	3,626	10,726	14,352	8,451	5,916	14,367
Restricted	64	547	611	63	391	454
Unrestricted	1,917	493	2,410	2,685	246	2,931
Total Net Position	\$ 5,607	\$ 11,766	\$ 17,373	\$ 11,199	\$ 6,553	\$ 17,752

An additional portion of the City's net position, \$0.6 million, represents resources that are subject to external restrictions on how they may be used. The amount of unrestricted net position is \$2.4 million.

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

The government's net position decreased by \$0.4 million during the current fiscal year. The following table summarizes the changes in net position for the City for the year ended September 30, 2016:

CITY OF HITCHCOCK, TEXAS
Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2016 and 2015

	2016			2015		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues						
Program Revenues:						
Charges for services	\$ 1,419	\$ 2,961	\$ 4,380	\$ 1,241	\$ 2,438	\$ 3,679
Operating grants and contributions	821	-	821	3,846	171	4,017
Capital grants and contributions	-	64	64	-	-	-
General revenues:						
Property taxes	812	-	812	1,053	-	1,053
Franchise fees	405	-	405	388	-	388
Sales tax	953	-	953	1,139	-	1,139
Other	46	1	47	53	1	54
Total Revenues	4,456	3,026	7,482	7,720	2,610	10,330
Expenses						
General government	830	-	830	698	-	698
Public safety	2,106	-	2,106	1,777	-	1,777
Public works	1,187	-	1,187	1,152	-	1,152
Health, welfare and sanitation	312	-	312	307	-	307
Culture and recreation	106	-	106	100	-	100
Interest on long-term debt	-	-	-	-	-	-
Water	-	1,654	1,654	-	1,741	1,741
Sewer	-	1,666	1,666	-	1,485	1,485
Total Expenses	4,541	3,320	7,861	4,034	3,226	7,260
Transfer in (out)	(5,507)	5,507				
Change in net position	(5,592)	5,213	(379)	3,686	(616)	3,070
Beginning Net Position	11,199	6,553	17,752	7,392	7,124	14,516
Prior period adjustment	-	-	-	121	45	166
Ending Net Position	\$ 5,607	\$ 11,766	\$ 17,373	\$ 11,199	\$ 6,553	\$ 17,752

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

Governmental activities. Governmental activities decreased the City's net position by \$5.59 million. A comparison of program expenses to program revenues and revenues by source for governmental activities follows:

CITY OF HITCHCOCK, TEXAS
Expenses, Program Revenues and Net Cost of Services - Governmental Activities (in thousands)
For the Fiscal Years Ended September 30, 2016 and 2015

Program	2016			2015		
	Expenses	Program Revenues	Net (Cost) of Services	Expenses	Program Revenues	Net (Cost) of Services
General government	\$ 830	\$ -	\$ (830)	\$ 698	\$ -	\$ (698)
Public safety	2,106	588	(1,518)	1,777	478	(1,299)
Public works	1,187	1,345	158	1,152	4,272	3,120
Health, welfare and sanitati	312	307	(5)	307	337	30
Culture and recreation	106	-	(106)	100	-	(100)
	<u>\$ 4,541</u>	<u>\$ 2,240</u>	<u>\$ (2,301)</u>	<u>\$ 4,034</u>	<u>\$ 5,087</u>	<u>\$ 1,053</u>

While total expenses decreased slightly from the prior year (\$507,000) total revenue decreased by \$1.5 million due primarily to decreases in operating grants for the year before due to the decreased expenditures in the Community Development Block Grant Fund in 2016.

Business-type activities. The net position of the City's business-type activities increased by approximately \$5.2 million. A comparison between expenses relating to water and sewer operations and program revenues (charges for services and operating grants) follows.

CITY OF HITCHCOCK, TEXAS
Expenses, Program Revenues, and Net Cost of Services - Business Type Activities (in thousands)
For the Fiscal Years Ended September 30, 2016 and 2015

Program	2016			2015	
	Expenses	Program Revenues	Net (Cost) of Services	Net (Cost) of Services	
Water	\$ 1,654	\$ 1,667	\$ 13	\$ (247)	
Sewer	1,666	1,358	(308)	(369)	
Total	<u>\$ 3,320</u>	<u>\$ 3,025</u>	<u>\$ (295)</u>	<u>\$ (616)</u>	

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

Financial Analysis of the Government's Funds

As noted earlier, the City used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.54 million.

The General fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the general fund was \$1.46 million. This is approximately \$773 thousand less than September 30, 2015. This was primarily due to garbage contract expenditures in the amount of \$267,305, sales tax rebates in the amount of \$345,000, and capital lease principal and interest in the amount of \$68,901 that were not included in the general fund budget.

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

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

Unrestricted net position of the Water and Sewer Enterprise fund at the end of the year amounted to \$493 thousand or 15% of annual operating and non-operating expenses for the fund.

General Fund Budgetary Highlights

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

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities, as of September 30, 2016, amounted to \$16.9 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, park facilities, water and wastewater plants and service lines, machinery and equipment.

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

A summary of capital assets, as of September 30, 2016, is as follows:

CITY OF HITCHCOCK, TEXAS
Capital Assets, net of depreciation where applicable (in thousands)
September 30, 2016 and 2015

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 1,425	\$ 62	\$ 1,487	\$ 1,425	\$ 62	\$ 1,487
Construction in progress	1,513	-	1,513	6,269	-	6,269
Infrastructure	-	12,224	12,224	-	7,442	7,442
Buildings	512	169	681	546	116	662
Equipment and furniture	459	516	975	551	691	1,242
	<u>\$ 3,909</u>	<u>\$ 12,971</u>	<u>\$ 16,880</u>	<u>\$ 8,791</u>	<u>\$ 8,311</u>	<u>\$ 17,102</u>

In fiscal year 2016, construction was completed for system improvements in the amount of \$5.5 million funded by the Community Development Block Grant. These assets were then transferred from the Governmental Activities to the Water and Sewer Fund. Additional information on the City's capital assets can be found in Note 7 of the basic financial statements of this report.

Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$1.90 million which represents revenue bonds secured solely by specified revenue sources.

CITY OF HITCHCOCK, TEXAS
Outstanding Debt (in thousands)
September 30, 2016 and 2015

	2016			2015		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Certificates of obligation	\$ -	\$ 957	\$ 957	\$ -	\$ 974	\$ 974
Contract revenue bonds	-	940	940	-	1,024	1,024
Capital lease obligations	283	332	615	340	418	758
	<u>\$ 283</u>	<u>\$ 2,229</u>	<u>\$ 2,512</u>	<u>\$ 340</u>	<u>\$ 2,416</u>	<u>\$ 2,756</u>

The City's total debt decreased by approximately \$244,000 during the fiscal year.

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

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

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the County in which the City is located was 5.9 percent in March 2017, which is an increase of .9 percent from a year ago. A comparison of rates for the county, state and nation follows:

Region	April 2017	April 2016	Change
United States	4.6%	5.1%	-.5%
Texas	5.0%	4.5%	+.5%
Galveston County	5.9%	5.0%	+.9%

The City approved a general fund budget of 4.6 million for the fiscal year 2016 - 2017, which is an increase of 21% over the current year and is expected to draw on existing general fund balance in the amount of approximately \$725,000. The tax rate of \$.413202 per \$100 valuation was approved.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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CITY OF HITCHCOCK, TEXAS

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and temporary investments	\$ 2,223,740	\$ 850,956	\$ 3,074,696	\$ 2,558,213
Receivables	661,978	317,336	979,314	107,459
Prepaid items	8,917	2,161	11,078	-
Restricted Assets:				
Cash and temporary investments	327,500	557,742	885,242	846,725
Total Current Assets	3,264,242	1,686,088	4,950,330	3,512,397
Capital Assets:				
Land	1,424,690	61,776	1,486,466	-
Construction in progress	1,512,790	-	1,512,790	-
Capital assets, net of depreciation/amortization:				
Infrastructure	-	12,223,622	12,223,622	-
Buildings	512,086	169,483	681,569	-
Furniture, equipment and vehicles	459,197	515,660	974,857	-
Total Capital Assets	3,908,763	12,970,541	16,879,304	-
Total Assets	7,173,005	14,656,629	21,829,634	3,512,397
Deferred Outflows of Resources:				
Deferred outflows - pension	261,062	92,119	353,181	-
Total Deferred Outflows of Resources	261,062	92,119	353,181	-
Liabilities				
Accounts payable and other current liabilities	1,059,690	492,519	1,552,209	25,598
Accrued interest	-	10,768	10,768	68,154
Unearned revenue	-	36,277	36,277	-
Customer deposits	326,441	139,765	466,206	-
Long-term liabilities:				
Due within one year	101,976	261,938	363,914	555,000
Due in more than one year	224,159	1,981,246	2,205,405	3,385,000
Net pension liability	17,669	6,235	23,904	-
Total Liabilities	1,729,935	2,928,748	4,658,683	4,033,752
Deferred Inflows of Resources:				
Deferred inflows - pension	96,800	34,156	130,956	-
Deferred inflows - gain on refunding	-	19,604	19,604	-
Total Deferred Inflows of Resources	96,800	53,760	150,560	-
Net Position				
Net investment in capital assets	3,625,545	10,726,341	14,351,886	-
Restricted for:				
Debt service	-	546,974	546,974	-
Public Safety	64,770	-	64,770	-
Unrestricted	1,917,017	492,925	2,409,942	(521,355)
Total Net Position	\$ 5,607,332	\$ 11,766,240	\$ 17,373,572	\$ (521,355)

See Notes to Basic Financial Statements

CITY OF HITCHCOCK, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
General government	\$ 830,020	\$ -	\$ -	\$ -
Public safety	2,105,695	584,684	3,131	-
Public works	1,187,289	527,268	818,166	-
Health, welfare and sanitation	312,291	306,970	-	-
Culture and recreation	105,096	-	-	-
Interest on long-term debt	-	-	-	-
Total Governmental Activities	4,540,391	1,418,922	821,297	-
Business-type Activities:				
Water	1,652,484	1,602,514	-	63,925
Sewer	1,666,290	1,358,195	-	-
Total Business-type Activities	3,318,774	2,960,709	-	63,925
Total Primary Government	\$ 7,859,165	\$ 4,379,631	\$ 821,297	\$ 63,925
Component Units				
Hitchcock Industrial Development Corporation	\$ 430,698	\$ -	\$ -	\$ -
Reinvestment Zone Number One	219,464	-	-	-
Total component units	\$ 650,162	\$ -	\$ -	\$ -

General revenues:

Taxes:

Property taxes

Franchise taxes

Sales tax

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

See Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (830,020)	\$ -	\$ (830,020)	
(1,517,880)	-	(1,517,880)	
158,145	-	158,145	
(5,321)	-	(5,321)	
(105,096)	-	(105,096)	
-	-	-	
<u>(2,300,172)</u>	<u>-</u>	<u>(2,300,172)</u>	
-	13,955	13,955	
-	(308,095)	(308,095)	
-	(294,140)	(294,140)	
<u>(2,300,172)</u>	<u>(294,140)</u>	<u>(2,594,312)</u>	
			\$ (430,698)
-	-	-	(219,464)
-	-	-	(650,162)
812,346	-	812,346	1,260,224
405,097	-	405,097	-
952,827	-	952,827	317,274
12,136	738	12,874	3,559
33,572	-	33,572	125,386
<u>(5,507,170)</u>	<u>5,507,170</u>	<u>-</u>	<u>-</u>
<u>(3,291,192)</u>	<u>5,507,908</u>	<u>2,216,716</u>	<u>1,706,443</u>
(5,591,364)	5,213,768	(377,596)	1,056,281
11,198,696	6,552,472	17,751,168	(1,577,636)
<u>\$ 5,607,332</u>	<u>\$ 11,766,240</u>	<u>\$ 17,373,572</u>	<u>\$ (521,355)</u>

CITY OF HITCHCOCK, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2016

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current assets:				
Cash and temporary investments	\$ 2,141,393	\$ -	\$ 82,347	\$ 2,223,740
Due from other funds	42,107	-	-	42,107
Accounts receivable, less allowance for doubtful accounts:	620,012	41,966	-	661,978
Prepaid Items	8,917	-	-	8,917
Restricted Assets:				
Cash and temporary investments	327,500	-	-	327,500
Total Assets	<u>\$ 3,139,929</u>	<u>\$ 41,966</u>	<u>\$ 82,347</u>	<u>\$ 3,264,242</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts payable	\$ 752,369	\$ 41,966	\$ -	\$ 794,335
Other liabilities	264,296	-	-	264,296
Payable from restricted assets:				
Refundable deposits and bonds	327,500	-	-	327,500
Total Liabilities	<u>1,344,165</u>	<u>41,966</u>	<u>-</u>	<u>1,386,131</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	318,961	-	-	318,961
Unavailable revenue - court fines and fees	16,065	-	-	16,065
	<u>335,026</u>	<u>-</u>	<u>-</u>	<u>335,026</u>
Fund Balance:				
Non-spendable:				
Prepaid items	8,917	-	-	8,917
Restricted:				
Culture and recreation	-	-	17,577	17,577
Public safety	-	-	64,770	64,770
Unassigned	1,451,821	-	-	1,451,821
Total Fund Balance	<u>1,460,738</u>	<u>-</u>	<u>82,347</u>	<u>1,543,085</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,139,929</u>	<u>\$ 41,966</u>	<u>\$ 82,347</u>	<u>\$ 3,264,242</u>

See Notes to Basic Financial Statements.

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

Total fund balance, governmental funds \$ 1,543,085

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement but are reported in the governmental activities of the Statement of Net Position. 3,908,763

Deferred outflows for pension related activities 261,062

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

Property tax 318,960
 Court fines and fees 16,066

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

Capital leases payable (283,218)
 Compensated absences (42,917)
 Deferred inflows for pension related activities (96,800)
 Net Pension Liability (17,669)

Net position of governmental activities in the statement of net position \$ 5,607,332

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

	<u>General</u>	<u>Community Development Block Grant</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 807,949	\$ -	\$ -	\$ 807,949
Sales, franchise and local taxes	1,357,924	-	-	1,357,924
Licenses and permits	527,268	-	-	527,268
Charges for services	413,632	-	-	413,632
Fines and forfeitures	361,703	-	4,391	366,094
Earnings on investments	12,136	-	-	12,136
Intergovernmental	111,958	818,166	-	930,124
Other	33,542	-	3,131	36,673
Total Revenues	<u>3,626,112</u>	<u>818,166</u>	<u>7,522</u>	<u>4,451,800</u>
Expenditures				
Current:				
General government	754,803	-	-	754,803
Public safety	2,130,090	-	2,180	2,132,270
Public works	841,398	-	-	841,398
Health, welfare and sanitation	312,291	-	-	312,291
Culture and recreation	105,096	-	-	105,096
Capital outlay	174,500	818,166	-	992,666
Debt service:				
Principal retirement	56,955	-	-	56,955
Interest and fees	11,946	-	-	11,946
Total Expenditures	<u>4,387,079</u>	<u>818,166</u>	<u>2,180</u>	<u>5,207,425</u>
Excess (deficiency) of revenues over expenditures	(760,967)	-	5,342	(755,625)
Other Financing Sources (Uses)				
Operating transfers out	(11,606)	-	-	(11,606)
Total Other Financing Sources (Uses)	<u>(11,606)</u>	<u>-</u>	<u>-</u>	<u>(11,606)</u>
Net change in fund balances	(772,573)	-	5,342	(767,231)
Fund balances - beginning of year	<u>2,233,311</u>	<u>-</u>	<u>77,005</u>	<u>2,310,316</u>
Fund balances - end of year	<u>\$ 1,460,738</u>	<u>\$ -</u>	<u>\$ 82,347</u>	<u>\$ 1,543,085</u>

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND

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

For the Year Ended September 30, 2016

Net change in fund balances - total governmental funds: \$ (767,231)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay in the amount of \$913,045 was exceeded by depreciation in the amount of \$300,110 and a capital contribution to the Water & Sewer Fund in the amount of \$5,495,564 in the current period. (4,882,629)

Property tax revenues in the statement of activities that do not provide current financial resources are reported as unavailable revenue in the fund statements. 4,397

Pension expense 68,904

Governmental funds report repayment of long-term debt as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of repayments made on long-term debt during the current year. 56,955

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Increase in accrued compensated absences. (7,827)

Pension contributions made after the pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position (63,933)

Change in net position of governmental activities \$ (5,591,364)

See Notes to Basic Financial Statements.

CITY OF HITCHCOCK, TEXAS**STATEMENT OF NET POSITION****PROPRIETARY FUND***September 30, 2016***Assets****Current assets:**

Cash and temporary investments	\$ 850,956
Customer receivables (net of allowance for uncollectibles)	317,336
Prepaid items	2,161
Restricted cash and temporary investments	<u>557,742</u>

Total current assets1,728,195**Capital assets (net of depreciation):**

Land	61,776
Buildings	169,483
Infrastructure	12,223,622
Machinery and equipment	<u>515,660</u>

Total capital assets (net of depreciation)12,970,541**Total Assets**14,698,736**Deferred Outflows of Resources**

Deferred outflows - pension	<u>92,119</u>
-----------------------------	---------------

Liabilities**Current liabilities:**

Accounts payable and accrued expenses	\$ 492,519
Due to other funds	42,107
Accrued interest payable	10,768
Unearned revenues	36,277
Customer deposits	139,765
Compensated absences	18,588
Current portion of long-term debt payable	156,052
Current portion of capital leases payable	<u>87,298</u>

Total current liabilities983,374**Non-current liabilities:**

Long term debt payable	1,736,215
Capital leases payable	245,031
Net pension liability	<u>6,235</u>

Total non-current liabilities (net of current portion)1,987,481**Total Liabilities**2,970,855**Deferred Inflows of Resources**

Deferred inflows - pension	34,156
Deferred inflows - gain on refunding	<u>19,604</u>

Total Deferred Inflows of Resources53,760**Net Position:**

Net investment in capital assets	10,726,341
Restricted for debt service	546,974
Unrestricted	<u>492,925</u>

Total Net Position\$ 11,766,240

See notes to basic financial statements.

CITY OF HITCHCOCK, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2016

Operating Revenues	
Charges for services	\$ 2,960,709
Operating Expenses	
Personnel services	746,341
Contract Services	993,853
Supplies	181,559
Repair and maintenance	381,995
Depreciation	969,514
Total Operating Expenses	<u>3,273,262</u>
Operating income (loss)	<u>(312,553)</u>
Non-Operating Revenues (Expenses)	
Investment earnings	738
Interest expense and fiscal agent fees	<u>(45,512)</u>
Total Non-Operating Revenues (Expenses)	<u>(44,774)</u>
Income (loss) before contributions and transfers	(357,327)
Capital contributions	5,559,489
Operating transfers in	<u>11,606</u>
Change in net position	5,213,768
Total Net Position - beginning	<u>6,552,472</u>
Total Net Position - ending	<u>\$ 11,766,240</u>

See notes to basic financial statements.

CITY OF HITCHCOCK, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2016

Cash flows from operating activities	
Receipts from customers and users	\$ 2,987,986
Payments to suppliers	(1,610,959)
Payments to employees	(738,744)
Net cash provided (used) by operating activities	<u>638,283</u>
Cash flows from capital and related activities	
Purchase of assets	(59,600)
Principal payments on debt	(93,292)
Payments on capital leases	(85,193)
Interest and fiscal agent fees paid	(43,542)
Net cash provided (used) by capital and related activities	<u>(281,627)</u>
Cash Flows from Noncapital Financing Activities	
Operating transfers	<u>11,606</u>
Net cash (used) by noncapital financing activities	<u>11,606</u>
Cash flows from investing activities	
Interest earned on investments	738
Purchase of investments	(16,040)
Net cash provided by investing activities	<u>(15,302)</u>
Net increase (decrease) in cash and cash equivalents	352,960
Cash and cash equivalents, beginning	<u>497,996</u>
Cash and cash equivalents, ending	<u>\$ 850,956</u>
Cash and cash equivalents per balance sheet	
Unrestricted cash and temporary investments	<u>\$ 850,956</u>
Restricted	
Cash and cash equivalents at end of year	<u>\$ 850,956</u>

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

Operating income (loss)	\$	(312,553)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		969,514
Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable		27,277
(Increase) decrease in prepaid items		69
(Increase) decrease in net pension asset		29,586
(Increase) decrease in deferred outflows - pensions		(67,375)
Increase (decrease) in deferred inflows - pensions		32,542
Increase (decrease) in accounts payable and accrued expenses		(53,621)
Increase (decrease) in compensated absences		6,609
Increase (decrease) in net pension liability		6,235
Total adjustments		<u>950,836</u>
Net cash provided (used) by operating activities	\$	<u>638,283</u>

See notes to basic financial statements.

CITY OF HITCHCOCK, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1 - Organization

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

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

Note 2 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Hitchcock Industrial Development Corporation (the “Corporation”)

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

Reinvestment Zone Number One (the “TIRZ”)

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

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

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

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

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

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

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

General property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred inflows of resources at year end. Property taxes collected within 60 days subsequent to September 30, 2016, have not been recorded as revenue as the amount is not considered material. Franchise taxes and Sales taxes relating to underlying transactions that occurred prior to September 30, 2016, have been recorded as receivables and revenue. Licenses, permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

The City reports the following major governmental funds:

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

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

The City has one major proprietary fund:

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

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

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

D. Cash Equivalents

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

E. Investments

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

F. Receivables

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

G. Due to and from other funds

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

H. General property taxes

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

I. Restricted assets

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

J. Capital Assets

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

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

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

K. Compensated absences

Employees earn vacation based on years of service with the City and may accumulate unused time. Sick leave is accrued at the rate of eight hours per month of employment. In accordance with GAAP, the liability for accumulated vacation, as of September 30, 2016, has been recorded as a liability in the Government-Wide Statement of Net Position.

L. Fund equity

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

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

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

M. Revenues and expenditures/expenses

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

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

N. Use of estimates

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

O. Deferred outflows/inflows of resources

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

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

O. Deferred outflows/inflows of resources (continued)

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

- Deferred inflows of resources for unavailable revenues – Reported in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences between expected and actual experience. These amounts will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with pension through the pension plan.
- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

P. Pensions

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

Q. New Accounting Standards

In the current fiscal year, the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

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

Note 3 - Cash and Temporary Investments (Cash Equivalents)

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

The City’s agent bank is required to pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City’s name by the City’s agent in accordance with Texas Law.

Investments (Cash Equivalents)

State statutes authorize the City to invest in: 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S., the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; 7) a public funds investment pool meeting the requirements of Government Code 2256.016-2256.019; and, 8) commercial paper having received a rating of A1/P1 from a nationally recognized investment rating firm.

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

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

The City’s deposits and investments (cash equivalents), including those of the component units, as of September 30, 2016 , are summarized below:

	Cash	Certificates	US Treasury	
	Equivalents	of Deposit	Money	Total
	Market			
Primary government	\$ 2,877,764	\$ 1,082,175	\$ -	\$ 3,959,938
Component units	2,126,550	91,634	1,186,754	3,404,938
	<u>\$ 5,004,314</u>	<u>\$ 1,173,809</u>	<u>\$ 1,186,754</u>	<u>\$ 7,364,877</u>

Certificates of deposits and the US Treasury money market accounts are carried at fair value using Level 1 and Level 2 Fair Value Measurement Inputs, respectively.

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

Note 4 - Restricted Assets

As of September 30, 2016, the City held restricted cash and temporary investments for the following purposes:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Component Units</u>
Restricted for:			
Customer deposits	\$ -	\$ 139,765	\$ -
Debt service	-	417,977	846,725
Bond escrow deposits	327,500	-	-
	<u>\$ 327,500</u>	<u>\$ 557,742</u>	<u>\$ 846,725</u>

Note 5 - Property Tax

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

Within these guidelines, the tax rate per \$100 of assessed valuation, for the year ended September 30, 2016, was 41.3202 cents based on an assessed property valuation of approximately of \$331.2 million resulting in a tax levy of approximately \$1.4 million, all of which was to finance general governmental services.

Property taxes receivable, as of September 30, 2016, includes penalty and interest on delinquent accounts and an estimated allowance for uncollectible as follows:

<u>Tax Year</u>	<u>Taxes</u>	<u>Penalty and Interest</u>	<u>Less Allowance for Uncollectible Accounts</u>	<u>Net Property Taxes Receivable - Governmental Funds</u>
Prior	\$ 66,570	\$ 116,536	\$ (137,782)	\$ 45,324
2007	11,694	13,565	(505)	24,754
2008	11,435	11,892	(467)	22,860
2009	13,043	11,999	(501)	24,541
2010	15,792	12,634	(569)	27,857
2011	13,299	9,044	(447)	21,896
2012	19,472	10,904	(608)	29,768
2013	23,822	10,482	(686)	33,618
2014	29,384	9,403	(776)	38,011
2015	50,293	10,059	(1,207)	59,145
	<u>\$ 254,804</u>	<u>\$ 216,518</u>	<u>\$ (143,548)</u>	<u>\$ 327,774</u>

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

Note 6 - Receivables

Amounts recorded as receivables, as of September 30, 2016, for the government's individual major and nonmajor funds, including the applicable allowance for uncollectible accounts, are as follows:

	General	Community Development Block Grant	Water and Wastewater	Component Units
Receivables:				
Property taxes	\$ 471,322	\$ -	\$ -	\$ -
Franchise taxes	30,560	-	-	-
Sales taxes	245,613	-	-	107,459
Court fines	160,643	-	-	-
Intergovernmental Accounts	-	41,966	361,294	-
Other	-	-	11,552	-
Gross receivables	908,138	41,966	372,846	107,459
Less: allowance for uncollectibles	(288,126)	-	(55,510)	-
Net Total Receivables	<u>\$ 620,012</u>	<u>\$ 41,966</u>	<u>\$ 317,336</u>	<u>\$ 107,459</u>

Note 7 - Capital Assets

A summary of activity for capital assets, for the year ended September 30, 2016, follows:

	Balance October 1, 2015	Additions	Deletions/ Adjustments	Balance September 30, 2016
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 1,424,690	\$ -	\$ -	\$ 1,424,690
Construction in progress	6,269,809	738,545	(5,495,564)	1,512,790
Total capital assets not being depreciated	<u>7,694,499</u>	<u>738,545</u>	<u>(5,495,564)</u>	<u>2,937,480</u>
Capital assets being depreciated:				
Buildings and improvements	1,291,115	-	-	1,291,115
Machinery and equipment	2,119,270	174,500	-	2,293,770
Total capital assets being depreciated	<u>3,410,385</u>	<u>174,500</u>	<u>-</u>	<u>3,584,885</u>
Less accumulated depreciation for:				
Building and improvements	(745,029)	(34,000)	-	(779,029)
Machinery and equipment	(1,568,463)	(266,110)	-	(1,834,573)
Total accumulated depreciation	<u>(2,313,492)</u>	<u>(300,110)</u>	<u>-</u>	<u>(2,613,602)</u>
Total capital assets being depreciated, net	<u>1,096,893</u>	<u>(125,610)</u>	<u>-</u>	<u>971,283</u>
Governmental activities capital assets, net	<u>\$ 8,791,392</u>	<u>\$ 612,935</u>	<u>\$ (5,495,564)</u>	<u>\$ 3,908,763</u>

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

Note 7 - Capital Assets (continued)

	Balance October 1, 2015	Additions	Deletions/ Adjustments	Balance September 30, 2016
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 61,776	\$ -	\$ -	\$ 61,776
Construction in progress	19,643	-	(19,643)	-
Total capital assets, not being depreciated	81,419	-	(19,643)	61,776
Capital assets being depreciated:				
Water/sewer system	22,110,882	5,549,890	19,643	27,680,415
Buildings and improvements	130,853	59,600	-	190,453
Machinery and equipment	1,851,501	-	-	1,851,501
Total capital assets being depreciated	24,093,236	5,609,490	19,643	29,722,369
Less accumulated depreciation for:				
Water/sewer system	(14,668,738)	(788,055)	-	(15,456,793)
Buildings and improvements	(14,583)	(6,387)	-	(20,970)
Machinery and equipment	(1,160,769)	(175,072)	-	(1,335,841)
Total accumulated depreciation	(15,844,090)	(969,514)	-	(16,813,604)
Total capital assets being depreciated, net	8,249,146	4,639,976	19,643	12,908,765
Business-type activities capital assets, net	\$ 8,330,565	\$ 4,639,976	\$ -	\$ 12,970,541

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

Governmental activities:	
General	\$ 9,315
Garage	14,630
Public safety	192,170
Public works	82,260
Culture and recreation	1,735
Total Governmental activities	\$ 300,110
Business-type activities:	
Water	\$ 248,433
Sewer	721,081
Total Business-type activities	\$ 969,514

As of September 30, 2016, the City had the following construction contract commitments outstanding related to construction in progress in the governmental activities:

	Total Commitment	Construction in Progress	Remaining Commitment
Sanitary Sewer System Improvements	\$ 2,002,466	\$ 1,512,790	\$ 489,676
	\$ 2,002,466	\$ 1,512,790	\$ 489,676

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

Because the sanitary sewer system improvements are being built primarily using federal CDBG funds, the City has elected to report the construction activity in a governmental fund.

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

Note 8 - Long-Term Debt

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

During the year ended September 30, 2016, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Capital leases	\$ 340,173	\$ -	\$ (56,955)	\$ 283,218	\$ 59,059
Compensated absences	35,090	33,630	(25,803)	42,917	42,917
Long-term liabilities	<u>\$ 375,263</u>	<u>\$ 33,630</u>	<u>\$ (82,758)</u>	<u>\$ 326,135</u>	<u>\$ 101,976</u>
Business-type Activities					
Certificates of obligation	\$ 973,500	\$ -	\$ (17,000)	\$ 956,500	\$ 18,000
Contract revenue bonds	972,419	-	(76,292)	896,127	138,052
For issuance premiums/discounts	51,577	-	(7,368)	44,209	-
Capital leases	417,522	-	(85,193)	332,329	87,298
Compensated absences	11,979	34,755	(28,146)	18,588	18,588
Long-term liabilities	<u>\$ 2,426,997</u>	<u>\$ 34,755</u>	<u>\$ (213,999)</u>	<u>\$ 2,247,753</u>	<u>\$ 261,938</u>
Component Units					
Tax increment bonds	\$ 4,465,000	\$ -	\$ (525,000)	\$ 3,940,000	\$ 555,000

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

Fiscal Year Ending September 30	Business-type Activities	
	Principal	Interest
2017	\$ 18,000	45,220
2018	19,000	44,455
2019	20,000	43,648
2020	21,000	42,798
2021	22,000	41,905
2022 - 2026	120,000	195,075
2027 - 2031	151,000	167,025
2032 - 2036	184,000	132,260
2037 - 2041	227,000	89,590
2042 - 2046	174,500	37,145
	<u>\$ 956,500</u>	<u>\$ 839,121</u>

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

Note 8 - Long-Term Debt (continued)

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

Fiscal Year Ending September 30	Business-type Activities	
	Principal	Interest
2017	\$ 138,052	\$ 38,956
2018	138,960	34,633
2019	144,409	29,074
2020	151,373	22,050
2021	157,730	15,734
2022	165,603	8,059
	<u>\$ 896,127</u>	<u>\$ 148,506</u>

The following is a summary of the terms of certificates of obligation and revenue bonds outstanding as of September 30, 2016:

Business-type Activities				
Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Contract Revenue Bonds				
2011-B Contract Revenue Refunding Bonds	\$ 1,286,064	2.00 - 4.00%	2012 - 2022	\$ 896,127
General Obligation Bonds				
Certificates of Obligation				
2006 Tax and Revenue Certificates of Obligations	1,185,000	4.25%	2011-2050	956,500
Total Business-Type Activities				<u>\$ 1,852,627</u>

Long-Term Contract Revenue Bonds

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

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

The balances for GCWA activity are presented as of their fiscal year end, August 31, 2016. Any amounts related to the timing of the fiscal year end between GCWA and the City are not considered material to the financial statements.

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

Note 8 - Long-Term Debt (continued)

Component Units

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

Fiscal Year Ending September 30	City of Hitchcock Tax Reinvestment Zone #1		
	Principal	Interest	Total
2017	\$ 555,000	\$ 201,110	\$ 756,110
2018	585,000	173,360	758,360
2019	615,000	144,110	759,110
2020	650,000	112,745	762,745
2021	225,000	79,595	304,595
2022-2026	1,310,000	212,160	1,522,160
	<u>\$ 3,940,000</u>	<u>\$ 923,080</u>	<u>\$ 4,863,080</u>

The following is a summary of the Tax Increment Bonds outstanding as of September 30, 2016:

Series	Original Issue	Interest Rate	Matures	Principal Outstanding
Tax Increment Bonds				
2006 Tax Increment Bonds	\$ 7,800,000	4.50% - 5.25%	2012-2026	\$ 3,940,000
Total Component Units				<u>\$ 3,940,000</u>

Capital Leases

Governmental Activities

During fiscal year 2012, the City entered into capital lease agreements totaling \$394,799 for the purchase of equipment. In fiscal year 2014, the City entered into a capital lease agreement in the amount of \$78,819 for the purchase of tractor/mowing equipment. In fiscal year 2015, the City entered into capital lease agreements in the amount of \$11,500 for copiers. Additional information on the leases is as follows:

	Interest Rate	Original Balance	Maturity
Tractor/mowing equipment	3.100%	\$ 78,819	2017
Police radio equipment	3.420%	394,795	2022
Copiers	6.014%	11,500	2020
		<u>\$ 485,114</u>	

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

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

Note 8 - Long-Term Debt (continued)

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

Fiscal Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 59,059	\$ 9,869	\$ 68,928
2018	43,751	7,802	51,553
2019	45,345	6,209	51,554
2020 - 2022	135,063	9,252	144,315
	<u>\$ 283,218</u>	<u>\$ 33,132</u>	<u>\$ 316,350</u>

Business-type Activities

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

	Interest Rate	Original Balance	Maturity
Utility backhoe	2.890%	\$ 66,376	2017
Water meters	2.350%	508,717	2020
Copiers	6.014%	5,750	2020
		<u>\$ 580,843</u>	

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

Fiscal Year Ending September 30	Business-type Activities		
	Principal	Interest	Total
2017	\$ 87,298	\$ 8,068	\$ 95,366
2018	89,461	5,904	95,365
2019	77,249	3,688	80,937
2020	78,321	1,836	80,157
	<u>\$ 332,329</u>	<u>\$ 19,496</u>	<u>\$ 351,825</u>

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

Note 9 - Interfund Receivables, Payables and Transfers

The composite of the interfund balances as of September 30, 2016, is as follows.

<u>Receivable Fund</u>	<u>Payable Fund</u>
	<u>Utility Fund</u>
General Fund	\$ 42,107
Totals	<u>\$ 42,107</u>

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

<u>Transfer in fund</u>	<u>Transfer out fund</u>
	<u>General Fund</u>
Enterprise Fund	<u>\$ 11,606</u>

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

Note 10 - Pension Plan

The City of Hitchcock participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

Benefits Provided

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

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

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

Note 10 - Pension Plan (continued)

Plan provisions for the City were as follows:

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

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

Employees covered by benefit terms

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

Number of	
Inactive employees or beneficiaries currently receiving bene	12
Inactive employees entitled to but not yet receiving benefit	49
Active employees	49
Total	<u>110</u>

Contributions

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

Employees of the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.40% and 4.02% in calendar years 2015 and 2016 respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$89,609, and were equal to the required contributions.

Net Pension Asset

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

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

Note 10 - 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. Monthly rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

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

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

Note 10 - Pension Plan (continued)

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

Discount Rate

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

Changes in Net Pension (Asset) Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at 12/31/2014	\$ 3,277,866	\$ 3,386,936	\$ (109,070)
Changes for the year:			
Service cost	162,996		162,996
Interest (on the Total Pension Liability)	229,110		229,110
Difference between expected and actual experience	(184,715)		(184,715)
Changes in assumptions	108,274		108,274
Contributions - employer		82,579	(82,579)
Contributions - employee		98,309	(98,309)
Net investment income		4,998	(4,998)
Benefit payments, including refunds of employee contributions	(172,736)	(172,736)	-
Administrative expense		(3,044)	3,044
Other		(151)	151
Balance at 12/31/2015	<u>\$ 3,420,795</u>	<u>\$ 3,396,891</u>	<u>\$ 23,904</u>

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

Note 10 - Pension Plan (continued)

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

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

1% Decrease	Current Single	1% Increase
5.75%	Rate Assumption	7.75%
<u>5.75%</u>	<u>6.75%</u>	<u>7.75%</u>
\$464,625	\$23,905	(\$341,410)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the City recognized a pension expense of \$68,904 for the governmental activities and \$24,388 for the business-type activities.

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

	Deferred	Deferred Inflows	Deferred	Deferred Inflows
	Outflows of	of Resources -	Outflows of	of Resources -
	Governmental	Governmental	Business-type	Business-type
	Activities	Activities	Activities	Activities
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
Difference in expected and actual experience	\$ -	\$ 96,800	\$ -	\$ 34,156
Difference in projected and actual earnings on pension plan investments.	210,651	-	74,330	-
Employer contributions made after the measurement date	50,411	-	17,778	-
Totals	<u>\$ 261,062</u>	<u>\$ 96,800</u>	<u>\$ 92,108</u>	<u>\$ 34,156</u>

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

Note 10 - Pension Plan (continued)

\$50,411 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or addition to the net pension asset for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources - Governmental Activities	Net Deferred Outflows (Inflows) of Resources - Business-Type Activities
2017	\$ 21,004	\$ 7,412
2018	22,198	7,833
2019	36,338	12,823
2020	34,311	12,106
Total	\$ 113,851	\$ 40,174

Note 11 - Risk Management

General Liability

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

Workers’ Compensation

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

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

Note 12 - Amounts Due To Developer

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

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

Note 13 - Economic Development Agreements

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

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

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

During the fiscal year ended September 30, 2016, the City and HIDC reimbursed the developer a total of \$460,193. In addition, the City agreed to give the developer a 50% property tax abatement for ten years on the project improvements that are subject to ad valorem taxation as well as all business personal property.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HITCHCOCK, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive / (Negative)
	<u>Original</u>	<u>Final</u>	Actual - Budgetary Basis	
Revenues				
Property taxes	\$ 970,000	\$ 970,000	\$ 807,949	\$ (162,051)
Sales, franchise and local taxes	1,609,500	1,609,500	1,357,924	(251,576)
Licenses and permits	425,050	425,050	527,268	102,218
Charges for services	170,000	170,000	413,632	243,632
Fines and forfeitures	296,000	296,000	361,703	65,703
Earnings on investments	10,000	10,000	12,136	2,136
Intergovernmental	121,867	121,867	111,958	(9,909)
Other	22,830	22,830	33,542	10,712
Total Revenues	<u>3,625,247</u>	<u>3,625,247</u>	<u>3,626,112</u>	<u>865</u>
Expenditures				
Current:				
General government	747,550	747,550	754,803	(7,253)
Public safety	2,148,501	2,148,501	2,130,090	18,411
Public works	821,861	821,861	841,398	(19,537)
Health, welfare and sanitation	45,000	45,000	312,291	(267,291)
Culture and recreation	100,400	100,400	105,096	(4,696)
Capital outlay			174,500	(174,500)
Debt service:				
Principal retirement			56,955	(56,955)
Interest and fees			11,946	(11,946)
Total Expenditures	<u>3,863,312</u>	<u>3,863,312</u>	<u>4,387,079</u>	<u>(523,767)</u>
Excess (deficiency) of revenues over expenditures	(238,065)	(238,065)	(760,967)	(522,902)
Other Financing Sources (Uses)				
Operating transfers out	-	-	(11,606)	(11,606)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(11,606)</u>	<u>(11,606)</u>
Net change in fund balance	(238,065)	(238,065)	(772,573)	(534,508)
Fund Balance (Budgetary Basis), Beginning of Year	<u>2,233,311</u>	<u>2,233,311</u>	<u>2,233,311</u>	<u>-</u>
Fund Balance (Budgetary Basis), End of Year	<u>\$ 1,995,246</u>	<u>\$ 1,995,246</u>	<u>\$ 1,460,738</u>	<u>\$ (534,508)</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION
Year Ended September 30, 2016

A. Legal Compliance - Budgets

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

B. Excess of Expenditures over Appropriations

At September 30, 2016, expenditures exceeded appropriations at the department level (the legal level of compliance) in the following departments.

<u>Fund / Department</u>	<u>Amount</u>
General Fund:	
General government	\$ 7,253
Public works	19,537
Health and welfare	267,291
Culture and recreation	4,696
Capital outlay	174,500
Debt service:	68,901

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

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

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

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

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

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

	Fiscal Year		
	2016	2015	2014
Actuarially Determined Contributions	\$ 198,352	\$ 168,682	\$ 143,899
Contributions in relation to the actuarially determined contribution	<u>198,352</u>	<u>168,682</u>	<u>143,899</u>
Contribution deficiency(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	2,174,840	1,802,750	1,703,174
Contributions as a percentage of Covered employee payroll	9.12%	9.36%	8.45%

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

Methods and Assumptions Used to Determine Contribution Rates:

	Fiscal Year 2016	Fiscal Year 2015 and 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor	10 Year smoothed market; 15% soft corridor
Inflation	2.50%	3.00%
Salary Increases	3.50% to 10.00% including inflation	3.50% to 12.00% including inflation
Investment Rate of Return	6.75%	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation to an experience study for the period 2010-2014.	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation to an experience study for the period 2005-2009.
Mortality	RP2 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.	RP2 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information: Notes:	There were no benefit changes during the year.	1) Granted 100% ad hoc USC with transfer 2) Granted 70% ad hoc COLA

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OTHER SUPPLEMENTARY INFORMATION

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

	<i>Special Revenue Funds</i>				Total NonMajor Governmental Funds
	Court Security and Technology Fund	Parks and Recreation	Donation Fund	Seizure Fund	
Assets					
Cash and cash equivalents	\$ 60,496	\$ 5,273	\$ 12,304	\$ 4,274	\$ 82,347
Total Assets	<u>\$ 60,496</u>	<u>\$ 5,273</u>	<u>\$ 12,304</u>	<u>\$ 4,274</u>	<u>\$ 82,347</u>
Fund Balance:					
Restricted:					
Public safety	60,496	-	-	4,274	64,770
Culture and recreation	-	5,273	12,304	-	17,577
Total Fund Balance	<u>60,496</u>	<u>5,273</u>	<u>12,304</u>	<u>4,274</u>	<u>82,347</u>
Total Liabilities and Fund Balance	<u>\$ 60,496</u>	<u>\$ 5,273</u>	<u>\$ 12,304</u>	<u>\$ 4,274</u>	<u>\$ 82,347</u>

CITY OF HITCHCOCK, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	<i>Special Revenue Funds</i>				Total NonMajor Governmental Funds
	Court Security and Technology Fund	Parks and Recreation	Donation Fund	Seizure Fund	
Revenues					
Fines and forfeitures	\$ 4,391	\$ -	\$ -	\$ -	\$ 4,391
Other	-	-	3,131	-	3,131
Total Revenues	<u>4,391</u>	<u>-</u>	<u>3,131</u>	<u>-</u>	<u>7,522</u>
Expenditures					
Current:					
Public safety	2,180	-	-	-	2,180
Total Expenditures	<u>2,180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,180</u>
Revenues Over (Under)					
Expenditures	2,211	-	3,131	-	5,342
Fund Balances, Beginning of Year	<u>58,285</u>	<u>5,273</u>	<u>9,173</u>	<u>4,274</u>	<u>77,005</u>
Fund Balances, End of Year	<u>\$ 60,496</u>	<u>\$ 5,273</u>	<u>\$ 12,304</u>	<u>\$ 4,274</u>	<u>\$ 82,347</u>

CITY OF HITCHCOCK
ANALYSIS OF TAXES LEVIED AND RECEIVABLE
For the Year Ended September 3

Tax Rate/\$100 Valuation					
Tax Year	Maintenance and Operations	Debt Service	Total	Beginning Balance	Taxes Levied
Prior	Various	Various	Various	\$ 74,125	\$ -
2007	\$ 0.395350	\$ 0.115730	\$ 0.511080	12,177	-
2008	0.370790	0.10244	0.473230	12,324	-
2009	0.325910	0.14732	0.473230	14,247	-
2010	0.335700	0.13660	0.472300	17,367	-
2011	0.396460		0.396460	15,668	-
2012	0.396105	-	0.396105	23,401	-
2013	0.413202	-	0.413202	32,359	-
2014	0.413202	-	0.413202	50,801	-
2015	0.413202	-	0.413202	-	1,350,507
				<u>\$ 252,469</u>	<u>\$ 1,350,507</u>

<u>Collections</u>	<u>Adjustments and Refunds</u>	<u>Ending Balance</u>
\$ (160)	\$ (7,393)	\$ 66,572
(245)	(239)	11,693
(676)	(214)	11,434
(991)	(214)	13,042
(1,512)	(62)	15,793
(2,301)	(67)	13,300
(3,876)	(53)	19,472
(8,403)	(134)	23,822
(21,194)	(223)	29,384
<u>(1,409,738)</u>	<u>109,524</u>	<u>50,293</u>
<u>\$ (1,449,096)</u>	<u>\$ 100,925</u>	<u>\$ 254,805</u>

CITY OF HITCHCOCK, TEXAS
COMBINING BALANCE SHEET
COMPONENT UNITS - GOVERNMENTAL FUNDS
September 30, 2016

	<u>HIDC</u>	<u>TIRZ #1</u>	<u>Total Component Units</u>
ASSETS			
Current assets:			
Cash and temporary investments	\$ 559,884	\$ 1,998,329	\$ 2,558,213
Due from others	107,459	-	107,459
Restricted Assets:			
Cash and temporary investments	-	846,725	846,725
Total Assets	<u>\$ 667,343</u>	<u>\$ 2,845,054</u>	<u>\$ 3,512,397</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 25,598	\$	\$ 25,598
Debt service	-	28,845	28,845
Total Liabilities	<u>25,598</u>	<u>28,845</u>	<u>54,443</u>
Fund Balance:			
Unassigned	<u>641,745</u>	<u>2,816,209</u>	<u>3,457,954</u>
Total Fund Balance	<u>641,745</u>	<u>2,816,209</u>	<u>3,457,954</u>
Total Liabilities and Fund Balances	<u>\$ 667,343</u>	<u>\$ 2,845,054</u>	<u>\$ 3,512,397</u>
Reconciliation from Fund Balance to Net Position			
Fund Balance	\$ 641,745	\$ 2,816,209	\$ 3,457,954
Less tax increment bonds payable		(3,940,000)	(3,940,000)
Additional accrued interest payable		(39,309)	(39,309)
Net Position	<u>\$ 641,745</u>	<u>\$ (1,163,100)</u>	<u>\$ (521,355)</u>

CITY OF HITCHCOCK, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

COMPONENT UNITS - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

	<u>HIDC</u>	<u>TIRZ #1</u>	<u>Total Component Units</u>
REVENUES			
Property taxes	\$ -	\$ 1,260,224	\$ 1,260,224
Sales tax	317,274	-	317,274
Earnings on investments	443	3,116	3,559
Other	125,386	-	125,386
Total Revenues	<u>443,103</u>	<u>1,263,340</u>	<u>1,706,443</u>
EXPENDITURES			
Current:			
Economic Development	430,698	-	430,698
Principal retirement	-	525,000	525,000
Interest and fees	-	228,360	228,360
Total Expenditures	<u>430,698</u>	<u>753,360</u>	<u>1,184,058</u>
Revenues Over (Under) Expenditures	<u>12,405</u>	<u>509,980</u>	<u>522,385</u>
Fund Balances - Beginning of Year	<u>629,340</u>	<u>2,306,229</u>	<u>2,935,569</u>
Fund Balances - End of Year	<u>\$ 641,745</u>	<u>\$ 2,816,209</u>	<u>\$ 3,457,954</u>
Reconciliation from changes in fund balance to changes in net position			
Change in Fund Balance	\$ 12,405	\$ 509,980	\$ 522,385
Add bond principal retirement	-	525,000	525,000
Additional accrued interest payable	-	8,896	8,896
Changes in Net Position	<u>\$ 12,405</u>	<u>\$ 1,043,876</u>	<u>\$ 1,056,281</u>

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FEDERAL AWARDS SECTION

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

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

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiencies and are identified as items # 2016-001 and item #2016-004.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items #2016-002, and 2016-003.

The City's Response to Findings

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

Purpose of this Report

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

Whitley Penn LLP

Houston, Texas
May 30, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*

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

Report on Compliance for Each Major Program

We have audited the City of Hitchcock, Texas' (the "City") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item #2016-005. Our opinion on the major program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item #2016-005, that we consider to be a significant deficiency.

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

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

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

Whitley Penn LLP

Houston, Texas
May 30, 2017

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

Section I. - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Item #2016-001 and #2016-002
Noncompliance material to financial statements noted?	Yes, Items #2016-003, #2016-004

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Item #2016-005
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	No

Identification of Major Programs:

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

Dollar threshold used to distinguish between type A and type B federal programs:	\$750,000
Auditee qualified as low-risk auditee?	No

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

Section II. - Financial Statement Findings

Significant Deficiency

Finding #2016-001-Water and Sewer Adjustments

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

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

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

Cause: While the City does have policies in procedures in place for maintaining supporting documentation for utility billing adjustments, they are not being consistently followed.

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

Recommendation: Established policies and procedures should be followed, and documentation for billing adjustments should be maintained.

Finding #2016-002 Segregation of Duties

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

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

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

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

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

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

Section II. - Financial Statement Findings (continued)

Compliance

Finding #2016-003 - Competitive Procurement Procedures

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

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

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

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

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

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

Finding #2016-004 Expenditures in Excess of Appropriations

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

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

<u>Fund / Department</u>	<u>Amount</u>
General Fund:	
General government	\$ 7,253
Public works	19,537
Health and welfare	267,291
Culture and recreation	4,696
Capital outlay	174,500
Debt service:	68,901

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

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

Effect: Noncompliance with state law.

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

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

Section III. - Federal Award Findings and Questioned Costs

Finding #2016-005 – Cash Management

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

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

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

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

Questioned Costs: None

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

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

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

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

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

- | | |
|---|--|
| Finding #2015-001
Water and Sewer
Adjustments | Partially Resolved: See current year finding 2016-001. The City Commission adopted a utility adjustment policy in September 2015. |
| Finding #2015-002
Competitive
Procurement Procedures | Not Resolved: See current year finding 2016-003. |
| Finding #2015-003
Expenditures in Excess
of Appropriations | Not Resolved: See current year finding 2016-004. |
| Finding #2015-004
Segregation of Duties | Not Resolved: See current year finding 2016-002. |
| Finding #2015-005
Cash Management | Not Resolved: See current year finding 2016-005. |

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

- | | |
|---|--|
| Finding #2016-001
Water and Sewer
Adjustments | Description: The City Commission adopted formal policies and procedures regarding utility adjustments in September 2015 and expect to fully implement in fiscal year 2017.

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2017 |
| Finding #2016-002
Competitive Procurement
Procedures | Description: To the extent possible, the City will consider approving interlocal agreements with other governmental entities to utilize their contract to purchase similar commodities. In addition, the City will utilize other cooperative purchasing arrangements to purchase needed commodities.

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2017 |

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

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

Finding #2016-003
Expenditures in Excess
of Appropriations

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

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2017

Finding #2016-004
Segregation of Duties

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

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2017

Finding #2016-005
Cash Management

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

Responsible party: Anthony Matranga, Mayor

Estimated completion date: September 2017

CITY OF HITCHCOCK, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass Through Grantors Number	Disbursement/ Expenditures
U.S. Department of Housing and Urban Development			
Passed through Texas Department of Agriculture			
<i>Community Development Block Grant - Small Cities Program - Disaster Recovery*</i>	14.228	713229	\$ 77,487
Total passed through Texas Department of Agriculture			<u>77,487</u>
Passed through the General Land Office			
<i>Community Development Block Grant - Small Cities Program - Disaster Recovery*</i>	14.228	12-203-5503/210069	360,133
<i>Community Development Block Grant - Small Cities Program - Disaster Recovery*</i>	14.228	12-203-5503/220069	380,546
Total passed through General Land Office			<u>740,679</u>
Total U.S. Department of Housing and Urban Development			<u>818,166</u>
Total Federal Awards			<u>\$ 818,166</u>

CITY OF HITCHCOCK, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

Note 1 - Basis of Accounting

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

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Expenditures reported on this schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards (Uniform Guidance).

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "SEFA") includes the federal grant activity of the City under a program of the federal government for the year ended September 30, 2016. The information in this SEFA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the SEFA presents only a selected portion of the operations of the City, it is not intended and does not present the financial position, changes in net position, or cash flows of the City.

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

The City in prior fiscal years received proceeds from a U.S.D.A. Rural Development Loan. At September 30, 2016, the loan balance was \$956,500. In accordance with the Uniform Guidance, the prior loan balances are not considered to have continuing compliance requirements.