

FISCAL YEAR ENDING SEPTEMBER 30, 2017

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



The Bright Star Of Central Texas

THE CITY OF HARKER HEIGHTS, TEXAS

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
  
OF THE  
  
CITY OF HARKER HEIGHTS

For the Fiscal Year Ended September 30, 2017

Prepared by the  
Finance Department  
Alberta S. Barrett, Finance Director

City of Harker Heights  
305 Miller's Crossing  
Harker Heights, TX 76548



**CITY OF HARKER HEIGHTS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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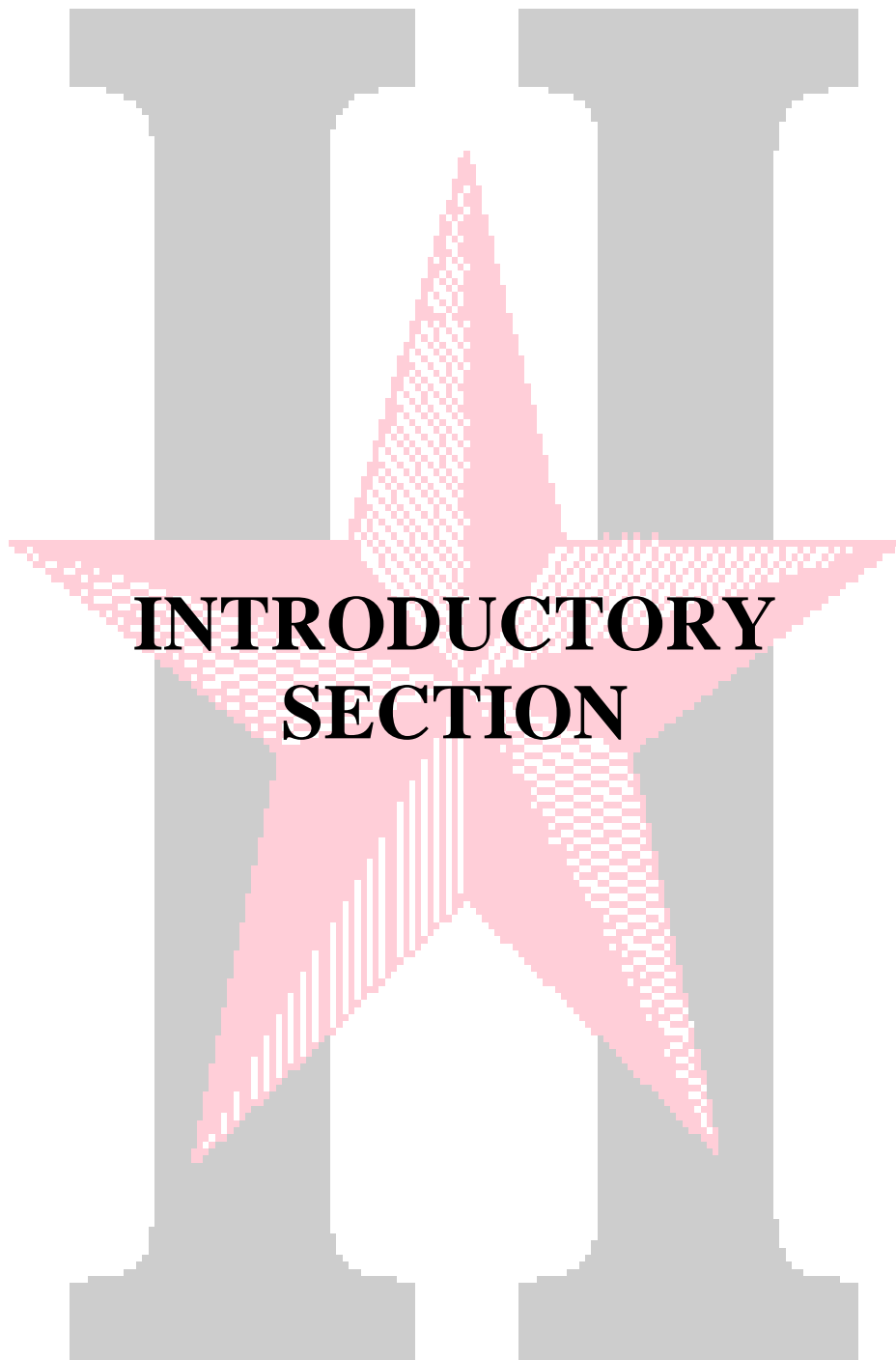
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**INTRODUCTORY  
SECTION**





*The City Of Harker Heights*  
305 Miller's Crossing  
Harker Heights, Texas 76548  
Phone 254/953-5600  
Fax 254/953-5614

**Mayor**  
Spencer H. Smith

**Mayor Protem**  
Hal Schiffman

**City Council**  
Steve Carpenter  
Jackeline Soriano Fountain  
John Reider  
Jody Nicholas

February 27, 2018

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Harker Heights:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Harker Heights for the fiscal year ended September 30, 2017.

This report consists of management's representations concerning the finances of the City of Harker Heights. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Harker Heights's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Harker Heights' financial statements have been audited by Lott, Vernon & Company, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Harker Heights' MD&A can be found immediately following the report of the independent auditors.

#### **Profile of the Government**

The City of Harker Heights, incorporated in 1960, is located in Bell County on US Highway 190, approximately twelve miles West of Interstate 35, between Belton and Killeen. The City

currently occupies a land area of 15.7 square miles and serves a population of approximately 30,365. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City of Harker Heights is a home rule City which operates under a Council-Manager form of government. All powers of the City are vested in the elective Council which consists of a Mayor and five council members; one of which is elected to serve as Mayor Pro-tem. The City Council enacts local legislation, adopts budgets, determines policies and employs the City Manager. The City Manager is responsible for executing the laws and administering the government of the City.

The City of Harker Heights provides a full range of services, including police, fire and EMS protection; the construction and maintenance of streets and other infrastructures; and recreational activities and cultural events. Sanitation services are contracted out to a private company. Water, sewer, and drainage utility are provided through a legally separate Utility and Drainage Utility fund, which functions, in essence, as a department of the City and therefore has been included as an integral part of the City of Harker Heights' financial statements.

The annual budget serves as the foundation for the City of Harker Heights' financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the City Council for review. The council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than September 27; the close of the City's fiscal year is September 30. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 23-24 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 80.

**Local Economy**

In 2017, the average unemployment rate for Harker Heights was 4.2%, a decrease from a rate of 4.5% in 2016. This is same as the average rate for Bell County of 4.2% and lower than the state average of 4.4%.

A basic growth indicator of a community is the value of building permits. The following chart shows the value of building permits issued by category for each of the past two years:

	Fiscal Year 2017	Fiscal Year 2016	Difference
Fence	\$613,005	\$615,426	(\$2,421)
Home Improvement/Other	7,783,076	9,584,597	(1,801,521)
New Commercial	3,338,288	2,688,179	650,109
New Residence	47,455,623	48,339,649	(884,026)
Plumbing	366,919	108,734	258,185
<b>Total:</b>	<u>\$59,556,911</u>	<u>\$61,336,585</u>	<u>(\$1,779,674)</u>

Fiscal Year 2017 saw the completion of a new McDonald's, shopping plaza, an Express ER, and a medical building in the new commercial permits. New residential permits are down as the building of new homes and duplexes begin to slow down.

**Long-Term Financial Planning**

In 2017, the City issued the Series 2017 Combination Tax and Revenue Certificates of Obligation in the amount of \$5.9 million to fund water and sewer rehabilitation and improvements; renovation, construction of additions, or new construction to City buildings, including but not limited to City fire station and pet adoption center; and miscellaneous City park improvements.

Capital improvements are budgeted at over \$12.4 million which include various water, wastewater, drainage, park, and street projects, as well as building renovations.

### **Relevant Financial Policies**

In FY 2005-06, the City Council approved raising the General Fund reserve requirement to three months of operating expenses to be accomplished over a five year period. This goal was achieved during the 2009-10 fiscal year. At the end of FY 2016-17, the general fund had a six month fund balance or 50% of operating expenditures. The Utility Fund had just over a six month fund balance or 52% of its operating expenditures.

### **Major Initiatives**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Harker Heights operates.

- Foster the image of Harker Heights as a clean, safe, well-maintained and progressive City.
- Stimulate creation and growth of locally owned businesses.
- Enhance and extend infrastructure in anticipation of further planned growth.
- Expand street maintenance and sewer rehabilitation projects throughout the City.
- Maintain a long-range Capital Improvement Plan.
- Maintain multi-year equipment replacement program.
- Determine and implement methods to better communicate with citizens.

### **Awards and Acknowledgements**


The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Harker Heights for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2016. This was the twenty-second consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated October 1, 2016. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Harker Heights' finances.

Respectfully submitted,



David R. Mitchell  
City Manager



Alberta S. Barrett  
Finance Director



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Harker Heights  
Texas**

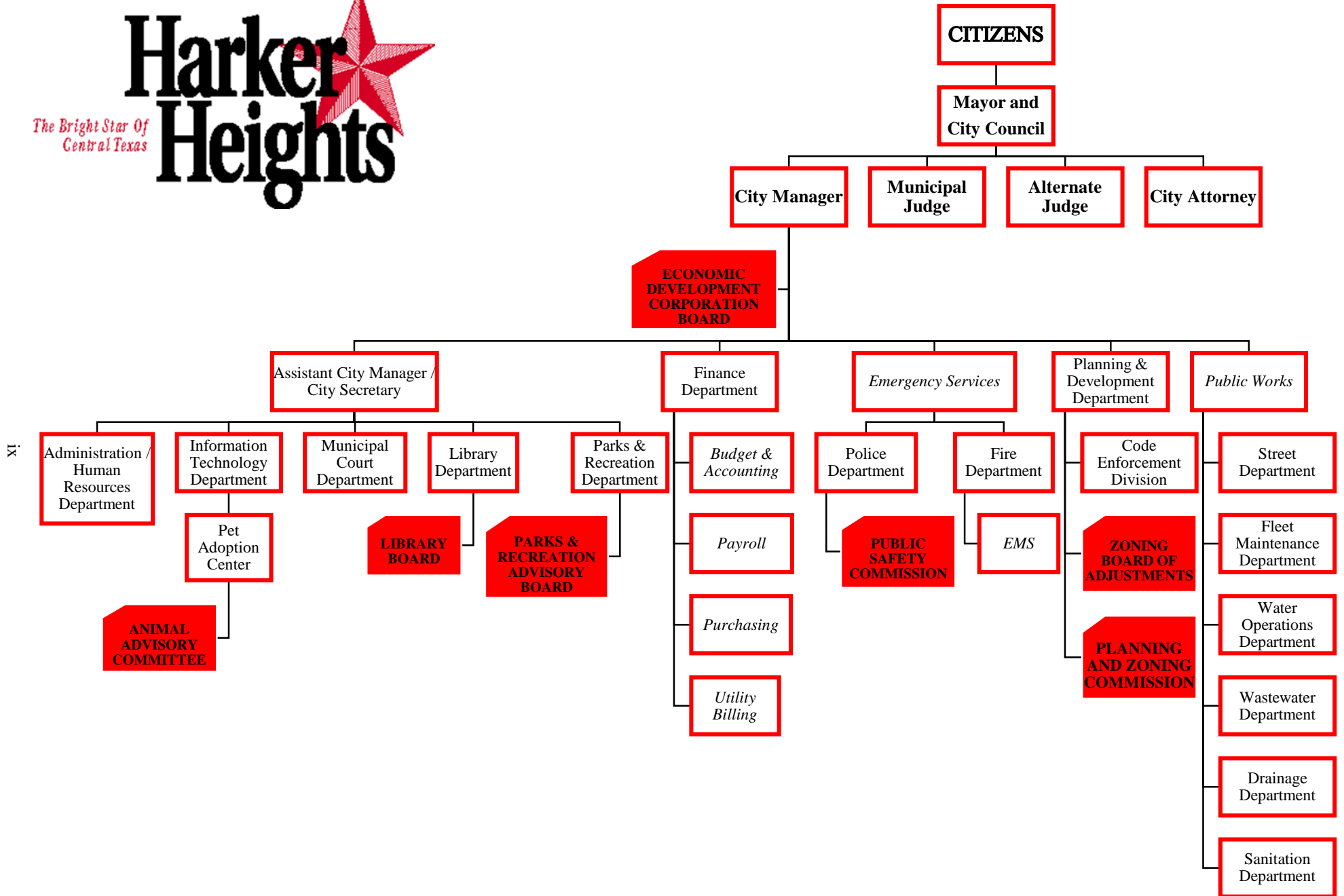
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2016**

*Christopher P. Morrell*

Executive Director/CEO

# ORGANIZATIONAL STRUCTURE



**CITY OF HARKER HEIGHTS  
LIST OF PRINCIPAL OFFICIALS**

**CITY COUNCIL**

Spencer H. Smith .....Mayor  
Hal Schiffman ..... Mayor Protempore  
Steve Carpenter ..... Council Member  
Jackeline Soriano Fountain ..... Council Member  
John Reider ..... Council Member  
Jody Nicholas..... Council Member

**APPOINTED OFFICIALS**

David R. Mitchell ..... City Manager  
Burk Roberts ..... City Attorney  
Billy R. Hall, Jr. .... City Judge  
Patricia Brunson..... Assistant City Manager/City Secretary  
Alberta S. Barrett ..... Finance Director  
Michael Gentry ..... Police Chief  
Paul Sims ..... Fire Chief  
Jerry Bark.....Parks & Recreation Director  
Lisa Youngblood..... Library Director  
Mark Hyde ..... Public Works Director  
Joseph Molis ..... Development & Planning Director



**FINANCIAL  
SECTION**





**LOTT, VERNON & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

20 SOUTH FOURTH STREET 254/778/4783  
POST OFFICE BOX 160 800/460/4783  
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

*Member of  
American Institute & Texas Society of  
Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Harker Heights, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparison, and the aggregate remaining fund information of City of Harker Heights, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

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



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Other Matters

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harker Heights, Texas's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2018, on our consideration of the City of Harker Heights, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Harker Heights, Texas' internal control over financial reporting and compliance.



Killeen, Texas  
February 2, 2018

**City of Harker Heights, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2017**

As management of the City of Harker Heights, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Harker Heights for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars and include a comparative analysis of government-wide data.

**Financial Highlights**

- The assets and deferred outflows of the City of Harker Heights exceeded its liabilities and deferred inflows at the close of the fiscal year ending September 30, 2017 by \$69.5 million (*net position*). Of this amount, \$6.6 million is restricted for capital projects and \$3.9 million is unrestricted revenues.
- The City's total net position increased by over \$2.1 million for the year ended September 30, 2017. The majority of the increase in net position can be attributed to an increase in capital assets.
- As of the September 30, 2017, the City of Harker Heights' governmental funds reported combined ending fund balances of \$18.7 million, an increase of \$4.1 million in comparison with the prior year. The majority of the increase is due to the issuance of \$5.1 certificates of obligation. Of the governmental funds reported combined fund balances, \$10.0 million or 53.5 percent is available for spending within the City's guidelines (*unassigned fund balance*).
- At fiscal year end, the general fund unassigned fund balance was \$10.0 million, or 50.0 percent of total general fund expenditures.
- Residential growth overall has seen an increase. Single family permits increased by 7 permits and an increase in value of \$884. Two family residential permits increased by 6 and had an increase in value of \$1.1 million. New commercial permits decreased by 4 permits and decreased in values by \$650.
- Utility lines were relocated within the right of way of a major street in the amount \$1.6 million. Several improvements in the amount of \$1.1 million were made to pump stations and lift stations during the year.
- During this fiscal year, the City completed street improvements in the amount of \$3.0 million and Amy Lane reconstruction in the amount of \$2.8 million. Also, a total of \$393 was spent on various other street projects.
- The City completed the renovation and expansion to the City Hall and Recreation Center buildings in the amount of \$2.8 million.
- Various park improvement projects were completed during the year to include replastering the community pool and engineering restrooms at the Carl Levin Park.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Harker Heights' basic financial statements. The City of Harker Heights' basic financial statements are comprised of 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 of Harker Heights' finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Harker Heights' assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Harker Heights 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

**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

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 of Harker Heights 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 of Harker Heights include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the City of Harker Heights include a Water and Sewer Fund, Drainage Utility Fund and Sanitation Fund.

The government-wide financial statements can be found on pages 14-16 of this report.

**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 of Harker Heights, 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 of Harker Heights can be divided into two categories: governmental funds and proprietary funds.

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

**Governmental funds.** The majority of the City's basic services are reported in governmental funds, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund and the Capital Projects Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Harker Heights adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-24 of this report.

**Proprietary funds.** The City of Harker Heights 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 charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

The City of Harker Heights maintains three individual enterprise funds. The City uses enterprise funds to account for its water and sewer, drainage utility, and sanitation. These 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, sanitation, and drainage utility.

The basic proprietary fund financial statements can be found on page 25-29 of this report.

**Notes to the 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 financial statements can be found on pages 30-71 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Harker Heights' progress in funding its obligation to provide pension benefits to its employees and to provide other postemployment benefits for its employees. Required supplementary information can be found on page 72-75 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 and other postemployment benefits. Combining and individual fund statements and schedules can be found on pages 76-116 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 of Harker Heights, assets and deferred outflows exceeded liabilities and deferred inflows by \$69.5 million at the close of the most recent fiscal year.

A portion of the City of Harker Heights' net position (10.3 percent) represents resources that are subject to external restrictions on how they may be used.

**Table 1  
Condensed Statement of Net Position  
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 22,496	\$ 18,333	\$ 3,004	\$ 3,452	\$ 25,500	\$ 21,785
Capital assets	58,602	56,592	48,634	48,632	107,236	105,224
Total assets	81,098	74,925	51,638	52,084	132,736	127,009
Deferred outflows of resources	3,106	3,626	648	746	3,754	4,372
Other liabilities	6,235	6,231	1,994	1,763	8,229	7,994
Long-term liabilities outstanding	29,616	26,389	18,601	19,190	48,217	45,579
Net pension liability	9,671	9,531	732	721	10,403	10,252
Total liabilities	45,522	42,151	21,327	21,674	66,849	63,825
Deferred inflows resources	151	170	11	13	162	183
Net position:						
Invested in capital assets, net of related debt	29,424	30,534	29,055	28,727	58,479	59,261
Restricted	6,192	1,828	953	710	7,145	2,538
Unrestricted	2,916	3,868	939	1,706	3,855	5,574
Total net position	\$38,532	\$36,230	\$30,947	\$31,143	\$69,479	\$67,373

**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

An additional portion of the City of Harker Heights' net position (84 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Harker Heights uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Harker Heights' 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.

Total net position for the City of Harker Heights reflects a \$2.1 million increase. Key elements of this increase are as follows:

**Table 2  
Changes in Net Position  
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$2,258	\$2,371	\$12,200	\$12,091	\$14,458	\$14,462
Operating grants and contributions	220	1,083			220	1,083
Capital grants and contributions						
General revenues:						
Property taxes	11,100	10,833			11,100	10,833
Sales taxes	6,672	6,627			6,672	6,627
Other taxes	258	239			258	239
Franchise fees	1,333	1,297	147	161	1,480	1,458
Investment earnings	162	115	17	18	179	133
Gain from sale of capital assets	22				22	
Total revenues	22,025	22,565	12,364	12,270	34,389	34,835
Expenses:						
General government	4,053	3,866			4,053	3,866
Public safety	12,726	12,715			12,726	12,715
Highways/streets	1,771	880			1,771	880
Culture and recreation	3,338	3,378			3,338	3,378
Economic development	438	410			438	410
Interest on long-term debt	1,038	1,032			1,038	1,032
Water and sewer			6,771	6,356	6,771	6,356
Sanitation			1,779	1,743	1,779	1,743
Drainage			369	359	369	359
Total expenses	23,364	22,281	8,919	8,458	32,283	30,739
Increase (decrease) in net position before transfers	(1,339)	284	3,445	3,812	2,106	4,096
Transfers	3,641	63	(3,641)	(63)		
Increase (decrease) in net position	2,302	347	(196)	3,749	2,106	4,096
Net position (beginning of year)	36,230	35,883	31,143	27,394	67,373	63,277
Net position (end of year)	\$38,532	\$36,230	\$30,947	\$31,143	\$69,479	\$67,373

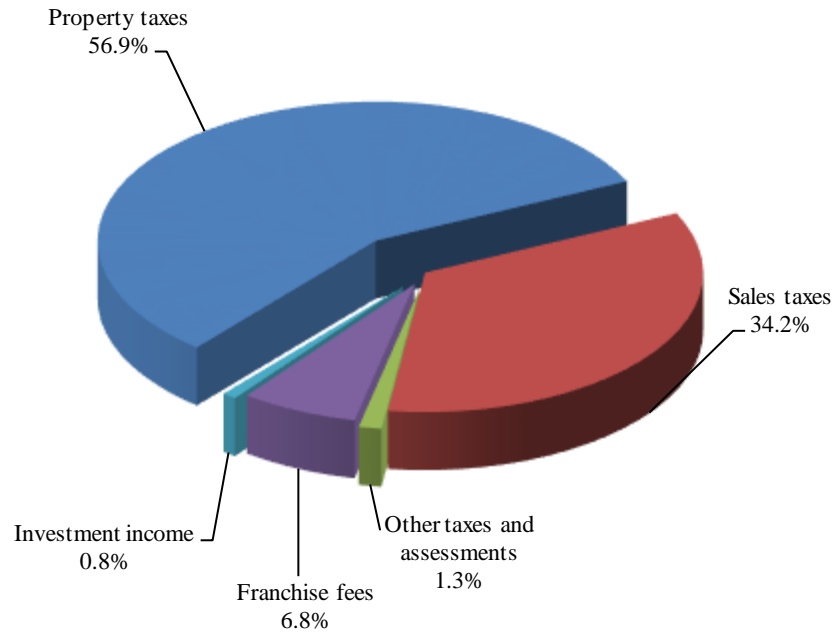
**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

**Governmental activities.** The City's general revenues increased when compared to the prior year by 2.3 percent or \$436. The major increase was due to a \$267 increase in property tax revenues. Investment income increased by \$47 due to higher interest rates. Sales tax revenues had a slight increase of \$45.

**Table 3  
General Revenues Comparison  
(in thousands)**

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)
Governmental activities			
Property taxes	\$11,100	\$10,833	\$267
Sales taxes	6,672	6,627	45
Other taxes and assessments	258	239	19
Franchise fees	1,333	1,297	36
Investment income	162	115	47
Gain on sale of capital assets	22		22
Total governmental activities	\$19,547	\$19,111	\$436

**General Revenues for the Year Ended  
September 30, 2017**



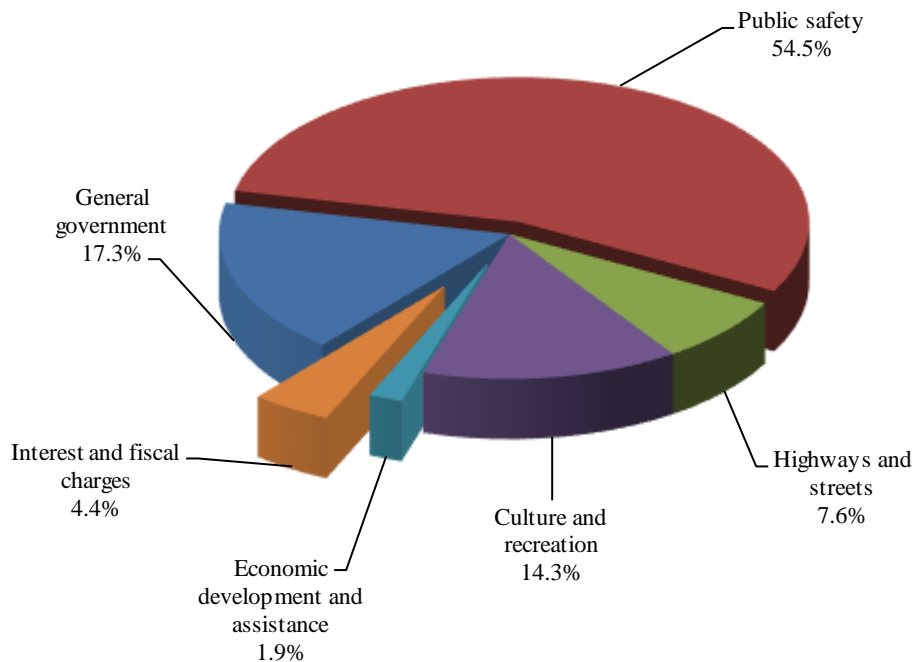
**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$12.7 million. These expenses were offset by revenues collected from a variety of sources, with the largest consisting of court fines of \$0.78 million, property taxes which are \$11.1 million, sales tax revenues of \$6.7 million and franchise fees of \$1.3 million for the fiscal year ending September 30, 2017. The major components of public safety are Police, Fire and Emergency Medical Services (EMS). Police accounted for \$6.0 million in public safety expense of which \$4.8 million was incurred for salary and benefits. Fire and EMS accounted for \$4.1 million in public safety expense, of which \$3.9 million was incurred for salary and benefits.

**Table 4  
Governmental Expenses by Activity  
(in thousands)**

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)
Governmental activities			
General government	\$4,053	\$3,866	\$187
Public safety	12,726	12,715	11
Highways and streets	1,771	880	891
Culture and recreation	3,338	3,378	(40)
Economic development and assistance	438	410	28
Interest and fiscal charges	1,038	1,032	6
Total governmental activities	\$23,364	\$22,281	\$1,083

**Governmental Expenses for the Year Ended  
September 30, 2017**



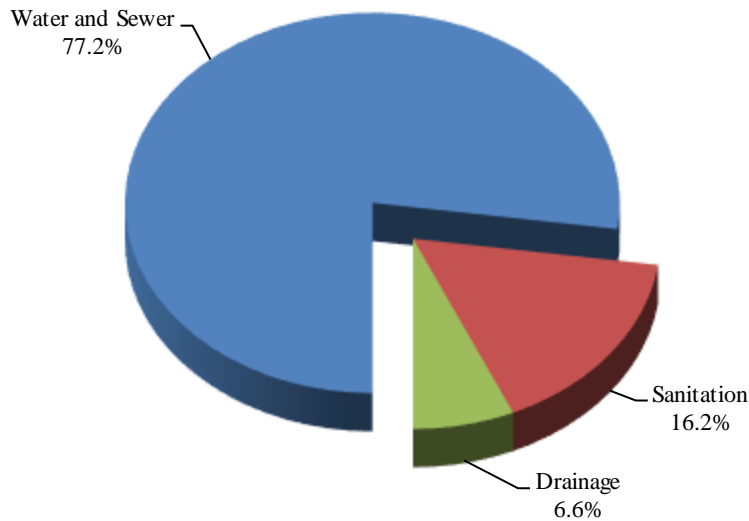
**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

**Business-type activities.** Business-type activities decreased the City of Harker Heights' net position by \$0.2 million. Revenues of the City's business-type activities were \$12.2 million for the fiscal year ending September 30, 2017.

**Table 5  
Business Type Revenue Comparison  
(in thousands)**

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)
Water and Sewer	\$9,418	\$9,353	\$65
Sanitation	1,972	1,941	31
Drainage	809	797	12
	<u>\$12,199</u>	<u>\$12,091</u>	<u>\$108</u>

**Business Type Revenues for the Year Ended  
September 30, 2017**



Water and Sewer rates remained the same for FY 2016-17 and the City saw growth but that was offset with heavy rainfall during the year. Sanitation revenues saw a slight increase of \$31. Drainage income remained constant.

Expenses for the City's business-type activities were \$8.9 million for the year, resulting in net revenues of \$3.3 million and a decrease in net position of \$0.2 million. The changes in net position are the result of several factors, including the following:

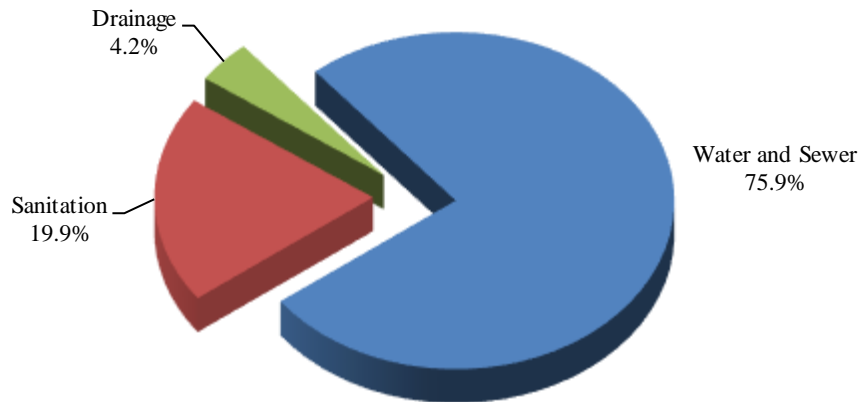
- The City recorded charges for services of \$9.4 million from the water and sewer system. The most significant expenses were \$2.4 million to purchase water and \$1.3 million in salaries and benefits.
- Sanitation services are contracted out. Total revenue equaled \$2.1 million with the majority of the revenue from collections for sanitation services of \$2.0 million; the major expense for sanitation is \$1.7 million in contractual services for a total operating expenses of \$1.8 million.
- Drainage revenues totaled \$809 in charges for services. The major operating expenses include salaries and benefits of \$146 for a total operating expenses of \$317.



**Table 6**  
**Business Type Expenses by Activity**  
 (in thousands)

	Fiscal Year 2017	Fiscal Year 2016	Increase (Decrease)
Water and Sewer	\$6,771	\$6,356	\$415
Sanitation	1,779	1,743	36
Drainage	369	359	10
	<u>\$8,919</u>	<u>\$8,458</u>	<u>\$461</u>

**Business Type Expenses for the Year Ended  
 September 30, 2017**



**Financial Analysis of the Government's Funds**

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

**Governmental Funds.** The focus of the City of Harker Heights' *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, *unreserved 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 of Harker Heights' governmental funds reported combined ending fund balances of \$18.7 million, an increase of \$4.1 million in comparison with the prior year. Approximately 54 percent or \$10.0 million constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is not available for new spending because it has already been restricted for 1) debt service (\$191), 2) capital assets (\$5.64 million) related to the bond issue, 3) federal or state grant restrictions (\$337), 4) cemetery (\$18), and 5) pet adoption center (\$5).

**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

The general fund is the chief operating fund of the City of Harker Heights. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10.0 million, while total fund balance reached \$10.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 50 percent of total general fund expenditures, while total fund balance represents 51 percent of that same amount. The fund balance of the City of Harker Heights' general fund has increased by \$371 during the current fiscal year. Key factors for this increase are lower public safety expenditures and capital lease payments.

The debt service fund has a total fund balance of \$191, all of which is restricted for the payment of debt service.

The capital projects fund balance is \$7.9 million of which \$5.6 million is restricted for capital improvement projects financed by bonded debt and \$2.2 is for capital improvement projects that are funded from non-bond revenue. This fund had a \$3.5 million increase in fund balance from the previous year. During this past fiscal year, the City completed street projects of \$6.4 million, park projects of \$93, building projects of \$2.8 million, and \$3.3 million in water and sewer projects.

**Proprietary funds.** The City of Harker Heights' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the City of Harker Heights' proprietary funds reported combined net position of \$30.9 million, a decrease of \$195 or 0.7 percent over the prior year. Unrestricted net position totals \$939. Restricted net position totals \$953. A total of \$29.1 million of net position is net investment in capital assets.

At the end of the current fiscal year, unrestricted net position for the water and sewer fund was \$852, restricted net position was \$946 while total net position was \$26.9 million. Total net position for the water and sewer fund has decreased by \$243 during the current fiscal year.

The sanitation fund has total net position of \$131, an increase of \$41 from the prior year. The majority of this increase is due to a decrease in due to other funds.

Drainage fund reflects a liability of \$1.8 million for capital improvements and total net position in the drainage utility system of \$4.0 million.

### **General Fund Budgetary Highlights**

Actual expenditures in the General Fund were \$20.1 million compared to the budget amount of \$20.6 million. The \$492 under budget is mainly due to decreased public safety expenditures.

For FY 2016-17, actual revenues were \$19.2 million as compared to the budget amount of \$19.1 million. The majority of the \$138 positive variance was due to an increase of \$112 in intergovernmental revenues, \$81 in charges for services and \$72 in property tax revenues.

The City of Harker Heights has an actual General Fund balance of \$10.3 million as of the fiscal year end, compared to the budgeted fund balance of \$8.3 million. The variance in fund balance is primarily due to the items stated above along with transfers in/out.

### **Capital Asset and Debt Administration**

**Capital assets.** The City of Harker Heights' investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$107.2 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and lift stations, machinery and equipment, park facilities, vehicles, furniture and fixtures, streets, and infrastructure. The total increases in the City's investment in capital assets for the current fiscal year was 2.0 percent (2.0 percent increase for governmental activities and a 0 percent increase for business-type activities) and is attributed to the following:

**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

- Capital assets in governmental activities increased in several categories, however, the major increases were in buildings with an increase of \$2.1 million and infrastructure increasing \$5.9 million. Construction in progress decreased \$5.7 million due to the completion of projects.
- Infrastructure in business-type activities increased by \$2.4 million bringing the previous year total of \$42.7 million to \$45.1 million. As stated above, the construction in progress in business-type activities decreased by \$2.4 million from the previous year due to the completion of projects.

**Table 7  
Capital Assets  
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 15,576	\$ 15,576	\$ 285	\$ 285	\$15,861	\$15,861
Buildings and lift stations	8,815	6,720	1,519	1,582	10,334	8,302
Improvements other than buildings	144	107	2	4	146	111
Furniture and fixtures	141	99			141	99
Machinery and equipment	1,250	1,353	680	625	1,930	1,978
Vehicles	2,020	2,202	93	110	2,113	2,312
Infrastructure	27,902	22,049	45,122	42,678	73,024	64,727
Construction in progress	2,754	8,486	933	3,348	3,687	11,834
<b>Total</b>	<b>\$58,602</b>	<b>\$56,592</b>	<b>\$48,634</b>	<b>\$48,632</b>	<b>\$107,236</b>	<b>\$105,224</b>

Additional information on the City of Harker Heights' capital assets can be found in note IV.3 on pages 44-45 of this report.

**Debt.** In February 2012, the City was assigned a long-term rating of "AA" by Standard & Poor's Rating Service. This rating was raised from the "AA-" rating received in 2009. In 2016, Standard & Poor's considers the City's economy to be adequate with strong city management. The rating reflects that the City's budgetary flexibility remains very strong and the budgetary performance has been strong overall. In their opinion, the City has very strong liquidity providing very strong cash levels to cover debt service and expenditures as well as good management with good financial policies. The City maintains an "A2" rating from Moody's Investors Service for tax supported debt. The City also has several outstanding issues which are rated "Aaa" by Moody's and "AAA" by Standard and Poor's by virtue of insurance policies issued by various commercial insurance companies.

**Table 8  
Outstanding Debt  
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$9,484	\$10,605	\$9,661	\$10,200	\$19,145	\$20,805
Certificates of obligation	20,600	16,368	10,373	10,227	30,973	26,595
Capital leases payable	416	552			416	552
Compensated absences	748	700	48	44	796	744
Net pension liability	9,671	9,531	732	721	10,403	10,252
Net other postemployment benefit obligation	765	623	88	70	853	693
<b>Total</b>	<b>\$41,684</b>	<b>\$38,379</b>	<b>\$20,902</b>	<b>\$21,262</b>	<b>\$62,586</b>	<b>\$59,641</b>

**City of Harker Heights  
Management's Discussion and Analysis (continued)  
September 30, 2017**

The constitutional debt limit is 7 percent of the five year average full valuation of taxable real property. The current debt limitation for the City of Harker Heights is \$122.8 million which is \$93.7 million more than the City's outstanding indebtedness of \$29.1 million.

Additional information on the City of Harker Heights' long-term debt can be found in note IV.6 on pages 47-60 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The annual unemployment rate for Harker Heights in 2016 was 4.5% which is a decrease of 0.2% from a rate of 4.7% in 2015. This is higher than Bell County's annual unemployment rate of 4.4%, lower than the state average rate of 4.6% and lower than the national average rate of 4.9%.

All of these factors were considered in preparing the fiscal year 2017-18 budget for the City of Harker Heights.

During the current fiscal year, the fund balance in the general fund is projected to increase to \$9.8 million. The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2017-18 is \$0.6770 per \$100 valuation. Of this tax rate 78.06 percent or \$0.5285 is utilized for General Fund activities. The remaining 21.94 percent or \$0.1485 is used for debt service. The General Fund's portion of property tax revenue for FY 2017-18 is estimated to be \$9.2 million. Sales tax revenue for FY 2017-18 is budgeted at \$6.6 million.

The largest revenue source for the water and sewer fund is water sales at \$6.0 million. The rate for FY 2017-18 is \$10.59 as a base rate and \$3.30 per 1,000 gallons used. The second largest revenue source for the water and sewer fund is sewer charges at \$3.7 million based on a FY 2017-18 base rate of \$19.09 plus \$3.19 per 1,000 gallons over 3,000 gallons and caps at 10,000 gallons for residential customers. These rates increased 3 percent over the rates set for FY 2016-17.

Sanitation fees for residential garbage are \$18.33 per month which remained the same from FY 2016-17.

The drainage fee also remained at \$6.00 per single family dwellings per month.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Harker Heights' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Harker Heights, Finance Director, 305 Miller's Crossing, Harker Heights, Texas, 76548.



# CITY OF HARKER HEIGHTS

## STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash	\$ 2,361,917	\$ 495,175	\$ 2,857,092
Investments	12,058,051	1,227,333	13,285,384
Receivables (net of allowance for uncollectibles):			
Taxes	93,507		93,507
Accounts	1,305,464	1,337,155	2,642,619
Special assessments	48		48
Internal Balances	648,433	(648,433)	0
Due from other governments	91,273		91,273
Inventory of supplies, at first in, first out		101,711	101,711
Restricted Assets:			
Restricted cash	383,984	54,832	438,816
Restricted investments	5,553,537	436,047	5,989,584
Capital assets (net of accumulated depreciation)			
Land	15,575,872	284,683	15,860,555
Building and lift stations	8,814,711	1,519,380	10,334,091
Improvements other than buildings	144,448	2,301	146,749
Furniture and fixtures	141,502		141,502
Machinery and equipment	1,249,906	680,304	1,930,210
Vehicles	2,019,895	92,616	2,112,511
Infrastructure	27,902,352	45,121,034	73,023,386
Construction in progress	2,753,754	933,409	3,687,163
Total Assets	<u>81,098,654</u>	<u>51,637,547</u>	<u>132,736,201</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on refunding of debt	507,242	455,047	962,289
Deferred outflows related to pensions	2,599,358	192,690	2,792,048
Total Deferred Outflows of Resources:	<u>3,106,600</u>	<u>647,737</u>	<u>3,754,337</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	2,490,842		2,490,842
Accrued interest payable	124,881	82,452	207,333
Refundable meter deposit		342,489	342,489
Unearned revenue	1,222,723		1,222,723
Noncurrent liabilities:			
Due within one year	2,396,548	1,569,201	3,965,749
Due in more than one year	29,616,240	18,600,815	48,217,055
Net pension liability (City's share)	9,671,108	731,889	10,402,997
Total Liabilities	<u>45,522,342</u>	<u>21,326,846</u>	<u>66,849,188</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	150,528	11,051	161,579
<b>NET POSITION</b>			
Net investment in capital assets	29,424,174	29,055,264	58,479,438
Restricted for:			
Economic development	122,348		122,348
Public safety	214,695		214,695
Pet Adoption Center	5,392		5,392
Debt service	190,693	42,477	233,170
Capital projects	5,640,349	910,393	6,550,742
Cemetery	17,879		17,879
Unrestricted	2,916,854	939,253	3,856,107
Total Net Position	<u>\$ 38,532,384</u>	<u>\$ 30,947,387</u>	<u>\$ 69,479,771</u>

The notes to the financial statement are an integral part of this statement

**CITY OF HARKER HEIGHTS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<u>FUNCTION/PROGRAM ACTIVITY</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grant and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 4,052,555	\$ 88,911	\$ 147,028	
Public safety	12,725,601	1,697,903	10,784	
Highways and streets	1,771,198		35,296	
Culture and recreation	3,338,018	258,639	26,644	
Economic development and assistance	438,355	212,743		
Interest and fiscal charges	1,038,020			
<b>Total governmental activities</b>	<b>23,363,747</b>	<b>2,258,196</b>	<b>219,752</b>	
Business-type Activities:				
Water and Sewer	6,770,856	9,418,445		
Sanitation	1,779,358	1,972,477		
Drainage	369,301	808,922		
<b>Total business-type activities</b>	<b>8,919,515</b>	<b>12,199,844</b>		
<b>Total primary government</b>	<b>\$ 32,283,262</b>	<b>\$ 14,458,040</b>	<b>\$ 219,752</b>	

General revenues:  
Property taxes  
Sales taxes  
Mixed drink taxes  
Bingo taxes  
Hotel/Motel taxes  
Franchise fees  
Investment earnings  
Gain from sale of capital assets  
Transfers

Total general revenues and transfers

Change in net position

Net position – beginning

Net position - ending

The notes to the financial statement are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,816,616)		\$ (3,816,616)
(11,016,914)		(11,016,914)
(1,735,902)		(1,735,902)
(3,052,735)		(3,052,735)
(225,612)		(225,612)
(1,038,020)		(1,038,020)
<u>(20,885,799)</u>		<u>(20,885,799)</u>
	2,647,589	2,647,589
	193,119	193,119
	439,621	439,621
	<u>3,280,329</u>	<u>3,280,329</u>
<u>\$ (20,885,799)</u>	<u>\$ 3,280,329</u>	<u>\$ (17,605,470)</u>
11,100,067		11,100,067
6,671,937		6,671,937
113,152		113,152
50,357		50,357
95,160		95,160
1,332,935	147,848	1,480,783
162,120	17,359	179,479
21,718		21,718
3,640,664	(3,640,664)	
<u>23,188,110</u>	<u>(3,475,457)</u>	<u>19,712,653</u>
2,302,311	(195,128)	2,107,183
<u>36,230,073</u>	<u>31,142,515</u>	<u>67,372,588</u>
<u>\$ 38,532,384</u>	<u>\$ 30,947,387</u>	<u>\$ 69,479,771</u>

**FUNCTION/PROGRAM ACTIVITY**

**Primary Government:**

Governmental Activities:

General government  
 Public safety  
 Highways and streets  
 Culture and recreation  
 Economic development and assistance  
 Interest and fiscal charges

**Total governmental activities**

Business-type Activities:

Water and Sewer  
 Sanitation  
 Drainage

**Total business-type activities**

**Total primary government**

General revenues:

Property taxes  
 Sales taxes  
 Mixed drink taxes  
 Bingo taxes  
 Hotel/Motel taxes  
 Franchise fees  
 Investment earnings  
 Gain from sale of capital assets  
 Transfers

Total general revenues and transfers

Change in net position

Net position – beginning

Net position - ending

The notes to the financial statement are an integral part of this statement.



**CITY OF HARKER HEIGHTS**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>ASSETS</b>			
Cash	\$ 1,075,200	\$ 147,773	\$ 1,021,967
Investments	8,518,156	72,747	3,276,166
Receivables (net of allowance for uncollectibles):			
Taxes	71,339	22,168	
Accounts	1,293,492		
Special Assessments	48		
Due from other funds	3,471,309		
Due from other governments	74,835	16,438	
Restricted assets:			
Cash	279,818		104,166
Investments	17,354		5,536,183
	<u>\$ 14,801,551</u>	<u>\$ 259,126</u>	<u>\$ 9,938,482</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 2,338,515		\$ 152,327
Due to other funds	888,358	14,401	1,933,989
Unearned revenue	1,222,723		
	<u>4,449,596</u>	<u>14,401</u>	<u>2,086,316</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property tax not yet available	57,664	54,032	
	<u>57,664</u>	<u>54,032</u>	
<b>FUND BALANCES</b>			
Nonspendable			
Restricted for:			
Economic development			
Public safety	3,239		
Pet adoption center	5,392		
Debt service		190,693	
Capital projects			5,640,349
Cemetery	17,879		
Committed			
Assigned to:			
Culture and recreation	270,663		
Capital projects			2,211,817
Unassigned	9,997,118		
	<u>10,294,291</u>	<u>190,693</u>	<u>7,852,166</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 14,801,551</u></u>	<u><u>\$ 259,126</u></u>	<u><u>\$ 9,938,482</u></u>

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 116,977	\$ 2,361,917
190,982	12,058,051
	93,507
11,972	1,305,464
	48
61,020	3,532,329
	91,273
	383,984
	5,553,537
<u>\$ 380,951</u>	<u>\$ 25,380,110</u>
47,147	\$ 2,490,842
	2,883,895
	1,222,723
<u>47,147</u>	<u>6,597,460</u>
	111,696
	111,696
122,348	122,348
211,456	214,695
	5,392
	190,693
	5,640,349
	17,879
	270,663
	2,211,817
	9,997,118
<u>333,804</u>	<u>18,670,954</u>
<u>\$ 380,951</u>	<u>\$ 25,380,110</u>

**ASSETS**

Cash  
Investments  
Receivables (net of allowance for uncollectibles):  
    Taxes  
    Accounts  
    Special Assessments  
Due from other funds  
Due from other governments  
Restricted assets:  
    Cash  
    Investments  
  
Total Assets

**LIABILITIES**

Accounts payable and  
accrued liabilities  
Due to other funds  
Unearned revenue  
  
Total Liabilities

**DEFERRED INFLOWS OF RESOURCES**

Property tax not yet available  
  
Total deferred inflows of resources

**FUND BALANCES**

Nonspendable  
Restricted for:  
    Economic development  
    Public safety  
    Pet adoption center  
    Debt service  
    Capital projects  
    Cemetery  
Committed  
Assigned to:  
    Culture and recreation  
    Capital projects  
Unassigned

Total Fund Balances

**TOTAL LIABILITIES, DEFERRED INFLOWS  
OF RESOURCES AND FUND BALANCES**

The notes to the financial statements are an integral part of this statement.



**CITY OF HARKER HEIGHTS**  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

**Amounts reported for governmental activities in the statement of net position are different because:**

Total fund balance per balance sheet	\$ 18,670,954
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	58,602,440
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	111,696
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(38,852,706)</u>
Net position of governmental activities	<u>\$ 38,532,384</u>

**CITY OF HARKER HEIGHTS**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>REVENUES</b>			
Taxes and special assessments:			
Property	\$ 8,563,544	\$ 2,568,635	
Other taxes and special assessments	7,998,381		
Licenses and permits	246,951		
Fines	785,217		
Charges for services	989,607		
Intergovernmental	361,248		
Investment earnings	125,207	5,564	25,464
Contributions and donations	28,503		
Miscellaneous	103,614	3,286	4,439
	<u>19,202,272</u>	<u>2,577,485</u>	<u>29,903</u>
Total Revenues			
<b>EXPENDITURES</b>			
Current:			
General government	3,778,396		
Public safety	11,405,952		
Highways and streets	1,488,963		
Culture and recreation	2,903,191		
Economic development and assistance	363,402		
Debt service:			
Principal	135,585	1,790,269	
Interest and fiscal charges	9,444	972,213	
Tax collection fees		29,778	
Bond issuance cost			54,757
Capital outlay			3,570,682
	<u>20,084,933</u>	<u>2,792,260</u>	<u>3,625,439</u>
Total Expenditures			
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>(882,661)</u>	<u>(214,775)</u>	<u>(3,595,536)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Capital Leases			
Premium on certificates of obligation			125,289
Issuance of certificates of obligation			4,930,000
Premium on refunding bonds			
Payment to refunded bond escrow agent			
Transfers in	1,353,525	350,000	2,850,000
Transfers out	(100,000)		(809,336)
	<u>1,253,525</u>	<u>350,000</u>	<u>7,095,953</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	370,864	135,225	3,500,417
Fund Balances -Beginning	<u>9,923,427</u>	<u>55,468</u>	<u>4,351,749</u>
Fund Balances - Ending	<u>\$ 10,294,291</u>	<u>\$ 190,693</u>	<u>\$ 7,852,166</u>

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds	Total Governmental Fund	
	\$ 11,132,179	<b>REVENUES</b>
95,160	8,093,541	Taxes and special assessments:
	246,951	Property
92,334	877,551	Other taxes and special assessments
	989,607	Licenses and permits
	361,248	Fines
1,473	157,708	Charges for services
	28,503	Intergovernmental
	111,339	Investment earnings
		Contributions and donations
		Miscellaneous
<u>188,967</u>	<u>21,998,627</u>	Total Revenues
		<b>EXPENDITURES</b>
	3,778,396	Current:
50,000	11,455,952	General government
	1,488,963	Public safety
	2,903,191	Highways and streets
58,103	421,505	Culture and recreation
		Economic development and assistance
	1,925,854	Debt service:
	981,657	Principal
	29,778	Interest and fiscal charges
	54,757	Tax collection fees
	3,570,682	Bond Issuance Cost
		Capital outlay
<u>108,103</u>	<u>26,610,735</u>	Total Expenditures
		Excess (Deficiency) of Revenues
<u>80,864</u>	<u>(4,612,108)</u>	Over (Under) Expenditures
		<b>OTHER FINANCING SOURCES (USES)</b>
	125,289	Capital Leases
	4,930,000	Premium on certificates of obligation
		Issuance of certificates of obligation
		Premium on refunding bonds
		Payment to refunded bond escrow agent
	4,553,525	Transfers in
(3,525)	(912,861)	Transfers out
<u>(3,525)</u>	<u>8,695,953</u>	Total Other Financing Sources (Uses)
77,339	4,083,845	Net Change in Fund Balances
<u>256,465</u>	<u>14,587,109</u>	Fund Balances – Beginning
<u>\$ 333,804</u>	<u>\$ 18,670,954</u>	Fund Balances - Ending

The notes to the financial statements are an integral part of this statement.



**CITY OF HARKER HEIGHTS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**Amounts reported for governmental activities in the statement of activities are different because:**

Net change in fund balances – total governmental funds	\$ 4,083,845
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	4,202,516
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(2,192,062)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, transfers, disposals, and donations) is to increase net position.	0
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	26,730
Compensated absences are accrued on the government-wide statement of net position, but do not require the use of current financial resources. The current period change in compensated absences is reported in the government-wide statement of activities and changes in net position. This is the net decrease in absences not reported as an expenditure in governmental funds.	(48,000)
Net pension obligation is accrued on the government-wide statement of net position, but does not require the use of current financial resources. The current period change in net pension obligation is reported in the government-wide statement of activities and changes in net position. This is an increase to net position of governmental funds.	(524,455)
The net decrease in the other postemployment benefit obligation (OPEB) is not reported in the funds.	(141,750)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(3,132,685)
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.	41,292
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as an expenditure in governmental funds.	<u>(13,120)</u>
Change in net position of governmental activities	<u><u>\$ 2,302,311</u></u>



**CITY OF HARKER HEIGHTS**

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Positive (Negative)
<b>REVENUES</b>				
Taxes and special assessments:				
Property	\$ 8,491,200	\$ 8,491,200	\$ 8,563,544	\$ 72,344
Other taxes and special assessments	7,992,000	7,992,000	7,998,381	6,381
Licenses and permits	316,000	316,000	246,951	(69,049)
Fines	1,000,000	1,000,000	785,217	(214,783)
Charges for services	908,600	908,600	989,607	81,007
Intergovernmental	248,900	248,900	361,248	112,348
Investment earnings	60,000	60,000	125,207	65,207
Contributions and donations	20,000	20,000	28,503	8,503
Miscellaneous	28,000	28,000	103,614	75,614
	19,064,700	19,064,700	19,202,272	137,572
<b>EXPENDITURES</b>				
Current:				
General government:				
Council	314,900	314,900	299,989	14,911
Administration	2,208,000	2,208,000	2,196,184	11,816
Finance	676,000	676,000	679,797	(3,797)
Pet Adoption Center	513,800	513,800	602,426	(88,626)
Public safety:				
Police	6,208,000	6,208,000	6,008,377	199,623
Courts	882,100	882,100	838,569	43,531
Code enforcement	596,900	596,900	566,241	30,659
Fire/EMS	4,083,200	4,083,200	3,992,765	90,435
Highways and streets:				
Streets	1,261,000	1,261,000	1,238,335	22,665
Maintenance	258,000	258,000	250,628	7,372
Culture and recreation:				
Library	714,500	714,500	666,971	47,529
Parks and recreation	2,358,400	2,358,400	2,236,220	122,180
Economic development and assistance	357,100	357,100	363,402	(6,302)
Debt Service:				
Principal	135,600	135,600	135,585	15
Interest and fiscal charges	9,400	9,400	9,444	(44)
	20,576,900	20,576,900	20,084,933	491,967
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (1,512,200)	\$ (1,512,200)	\$ (882,661)	\$ 629,539

The notes to the financial statement are an integral part of this statement.

**CITY OF HARKER HEIGHTS**

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Leases				
Sale of capital assets proceeds				
Transfers in	800,000	800,000	1,353,525	553,525
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>700,000</u>	<u>700,000</u>	<u>1,253,525</u>	<u>553,525</u>
Net Change in Fund Balances	(812,200)	(812,200)	370,864	1,183,064
Fund Balances – Beginning	<u>9,076,752</u>	<u>9,076,752</u>	<u>9,923,427</u>	
Fund Balances – Ending	<u><u>\$ 8,264,552</u></u>	<u><u>\$ 8,264,552</u></u>	<u><u>\$ 10,294,291</u></u>	<u><u>\$ 1,183,064</u></u>

The notes to the financial statement are an integral part of this statement.

**CITY OF HARKER HEIGHTS**

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2017

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 386,431	\$ 82,797	\$ 25,947	\$ 495,175
Investments	1,226,081	963	289	1,227,333
Receivables (net of allowance for uncollectibles):				
Accounts	1,048,415	207,403	81,337	1,337,155
Due from other funds	627,086	804	199,556	827,446
Inventory of supplies, at first-in, first-out cost	101,711			101,711
Restricted cash	51,348		3,484	54,832
Restricted investments	432,868		3,179	436,047
<b>Total Current Assets</b>	<b>3,873,940</b>	<b>291,967</b>	<b>313,792</b>	<b>4,479,699</b>
Noncurrent Assets:				
Capital Assets				
Land and improvements	159,523		125,160	284,683
Buildings and lift stations	3,128,004			3,128,004
Improvements other than buildings	1,144	23,728		24,872
Furniture and fixtures	12,375			12,375
Machinery and equipment	1,706,938	19,326	255,585	1,981,849
Vehicles	611,571		92,354	703,925
Water, sewer, and drainage systems	50,598,797		5,820,763	56,419,560
Construction in progress	917,408		16,000	933,408
Less accumulated depreciation	(13,922,624)	(40,816)	(891,509)	(14,854,949)
<b>Total Capital Assets (Net of Depreciation)</b>	<b>43,213,136</b>	<b>2,238</b>	<b>5,418,353</b>	<b>48,633,727</b>
<b>Total Noncurrent Assets</b>	<b>43,213,136</b>	<b>2,238</b>	<b>5,418,353</b>	<b>48,633,727</b>
<b>Total Assets</b>	<b>\$ 47,087,076</b>	<b>\$ 294,205</b>	<b>\$ 5,732,145</b>	<b>\$ 53,113,426</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amount on refunding of debt	455,047			455,047
Deferred outflows related to pensions	160,482	4,522	27,686	192,690
<b>Total Deferred Outflows of Resources</b>	<b>\$ 615,529</b>	<b>\$ 4,522</b>	<b>\$ 27,686</b>	<b>\$ 647,737</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF HARKER HEIGHTS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2017**

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
<b>LIABILITIES</b>				
Current Liabilities:				
Due to other funds	\$ 1,093,281	\$ 144,072	\$ 238,526	\$ 1,475,879
Refundable meter deposits	342,489			342,489
Accrued interest payable	75,675		6,777	82,452
Capital leases payable - current				
Accrued compensated absences - current	25,000	1,000	9,000	35,000
General obligation bonds - current	662,399		66,802	729,201
Certificates of obligation - current	735,000		70,000	805,000
<b>Total Current Liabilities</b>	<b>2,933,844</b>	<b>145,072</b>	<b>391,105</b>	<b>3,470,021</b>
Noncurrent Liabilities:				
Accrued compensated absences	9,000		4,000	13,000
Net pension liability	609,143	16,816	105,930	731,889
Net other postemployment benefit obligation	72,375	5,121	11,010	88,506
Capital leases payable				
General obligation bonds (net of deferred amount on advanced refunding)	8,565,428		366,096	8,931,524
Certificates of obligation (net of unamortized discounts and premiums)	8,649,512		918,273	9,567,785
<b>Total Noncurrent Liabilities</b>	<b>17,905,458</b>	<b>21,937</b>	<b>1,405,309</b>	<b>19,332,704</b>
<b>Total Liabilities</b>	<b>\$ 20,839,302</b>	<b>\$ 167,009</b>	<b>\$ 1,796,414</b>	<b>\$ 22,802,725</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	\$ 9,186	\$ 289	\$ 1,576	\$ 11,051
<b>NET POSITION</b>				
Net investment in capital assets	25,055,844	2,238	3,997,182	29,055,264
Restricted for debt service	35,814		6,663	42,477
Restricted for capital projects	910,393			910,393
Unrestricted	852,066	129,191	(42,004)	939,253
<b>Total Net Position</b>	<b>\$ 26,854,117</b>	<b>\$ 131,429</b>	<b>\$ 3,961,841</b>	<b>\$ 30,947,387</b>

The notes to the financial statements are an integral part of this statement.



**CITY OF HARKER HEIGHTS**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 9,409,047	\$ 1,971,149	\$ 808,622	\$ 12,188,818
Franchise fees		147,848		147,848
Other	9,398	1,328	300	11,026
Total Operating Revenues	<u>9,418,445</u>	<u>2,120,325</u>	<u>808,922</u>	<u>12,347,692</u>
<b>OPERATING EXPENSES</b>				
Water purchases	2,402,169			2,402,169
Contractual services	355,515	1,699,305	2,072	2,056,892
Personal services	1,262,773	57,707	146,363	1,466,843
Utilities and telephone	507,741	1,118		508,859
Repairs and maintenance	428,008	3,576	36,682	468,266
Supplies	145,177	1,252	7,683	154,112
Uncollectible accounts	54,860	9,086	4,137	68,083
Professional fees	69,005	5,000	5,000	79,005
Depreciation	1,010,942	2,314	115,272	1,128,528
Other	1,625		238	1,863
Total Operating Expenses	<u>6,237,815</u>	<u>1,779,358</u>	<u>317,447</u>	<u>8,334,620</u>
Operating Income	<u>3,180,630</u>	<u>340,967</u>	<u>491,475</u>	<u>4,013,072</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	16,550	450	359	17,359
Taxes & assessments				
Interest expense	(498,175)		(51,854)	(550,029)
Bond issuance costs	(10,125)			(10,125)
Loss on sale of capital assets	(24,741)			(24,741)
Total Nonoperating Revenues (Expenses)	<u>(516,491)</u>	<u>450</u>	<u>(51,495)</u>	<u>(567,536)</u>
Income Before Transfers	2,664,139	341,417	439,980	3,445,536
Transfers In	793,336		16,000	809,336
Transfers Out	(3,700,000)	(300,000)	(450,000)	(4,450,000)
Change in Net Position	(242,525)	41,417	5,980	(195,128)
Total Net Position - Beginning	27,096,642	90,012	3,955,861	31,142,515
Total Net Position – Ending	<u>\$ 26,854,117</u>	<u>\$ 131,429</u>	<u>\$ 3,961,841</u>	<u>\$ 30,947,387</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF HARKER HEIGHTS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Total Enterprise Funds</u>
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Drainage Utility Fund</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 9,350,149	\$ 1,957,757	\$ 806,232	\$ 12,114,138
Cash payments to suppliers	(3,964,440)	(1,848,419)	178,482	(5,634,377)
Cash payments to employees	(1,215,328)	(54,317)	(133,991)	(1,403,636)
Franchise fees		147,848		147,848
Other operating cash receipts (payments)	(84,135)	1,049	(198,169)	(281,255)
Net Cash Provided By Operating Activities	<u>4,086,246</u>	<u>203,918</u>	<u>652,554</u>	<u>4,942,718</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	793,336		16,000	809,336
Transfers out	(3,700,000)	(300,000)	(450,000)	(4,450,000)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(2,906,664)</u>	<u>(300,000)</u>	<u>(434,000)</u>	<u>(3,640,664)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(1,115,715)		(38,924)	(1,154,639)
Proceeds from issuance of debt	1,000,583			1,000,583
Principal repayments	(1,205,807)		(108,924)	(1,314,731)
Interest paid on long-term debt	(498,738)		(57,731)	(556,469)
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(1,819,677)</u>		<u>(205,579)</u>	<u>(2,025,256)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from sales and maturities of investments	2,944,582			2,944,582
Purchase of investments	(2,201,927)	36,882	4,941	(2,160,104)
Interest & penalties received	16,550	450	359	17,359
Net Cash Provided (Used) By Investing Activities	<u>759,205</u>	<u>37,332</u>	<u>5,300</u>	<u>801,837</u>
Net Increase (Decrease) in Cash For The Year	119,110	(58,750)	18,275	78,635
Cash - Beginning	<u>318,669</u>	<u>141,547</u>	<u>11,156</u>	<u>471,372</u>
Cash - Ending	<u>\$ 437,779</u>	<u>\$ 82,797</u>	<u>\$ 29,431</u>	<u>\$ 550,007</u>
Reconciliation of cash:				
Cash	\$ 386,431	\$ 82,797	\$ 25,947	\$ 495,175
Restricted Cash	<u>51,348</u>		<u>3,484</u>	<u>54,832</u>
Total Cash	<u>\$ 437,779</u>	<u>\$ 82,797</u>	<u>\$ 29,431</u>	<u>\$ 550,007</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF HARKER HEIGHTS**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Total Enterprise Funds</u>
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Drainage Utility Fund</u>	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Operating Income	<u>\$ 3,180,630</u>	<u>\$ 340,967</u>	<u>\$ 491,475</u>	<u>\$ 4,013,072</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	1,010,942	2,314	115,272	1,128,528
Change in Assets and Liabilities:				
(Increase) Decrease in accounts receivable	(72,279)	(4,306)	(2,152)	(78,737)
(Increase) Decrease in deferred outflow in net pension obligation	26,023	1,178	4,533	31,734
Increase in allowance for doubtful accounts				
(Increase) Decrease in due from other funds	(529,383)	(279)	(198,469)	(728,131)
(Increase) Decrease in inventory	(340)			(340)
Increase (Decrease) in accounts payable and accrued liabilities				
Increase (Decrease) in refundable meter deposits	13,381			13,381
Increase (Decrease) in due to other funds	435,850	(138,168)	234,056	531,738
Increase (Decrease) in compensated absences	2,000		2,000	4,000
(Increase) Decrease in deferred inflow in net pension obligation	(1,263)	(57)	(220)	(1,540)
Increase (Decrease) in net pension obligation	9,009	408	1,570	10,987
Increase (Decrease) in net other postemployment benefit obligation	11,676	1,861	4,489	18,026
Total Adjustments	<u>905,616</u>	<u>(137,049)</u>	<u>161,079</u>	<u>929,646</u>
Net cash Provided By Operating Activities:	<u>\$ 4,086,246</u>	<u>\$ 203,918</u>	<u>\$ 652,554</u>	<u>\$ 4,942,718</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>				
Loss on disposal of capital assets	\$ 24,741			\$ 24,741
Amortization of deferred amount on advanced refunding of certificates of obligation	66,113			66,113
Amortization of bond premium	161,073			
Amortization of bond discount	3,264			3,264
Total Noncash Investing, Capital and Financing Activities	<u>\$ 255,191</u>	<u>\$</u>	<u>\$</u>	<u>\$ 94,118</u>

The notes to the financial statements are an integral part of this statement.



**CITY OF HARKER HEIGHTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Harker Heights, Texas, a municipal corporation in Bell County, Texas, was incorporated under the general laws of the State of Texas in 1960. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, highways and streets, water service and sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Harker Heights have been prepared to conform with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting and reporting policies are described below.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The City Council, which is elected at large, consists of a mayor and five council members constituting an ongoing entity and is the level of government that has governance responsibilities over all activities related to the City of Harker Heights. The criteria for including organizations as component units within the City's reporting entity include whether 1) the organization is legally separate (can sue and be sued in their own name, 2) the City holds the corporate powers of the organization, 3) the City appoints a voting majority of the organization's board, 4) the City is able to impose its will on the organization, 5) the organization has the potential to impose a financial benefit/burden on the City, and 6) there is fiscal dependency by the organization on the City. There are no component units that qualify for inclusion in the City's reporting entity.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) 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 on all of the activities of the City. For the most part, the effect of inter-fund 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. In the reporting model as defined by GASB Statement No. 34, the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Culture and Recreation, etc.) 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, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Government-wide and Fund Financial Statements (Continued)**

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based 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 funds financial statements. The major governmental funds are the general fund, debt service fund, and capital projects fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

**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 statements. Revenues are recorded 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. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

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 measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the fiscal year. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Property taxes, franchise taxes, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes collected by Bell County Appraisal District at year-end on behalf of the City and sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. All other revenue items are considered to be measurable and available only when the City receives the cash.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. 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 a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund, the sanitation enterprise fund, and the drainage utility enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

The following major funds are used by the City:

1. Governmental Funds

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in other funds.
- b. The Debt Service Fund accounts for the resources accumulated and payments made for principal, interest, and related costs on long-term general obligation debt of governmental funds paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts are restricted exclusively for debt service expenditures.
- c. The Capital Projects Fund accounts for the acquisition of capital assets or construction of major capital projects other than those financed by proprietary or trust funds.
- d. Other Governmental Funds is a summarization of all of the non-major governmental funds.

2. Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Enterprise funds include the following funds:

- a. The Water and Sewer Fund accounts for the distribution of treated water and the collection and treatment of sewage activities. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.
- b. The Sanitation Fund accounts for the collection and disposal of garbage activities. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.
- c. The Drainage Utility Fund accounts for the receipt of storm water utility fees for construction, operations, and maintenance of the City's storm water drainage system.

C. Cash and Investments

Cash includes cash on hand, amounts in demand deposits and money market fund deposits.

The City is authorized to make investments in accordance with "The Public Funds Investment Act of 1987". The City is also authorized by the Interlocal Cooperation Act, Articles 4413(32c) and 4413(34c), Vernon's Texas Civil Statutes, as amended, to invest in shares of a public funds investment pool. The City's investment policy authorizes certain investments that may be purchased by the City.

A detail listing of authorized investments is included in Part IV, Note 1 titled "Deposits and Investments."

The City adopted GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" during the year ended September 30, 1998. Under GASB Statement No. 31, investments are reported at their fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Short-term nonparticipating interest-earning investment contracts (to include certificates of deposit) are reported using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments that have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The gain/loss resulting from valuation is reported within the revenue account "investment earnings" on the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, and the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds.

The City has implemented GASB Statement No. 40 entitled "Deposit and Investment Risk Disclosures". This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk as well as modifying custodial credit risk disclosures.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E. Receivables and Payables and Interfund Transactions

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

All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds. Nonrecurring or non-routine transfers of equity between funds – for example, contribution of capital assets to a proprietary fund or transfers of residual balances of discontinued funds to other funds – are accounted for as transfers in the government-wide statements of activities and as capital contributions in the proprietary fund operating statement.

All service receivables are shown net of an allowance for uncollectibles. Service accounts receivable in excess of 90 days comprise the service accounts receivable allowance with the exception of ambulance receivable, which is 120 days. Property tax receivable allowance is equal to 61% of outstanding property taxes at the end of the fiscal year.

F. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Proprietary fund-type inventories are recorded as expenses when consumed rather than when purchased.

G. Restricted Assets

Certain investments and cash accounts are classified as restricted on the balance sheet because their use is limited to servicing debt, repaying refundable deposits, cemetery maintenance, public safety, culture and recreation, and specific construction projects.

H. Capital Assets

Capital assets (i.e. land, buildings, equipment, improvements other than buildings, which includes the City's infrastructure, and construction in progress) of all funds are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H. Capital Assets (Continued)

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Machinery and equipment	3-12 years
Buildings	20-50 years
Improvements other than buildings	20-60 years
Infrastructure	20-60 years

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave, which is not vested. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Typically, the General Fund has been used in prior years to liquidate such amounts in governmental funds.

J. Long-Term Obligations

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

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

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles as applied to governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

M. Fund Balance Classifications

The difference between assets and liabilities in the governmental fund balance sheets shall be organized into the following classifications:

**Nonspendable** – Not in a spendable form, such as inventory, or required to be maintained intact such as the principal of a permanent fund. As of September 30, 2017, the City did not have any nonspendable fund balances.

**Restricted** – Resources that are subject to constraints that are either imposed by law through constitutional provisions or enabling legislation, or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. As of September 30, 2017, the City had restricted funds for public safety, pet adoption center, debt service, capital projects, and cemetery.

**Committed** – Amounts that can only be used for specific purposes determined by formal approval of the Council. These amounts shall not be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it used to commit the amounts. As of September 30, 2017, the City did not have any committed fund balances.

**Assigned** – Amounts that the City intends to use for a specific purpose and are neither restricted nor committed. The intent to assign amounts for a specific purpose shall be expressed by the Council. As of September 30, 2017, the City had assigned funds for culture and recreation and capital projects.

**Unassigned** – The residual classification for the general fund balance, including amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance that is not obligated or specifically designated and is available for any purpose.

N. Use of Restricted, Committed, Assigned, and Unassigned Assets

When the City incurs an expense for which it may use either restricted, committed, assigned, or unassigned assets, the City shall reduce restricted, committed, and assigned assets first, in that order, unless unassigned assets would have to be returned because they were not used.

O. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements:

1. Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.” The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2017.
2. Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2018.
3. Statement No. 77, “Tax Abatement Disclosures.” The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2016.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

O. New Accounting Pronouncements (Continued)

4. Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Pension Plans." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2016.
5. Statement No. 80, "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2017.
6. Statement No. 81, "Irrevocable Split-Interest Agreements." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2017.
7. Statement No. 82, "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73." The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions will take effect for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

P. Pensions

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

Q. Deferred Outflows of Resources

The City reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. Deferred outflows of resources reported in this year's financial statements include (1) a deferred amount arising from the refunding of bonds, (2) a deferred outflow of resources for contributions made to the City's defined benefit pension plans between the measurement date of the net pension liabilities from those plans and the end of the city's fiscal year, and (3) deferred outflows of resources related to the differences between the expected and actual demographics for the City's single-employer defined benefit fund. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amount related to the actuarial assumptions for demographic factors in the pension fund will be recognized over a closed period equal to the average of the expected remaining service lives of all employees participating in the plan.



**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

R. Deferred Inflows of Resources

The City's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Deferred inflows of resources are reported in the City's various statements of net position for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of 5 years, including the current year. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes and grants are reported in the governmental funds balance sheet.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$38,852,706 difference are as follows:

Certificates of obligation	\$	19,785,000
Less: Issuance discount		(34,265)
(to be amortized as interest expense)		
General obligation refunding		9,484,276
Plus: Premium on issuance		848,569
Less: Deferred charge for advanced refunding costs		(507,242)
(to be amortized as interest expense)		
Accrued interest payable		124,881
Capital leases payable		416,232
Note payable		0
Compensated absences		748,000
Net pension obligation		9,671,108
Deferred outflows related to pension		(2,599,358)
Deferred inflows related to pension		150,528
Net post-employment benefit obligation		764,977
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities		38,852,706

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)**

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$(3,132,685) difference are as follows:

Current Year Issuance:	
Certificates of obligation (net of discount)	\$ (4,930,000)
Capital Leases	0
Bond Premium	(128,539)
	(128,539)
Principal repayments:	
Payments to be refunded	
Certificates of obligation	670,000
General obligation refunding	1,120,269
Capital leases	135,585
	1,925,854
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	\$ (3,132,685)

Another element of that reconciliation states that “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.” The details of this \$41,292 difference are as follows:

Amortization of bond discounts	(3,917)
Amortization of bond premium	161,073
Amortization of advanced refunding costs	(115,864)
	141,392
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities.	\$ 41,292

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital project fund. The capital projects fund is budgeted in a multi-year manner. All annual appropriations lapse at fiscal year-end.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

Budgetary Information (Continued)

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department with approval of the City Manager. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level. The budget was approved September 13, 2016.

**IV. DETAILED NOTES ON ALL FUNDS**

**1. Deposits and Investments**

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Harker Heights to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition it includes an "investment strategy statement" that specifically addresses each fund's investment strategy and maximum maturity of each fund's individual investments.

The Finance Director submits an investment report each quarter to the City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to the investment policy and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificates of deposit or share certificates at commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance.
2. A savings account issued by a depository institution that has its main office or a branch office in the State of Texas and meets the collateralization requirements as stated in the City's depository contract.
3. Eligible investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019) if the City Council by resolution authorized investment in that particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act.
4. Direct obligations of the United States Government or the State of Texas or their respective agencies and instrumentalities, which have a final maturity date of two years or less from the date of purchase.
5. Obligations of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Tennessee Valley Authority (TVA), or the Federal Home Loan Mortgage Corporation (FHLMC), which have a final maturity date of two years or less from the date of purchase and do not exceed 50% of the portfolio.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**1. Deposits and Investments (Continued)**

6. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
7. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent.

Under the City investment policy, the City may not invest in repurchase agreements, collateralized mortgage obligations, and any other investment instrument that is not specifically listed as an authorized investment.

The City has invested in certificate of deposits at local banking institutions as well as through a broker. Investments made through an authorized broker/dealer are in increments of less than the FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance coverage. Certificate of deposits at local institutions are included with bank balances in determining collateral requirements. See deposit section for further discussion.

The City has invested in TexSTAR, an interlocal governmental investment pool. TexSTAR operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexSTAR is the same as the value of the TexSTAR shares.

The City has invested in Texas Class, which enables local governments to pool funds with other units of government. Texas Class is administered by Public Trust Advisors. Texas Class uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in Texas Class is the same as the value of the Texas Class shares.

The City has invested in Lone Star Investment Pool, a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star Investment Pool's Government Overnight Fund uses a dollar weighted average maturity of 60 days or fewer and the net asset value of the shares invested are expected to maintain a net asset value of approximately \$1.00. The net asset value of the shares invested in the fund is determined daily to ensure that the market value of the Fund's assets is maintained at one dollar.

The City does not own specific, identifiable investments with TexSTAR, Texas Class, or Lone Star Investment Pool. The City considers the holdings in these pools to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

**Deposits** – Custodial credit risk for deposits is the risk in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits, including certificates of deposit, were fully insured or collateralized with securities held by the City or its agent in the City's name or by the pledging financial institution's trust department or agent in the City's name at September 30, 2017.

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**1. Deposits and Investments (Continued)**

At September 30, 2017, the carrying amount of the City's bank deposits was \$3,294,169, and the respective bank balances totaled \$3,238,934. Of the bank balances, \$500,000 was covered by federal depository insurance. Collateral for the bank balances and certificate of deposit balances over the federal depository insurance amount consisted of securities with a fair market value of \$12,162,619 at September 30, 2017.

**Investments** – Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment policy requires that securities be insured and registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City's name, and all securities are registered in the City's name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. In accordance with its investment policy, the City manages its interest rate risk by limiting the maturity of its investment portfolio to two years or less. Also, the City may not invest more than 20% of the investment portfolio for a period greater than one year. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy requires multiple brokers/dealers for its investment portfolio. The City may not invest more than 50% of the portfolio in one agency.

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Such risk shall be controlled by investing in compliance with the City's investment policy, qualifying the broker and financial institution with whom the City will transact, portfolio diversification, and limiting maturity.

The following table includes the portfolio balances of all investment types of the City at September 30, 2017.

	Fair Value/Carrying Value			Cost	Weighted Average Days to Maturity <sup>(1)</sup>
	Governmental Activities	Business- type Activities	Total		
Investments:					
Certificates of deposit	7,589,171	999,575	8,588,746	8,588,746	212
Local government investment pools					
TexSTAR	895,436	394,401	1,289,837	1,289,837	94
Texas Class	8,525,208	205,148	8,730,356	8,730,356	78
Lone Star Investment Pool	601,773	64,256	666,029	666,029	101
Total local government investment pools	10,022,417	663,805	10,686,222	10,686,222	
Total Investments	17,611,588	1,663,380	19,274,968	19,274,968	

<sup>(1)</sup> Interest rate risk is estimated using weighted average days to maturity.

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**1. Deposits and Investments (Continued)**

As of September 30, 2017, the City of Harker Heights' investments were rated by Standard & Poor's as follows:

	Average Credit Quality/ Ratings
Tex STAR	AAAm
Texas Class	AAAm
Lone Star Investment Pool	AAAm

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

Cash on hand	1,740
Carrying amount of deposits	3,294,168
Carrying amount of investments	19,274,968
Total Cash and Investments	22,570,876
Cash	2,857,092
Cash - restricted	438,816
Investments	
Short-Term	13,285,384
Investments - restricted	
Short-Term	5,989,584
Total Cash and Investments	22,570,876

**2. Receivables**

Receivables at September 30, 2017, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

	General	Debt Service	Hotel/ Motel	Water and Sewer	Sanitation	Drainage Utility	Total
Receivables:							
Taxes	\$ 192,339	\$ 58,168					\$ 250,507
Accounts	2,163,492		11,972	1,070,415	210,403	82,337	3,538,619
Special							
assessments	12,748			19,646			32,394
Intergovernmental	74,835	16,438					91,273
Gross receivables	2,443,414	74,606	11,972	1,090,061	210,403	82,337	3,912,793
Less:							
Allowance for							
uncollectibles	1,003,700	36,000		41,646	3,000	1,000	1,085,346
Net total							
receivables	\$ 1,439,714	\$ 38,606	\$ 11,972	\$ 1,048,415	\$ 207,403	\$ 81,337	\$ 2,827,447

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS**

**3. Capital Assets**

Capital asset activity for the year ended September 30, 2017 was as follows:

	Balance 10/01/2016	Increases	Transfers and Decreases	Balance 09/30/2017
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$15,575,872			\$15,575,872
Construction in progress	8,485,842	3,477,339	(9,209,427)	2,753,754
Total capital assets, not being depreciated	24,061,714	3,477,339	(9,209,427)	18,329,626
Capital Assets, being depreciated:				
Buildings	13,579,292	2,740,218		16,319,510
Improvements other than buildings	176,520	45,000		221,520
Machinery and equipment	6,176,075	342,126	(46,939)	6,471,262
Vehicles	5,466,545	321,366	(479,669)	5,308,242
Furniture and fixtures	898,602	74,997	(168)	973,431
Street and drainage improvements	27,874,157	6,410,897		34,285,054
Total capital assets, being depreciated	54,171,191	9,934,604	(526,776)	63,579,019
Less accumulated depreciation for:				
Buildings	(6,859,174)	(645,625)		(7,504,799)
Improvements other than buildings	(69,354)	(7,718)		(77,072)
Machinery and equipment	(4,823,313)	(444,982)	46,939	(5,221,356)
Vehicles	(3,264,267)	(503,749)	479,669	(3,288,347)
Furniture and fixtures	(800,054)	(32,043)	168	(831,929)
Street and drainage improvements	(5,824,757)	(557,945)		(6,382,702)
Total accumulated depreciation	(21,640,919)	(2,192,062)	526,776	(23,306,205)
Total capital assets, being depreciated, net	32,530,272	7,742,542		40,272,814
Governmental activities capital assets, net	56,591,986	11,219,881	(9,209,427)	58,602,440
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land	284,683			284,683
Construction in progress	3,348,204	912,644	(3,327,439)	933,409
Total capital assets, not being depreciated	3,632,887	912,644	(3,327,439)	1,218,092
Capital assets, being depreciated:				
Buildings and lift stations	3,128,004			3,128,004
Improvements other than buildings	24,872			24,872
Machinery and equipment	1,765,898	215,950		1,981,848
Vehicles	703,925	26,043	(26,043)	703,925
Furniture and fixtures	12,375			12,375
Water, sewer, and drainage systems	53,092,120	3,327,439		56,419,559
Total capital assets, being depreciated	58,727,194	3,569,432	(26,043)	62,270,583
Less accumulated depreciation for:				
Buildings and lift stations	(1,545,791)	(62,834)		(1,608,625)
Improvements other than buildings	(20,826)	(1,745)		(22,571)
Machinery and equipment	(1,140,617)	(160,927)		(1,301,544)
Vehicles	(593,924)	(18,687)	1,302	(611,309)
Furniture and fixtures	(12,375)			(12,375)
Water, sewer, and drainage systems	(10,414,192)	(884,333)		(11,298,525)
Total accumulated depreciation	(13,727,725)	(1,128,526)	1,302	(14,854,949)
Total capital assets, being depreciated, net	44,999,469	2,440,906	(24,741)	47,415,634
Business-type activities capital assets, net	\$48,632,356	\$3,353,550	(\$3,352,180)	\$48,633,726

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**3. Capital Assets (Continued)**

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

Governmental Activities:

General government	\$345,588
Public safety	789,274
Highways and streets, including depreciation of infrastructure	657,399
Culture and recreation	396,302
Economic development and assistance	<u>3,499</u>
Total depreciation expense - governmental activities	<u><u>\$2,192,062</u></u>

Business-type Activities:

Water, sewer, drainage, and sanitation	<u>\$1,128,526</u>
Total depreciation expense - business-type activities	<u><u>\$1,128,526</u></u>

Effective October 1, 2009, the City implemented GASB Statement 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires that all intangible assets be classified as capital assets. The majority of the intangible assets are easements and right-of-ways. The procedure was already in place to capitalize any intangible asset purchased. No restatements were necessary due to the indefinite life of the intangible assets.

**4. Interfund Transactions**

A summary of interfund receivables and payables at September 30, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$466,191
	Drainage Utility Fund	38,974
	Sanitation Fund	143,268
	Capital Projects Fund	1,934,522
	Debt Service Fund	13,869
	Hotel/Motel Fund	189
Drainage Utility Fund	Water and Sewer Fund	5
Nonmajor Governmental Funds	General Fund	<u>14,062</u>
Total		<u><u>\$2,611,080</u></u>

The General Fund receivables represent outstanding amounts for direct costs for the operations of the payable funds but are paid through the General Fund. The Drainage Fund receivable represents outstanding amounts collected for charges and services between the enterprise funds.



**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**4. Interfund Transactions (Continued)**

Transfers between funds during the year ended September 30, 2017, were as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$850,000
	Sanitation Fund	300,000
	Drainage Utility Fund	200,000
	Restricted Courts Fund	3,525
Capital Projects Fund	General Fund	100,000
	Water and Sewer Fund	1,706,664
	Drainage Utility Fund	234,000
Debt Service Fund	Water and Sewer Fund	<u>350,000</u>
Total		<u><u>3,744,189</u></u>

Transfers to the General Fund are used for indirect costs deemed necessary for operations of the transferring funds but are paid through the General Fund. Transfers to the Capital Projects Fund are used for the funding of capital assets. Transfers to the Debt Service Fund are used to assist in covering operating expenses.

**5. Leases**

Noncancellable Operating Leases

Rental expenditures during the fiscal year ended September 30, 2017 including equipment rentals not covered under noncancellable leases, were \$87,509.

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of COBAN equipment for the police and court departments, five copiers, two fire trucks, an ambulance, computers, computer servers, and a sewer cleaner truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Assets:		
Machinery and equipment	\$1,074,375	\$5,121
Vehicles	1,014,071	248,673
Less: accumulated depreciation	<u>(1,283,731)</u>	<u>(253,794)</u>
Total:	<u><u>\$804,715</u></u>	<u><u>\$0</u></u>

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**5. Leases (Continued)**

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
2018	144,310	0	144,310
2019	143,574	0	143,574
2020	142,677	0	142,677
Total minimum lease payments	430,561	0	430,561
Less: amount representing interest	(14,329)	0	(14,329)
Present value of minimum lease payments	<u>416,232</u>	<u>0</u>	<u>416,232</u>

**6. Long-term Debt**

At September 30, 2017, long-term debt of the City consists of the following:

Certificates of Obligation: Governmental      Business-type

Combination tax and utility system revenue certificates of obligation, Series 2004, to be used for the cost of water and sewer system improvements and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$2,000,000. The certificates bear interest at 3.98% per annum through August 15, 2024. Principal is payable in annual installments of \$125,000 to \$180,000 through August 15, 2024.

1,105,000

Combination tax and utility system revenue certificates of obligation, Series 2005, to be used for the cost of construction of a police department building, library/community center building, senior citizens building, recreation center, and including land relating thereto, and the cost of related professional services. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$1,000,000. The certificates bear interest at 4.55% per annum through February 15, 2025. Principal is payable in annual installments of \$55,000 to \$75,000 through February 15, 2025.

525,000

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

Governmental      Business-type

Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for improvements to streets and bridges, renovation and construction of a City building, construction or improvement of a City athletic complex and City parks, and acquisition of land for any of the above named purposes. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$6,000,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$300,000 to \$475,000 through August 15, 2028.

4,300,000

Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for the extension and improvements to the water and sewer system and the acquisition of land for the above named purpose. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$2,000,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$95,000 to \$155,000 through August 15, 2028.

1,340,000

Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for the improvements to the drainage system and the acquisition of land for the above named purpose. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$1,500,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$70,000 to \$110,000 through August 15, 2028.

970,000

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

Governmental      Business-type

Combination tax and utility system revenue certificates of obligation, Series 2009, to be used for the cost of completion of a pump station and extensions and improvements to the water and sewer system, including the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$5,000,000. The certificates bear interest at 3.5% per annum through August 15, 2018. Principal is payable in annual installments of \$240,000 to \$250,000 through August 15, 2018.

250,000

Combination tax and utility system revenue certificates of obligation, Series 2011, to be used for the cost of improvements to the City's water and sewer system, including extension of sewer lines, force mains, and lift stations; improvements to streets, roads, and highways, and costs of street, road and highway reconstruction; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$5,000,000. The certificates bear interest at 2.25% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$115,000 to \$520,000 through August 15, 2031.

4,380,000

Combination tax and utility system revenue certificates of obligation, Series 2011, to be used for the cost of improvements to the City's water and sewer system, including extension of sewer lines, force mains, and lift stations; improvements to streets, roads, and highways, and costs of street, road and highway reconstruction; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$3,000,000. The certificates bear interest at 2.25% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$120,000 to \$220,000 through August 15, 2031.

2,355,000

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

Governmental      Business-type

Combination tax and utility system revenue certificates of obligation, Series 2014, to be used for the cost of improvements to the City's water system improvements, including new construction, relocation, repairs, and maintenance of City water lines and repairs or improvements to pump station(s); sewer system improvements, including construction of new sewer lines, repairs and improvements to lift stations, and purchase and installation of new controls and data systems for the City sewer system; expansion, improvements, and reconstruction to streets and roads; expansion and renovations to City Hall; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$6,000,000. The certificates bear interest at 1.50% to 4.00% per annum through August 15, 2034. Principal is payable in annual installments of \$200,000 to \$455,000 through August 15, 2034.

5,650,000

Combination tax and utility system revenue certificates of obligation, Series 2014, to be used for the cost of improvements to the City's water system improvements, including new construction, relocation, repairs, and maintenance of City water lines and repairs or improvements to pump station(s); sewer system improvements, including construction of new sewer lines, repairs and improvements to lift stations, and purchase and installation of new controls and data systems for the City sewer system; expansion, improvements, and reconstruction to streets and roads; expansion and renovations to City Hall; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$3,000,000. The certificates bear interest at 1.50% to 4.00% per annum through August 15, 2034. Principal is payable in annual installments of \$105,000 to \$215,000 through August 15, 2034.

2,690,000

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

	<u>Governmental</u>	<u>Business-type</u>
<p>Combination tax and utility system revenue certificates of obligation, Series 2017, to be used for the cost of improvements to the City's water and sewer system rehabilitation and improvements; renovation, construction of additions, or new construction to City buildings, including but not limited to City fire station and pet adoption center; miscellaneous improvements to City parks; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$6,000,000. The certificates bear interest at 2.850% to 4.00% per annum through August 15, 2037. Principal is payable in annual installments of \$215,000 to \$360,000 through August 15, 2037.</p>	4,930,000	
<p>Combination tax and utility system revenue certificates of obligation, Series 2017, to be used for the cost of improvements to the City's water and sewer system rehabilitation and improvements; renovation, construction of additions, or new construction to City buildings, including but not limited to City fire station and pet adoption center; miscellaneous improvements to City parks; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$6,000,000. The certificates bear interest at 2.850% to 4.00% per annum through August 15, 2037. Principal is payable in annual installments of \$45,000 to \$70,000 through August 15, 2037.</p>		985,000
Total certificates of obligation	19,785,000	9,695,000
Plus: Net unamortized issuance premium (discount)	814,303	677,785
Total certificates of obligation, net	<u>20,599,303</u>	<u>10,372,785</u>

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

General Obligation Bonds Payable:

	<u>Governmental</u>	<u>Business-type</u>
<p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest at 3.00% payable in annual installments of \$175,269 to \$350,538 through August 15, 2023.</p>	1,949,276	
<p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest at 3.00% payable in annual installments of \$155,807 to \$311,614 through August 15, 2023.</p>		1,732,827
<p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest at 3.00% payable in annual installments of \$38,924 to \$77,848 through August 15, 2023.</p>		432,898
<p>General Refunding Bonds, Series 2013, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$1,460,000. The bonds bear interest at 2.00% payable in annual installments of \$25,000 to \$55,000 through August 15, 2023.</p>	320,000	

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

Governmental    Business-type

General Refunding Bonds, Series 2013, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$1,460,000. The bonds bear interest at 2.00% payable in annual installments of \$70,000 to \$125,000 through August 15, 2023. 730,000

General Refunding Bonds, Series 2015, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$8,400,000. The bonds bear interest between 3.00% and 4.00% payable in annual installments of \$530,000 to \$845,000 through August 15, 2027. 5,845,000

General Refunding Bonds, Series 2015, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$8,400,000. The bonds bear interest between 3.00% and 4.00% payable in annual installments of \$230,000 to \$370,000,000 through August 15, 2027. 2,555,000

General Refunding Bonds, Series 2016, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006 and a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation , Series 2009. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,620,000. The bonds bear interest between 2.00% and 4.00% payable in annual installments of \$110,000 to \$635,000 through August 15, 2020. 1,370,000



**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

General Refunding Bonds, Series 2016, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006 and a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2009. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,620,000. The bonds bear interest between 2.00% and 4.00% payable in annual installments of \$275,000 to \$405,000 through August 15, 2029.

Total general obligation bonds payable

Governmental      Business-type

4,210,000

9,484,276

9,660,725

Capital Leases Payable:

Capital lease payable to First National Bank Texas to finance the acquisition of a fire truck. The lease is secured by the equipment and is paid by the General Fund. The lease bears interest of 1.69%. The original principal balance was \$478,000. The lease is payable in annual payments of \$100,501 including interest through April 14, 2020.

Governmental      Business-type

291,432

Capital lease payable to First National Bank Texas to finance the acquisition of computers. The lease is secured by the computers and is paid by the General Fund. The lease bears interest of 1.77%. The original principal balance was \$208,000. The lease is payable in annual payments of \$42,336 to \$44,545 through March 15, 2020.

Total capital leases payable

124,800

416,232

0

Total debt before compensated absences, net

\$ 30,499,811

\$ 20,033,510

Compensated absences

748,000

48,000

Net pension liability

9,671,108

731,889

Net other postemployment benefit obligation

764,977

88,506

Total long-term debt

\$ 41,683,896

\$ 20,901,905

Reconciliation to Government-wide Statement of Net Position:

Noncurrent liabilities:

    Due within one year

\$ 2,396,548

\$ 1,569,201

    Due in more than one year

29,616,240

18,600,815

    Net pension liability

9,671,108

731,889

Total long-term debt, net

\$ 41,683,896

\$ 20,901,905

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2017 is as follows:

	Balance 10/1/2016	Additions	Reductions	Balance 9/30/2017	Due Within One Year
<b>Governmental Activities:</b>					
Certificates of obligation	\$ 15,525,000	\$ 4,930,000	\$ (670,000)	\$ 19,785,000	\$ 720,000
General obligation Bonds	10,604,545		(1,120,269)	9,484,276	975,800
Premium on bonds	881,103	128,539	(161,073)	848,569	0
Discount on bonds	(38,183)		3,917	(34,266)	0
Net governmental bonds payable	<u>26,972,465</u>	<u>5,058,539</u>	<u>(1,947,425)</u>	<u>30,083,579</u>	<u>1,695,800</u>
Capital leases payable	551,817		(135,585)	416,232	137,173
Note payable	0			0	0
Compensated absences	700,000	459,349	(411,349)	748,000	563,575
Net pension liability	9,531,188	139,920		9,671,108	0
Net other post-employ benefit oblig.	623,227	141,750		764,977	0
Total governmental long-term liabilities	<u>\$ 38,378,697</u>	<u>\$ 5,799,558</u>	<u>\$ (2,494,359)</u>	<u>\$ 41,683,896</u>	<u>\$ 2,396,548</u>
<b>Business-type Activities:</b>					
Certificates of obligation	\$ 9,485,000	\$ 985,000	\$ (775,000)	\$ 9,695,000	\$ 805,000
General obligation bonds	10,200,456		(539,731)	9,660,725	729,201
Premium on bonds	759,767	25,708	(90,799)	694,676	0
Discount on bonds	(18,747)		1,856	(16,891)	0
Net business-type bonds payable	<u>20,426,476</u>	<u>1,010,708</u>	<u>(1,403,674)</u>	<u>20,033,510</u>	<u>1,534,201</u>
Compensated absences	44,000	28,413	(24,413)	48,000	35,000
Net pension liability	720,902	10,987		731,889	0
Net other post-employ benefit oblig.	70,481	18,025		88,506	0
Total business-type long-term liabilities	<u>\$ 21,261,859</u>	<u>\$ 1,068,133</u>	<u>\$ (1,428,087)</u>	<u>\$ 20,901,905</u>	<u>\$ 1,569,201</u>
Total Government Liabilities	<u>\$ 59,640,556</u>	<u>\$ 6,867,691</u>	<u>\$ (3,922,446)</u>	<u>\$ 62,585,801</u>	<u>\$ 3,965,749</u>

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

The annual debt service requirements to maturity for each bond or debt type are as follows:

**Certificates of Obligation Payable**

Year Ending September 30	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ 720,000	\$ 682,885	\$ 805,000	\$ 341,202	\$ 2,549,087
2019	755,000	660,673	570,000	314,570	2,300,243
2020	785,000	636,527	590,000	295,754	2,307,281
2021	1,025,000	610,437	660,000	275,604	2,571,041
2022	1,070,000	574,955	680,000	252,796	2,577,751
2023-2027	7,005,000	2,223,577	3,315,000	903,852	13,447,429
2028-2032	5,835,000	966,516	2,310,000	347,550	9,459,066
2033-2037	2,590,000	207,028	765,000	55,450	3,617,478
Total	<u>\$ 19,785,000</u>	<u>\$ 6,562,598</u>	<u>\$ 9,695,000</u>	<u>\$ 2,786,778</u>	<u>\$ 38,829,376</u>

**General Obligation Bonds Payable**

Year Ending September 30	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ 975,799	\$ 304,054	\$ 729,200	\$ 311,246	\$ 2,320,299
2019	992,905	281,530	1,017,095	293,320	2,584,850
2020	1,014,748	258,594	1,040,253	269,560	2,583,155
2021	1,069,222	228,700	1,070,779	239,552	2,608,253
2022	1,101,064	197,174	1,103,936	208,678	2,610,852
2023-2027	4,330,538	482,844	3,909,462	582,962	9,305,806
2028-2031	0	0	790,000	47,800	837,800
Total	<u>\$ 9,484,276</u>	<u>\$ 1,752,896</u>	<u>\$ 9,660,725</u>	<u>\$ 1,953,118</u>	<u>\$ 22,851,015</u>

**Capital Leases Payable**

Year Ending September 30	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ 137,173	\$ 7,137	0	0	\$ 144,310
2019	138,788	4,786	0	0	143,574
2020	140,271	2,406	0	0	142,677
Total	<u>\$ 416,232</u>	<u>\$ 14,329</u>	<u>0</u>	<u>0</u>	<u>\$ 430,561</u>

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

**Advance Refunding – 2016**

On March 24, 2016, the City issued \$6,470,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 2.00% to 4.00% to advance refund \$6,620,000 of outstanding bonds. The \$6,620,000 refunded \$1,995,000 of 2006 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.00% to 4.25% which was governmental activity debt and \$4,625,000 in the water and sewer fund which included \$875,000 of Series 2006 Tax and Utility system revenue certificates of obligation with interest rates from 4.00% to 4.25% and \$3,750,000 of Series 2009 Tax and Utility system revenue certificates of obligation with interest rates from 3.50% to 4.50%. The net proceeds of \$6,987,863 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$6,620,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2016 to August 15, 2020. All maturities were redeemed prior to original maturity on August 15, 2017.

The reacquisition price exceeded the net carrying amount of the old debt by \$113,561 for governmental activities and \$257,948 water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from the general obligation bonds payable, is being charged to operations through the year 2020 for the governmental and 2029 for the water and sewer fund using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2017 is \$76,856 for governmental activities and \$235,613 for the water and sewer fund.

**Advance Refunding – 2015**

On March 11, 2015, the City issued \$8,400,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 3.00% to 4.00% to advance refund \$8,870,000 of outstanding bonds. The \$8,870,000 refunded \$6,175,000 of 2006 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.375% to 4.50% which was governmental activity debt and \$2,695,000 in the water and sewer fund of Series 2006 general obligation refunding bonds with an interest rate of 4.375% to 4.50%. The net proceeds of \$9,409,776 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$8,870,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2015 to August 15, 2020. All maturities were redeemed prior to original maturity on August 15, 2017.

The reacquisition price exceeded the net carrying amount of the old debt by \$457,001 for governmental activities and \$175,770 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

operations through the year 2027 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2017 is \$333,136 for governmental activities and \$128,143 for the water and sewer fund.

**Advance Refunding – 2013**

On June 13, 2013, the City issued \$1,460,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 1.50% to 2.00% to advance refund \$1,415,000 of outstanding bonds. The \$1,415,000 refunded \$425,000 of 2003 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.20% which was governmental activity debt and \$990,000 in the water and sewer fund which included \$85,000 of Series 2003 general obligation refunding bonds with an interest rate of 4.00%; \$905,000 of Series 2003 Tax and Utility system revenue certificates of obligation with interest rates from 4.20%. The net proceeds of \$1,449,717 (after payment of \$37,574 in issuance costs and \$3,603 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$1,415,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2004 to August 15, 2023. All maturities were redeemed prior to original maturity on August 15, 2014. There is no defeased debt remaining outstanding at September 30, 2017.

The reacquisition price exceeded the net carrying amount of the old debt by \$28,630 for governmental activities and \$41,634 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2023 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2017 is \$11,461 for governmental activities and \$16,486 for the water and sewer fund.

**Advance Refunding – 2012**

On March 6, 2012, the City issued \$6,250,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 0.35% to 3.00% to advance refund \$6,230,000 of outstanding bonds. The \$6,230,000 refunded \$3,430,000 of 2003 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.20% to 5.00% which was governmental activity debt and \$2,800,000 in the water and sewer fund which included \$575,000 of Series 1999 general obligation refunding bonds with an interest rate of 4.45%; \$1,895,000 of Series 2003 Tax and Utility system revenue certificates of obligation with interest rates from 4.20% to 5.00%; and \$330,000 of Series 2003A general obligation refunding bonds with interest rates from 3.875% to 5.00%. The net proceeds of \$6,629,811 (after payment of \$76,000 in issuance costs and \$19,016 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$6,230,000 of refunded debt. As a result, the refunded certificates of obligation and general

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2004 to August 15, 2023. All maturities were redeemed prior to original maturity on August 15, 2014. There is no defeased debt remaining outstanding at September 30, 2017.

The reacquisition price exceeded the net carrying amount of the old debt by \$258,663 for governmental activities and \$225,545 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2023 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2017 is \$85,789 for governmental and \$74,805 for water and sewer fund.

**Compliance With Debt-Service Requirements**

- A. Combination Tax and Utility System Revenue Certificates of Obligation, Series 2004; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2005; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2008; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2009; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2011; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2014; and Combination Tax and Utility System Revenue Certificates of Obligation, Series 2017.

The ordinances require a separate interest and sinking fund for the payment of interest and principal of the certificates. The City is required to compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the bonds as interest becomes due and to provide and maintain an interest and sinking fund adequate to pay the principal as such principal matures (but never less than 2% of the original amount of the bonds as a sinking fund each year).

If surplus net revenues of the City's combined waterworks and sewer system are actually on deposit in the interest and sinking fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied may be reduced to the extent and by the amount of the surplus net revenues then on deposit in the interest and sinking fund or budgeted for deposit therein.

Any proceeds of the certificates not spent on the project shall promptly be deposited to the credit of the Interest and Sinking Fund.

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**6. Long-term Debt (Continued)**

B. General Obligation Refunding Bonds, Series 2005; General Obligation Refunding Bonds, Series 2012; and General Obligation Refunding Bonds, Series 2013; General Obligation Refunding Bonds, Series 2015; General Obligation Refunding Bonds, Series, 2016.

The ordinance requires a separate interest and sinking fund for the payment of interest and principal of the certificates. The City is required to compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the bonds as interest becomes due and to provide and maintain an interest and sinking fund adequate to pay the principal as such principal matures (but never less than 2% of the original amount of the bonds as a sinking fund each year).

**7. Ad Valorem Taxes**

Property taxes are assessed and collected by the Tax Appraisal District of Bell County. The tax calendar is as follows:

Levy date:	October 1 of the tax year
Due date:	January 31 of year following the tax year, without penalty
Collection date:	Beginning in October of the tax year
Lien date:	January 1 of the tax year

The effective tax rate during fiscal year ended September 30, 2017, was \$0.6770 per \$100 valuation.

**8. Interest Expense**

Interest expense paid during the year ended September 30, 2017, is as follows:

General Fund	\$ 9,444
Debt Service Fund	972,220
Proprietary Fund Type	
Water and Sewer Fund	619,518
Drainage	<u>57,731</u>
Total interest paid	<u><u>\$1,658,913</u></u>

Interest accrued in the Water and Sewer Fund at September 30, 2017, was \$75,675. Capitalized interest incurred during the construction phase of capital assets of \$103,308 was netted with interest earned on the invested proceeds over the same period of \$39,169, resulting in a net capitalized amount of \$64,139 for the year ended September 30, 2017. Amortization of deferred amount on advance refunding of certificates of obligation in the Water and Sewer Fund was \$66,113 for the year ended September 30, 2017. Amortization of bond discount in the Water and Sewer Fund was \$3,264 for the year ended September 30, 2017. Amortization of bond premium of refunding bonds in the Water and Sewer Fund was \$(84,034) for the year ended September 30, 2017.

Interest accrued in the Drainage Fund at September 30, 2017 was \$6,777. Amortization of bond premium of refunding bonds in the Drainage Fund was \$(5,358) for the year ended September 30, 2017. There was no capitalization of interest in the Drainage Fund for the year ended September 30, 2017.

Interest accrued in the governmental activities on the government-wide statement of net position at September 30, 2017, was \$124,881, and amortization of bond discount was \$3,917. Amortization of deferred amount on advance refunding costs was \$115,864.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**9. Water Service Contracts**

The City has an agreement to purchase water service from Bell County Water Control and Improvement District No. 1 (WCID No. 1), Killeen, Texas, until December 31, 2041, when WCID No. 1 bonds are paid. WCID No. 1 agrees to deliver and meter water required by the City. WCID No. 1 bills for water purchased, at rates that are reviewed and adjusted periodically. The rates are determined by amounts necessary to retire WCID No. 1 debt and cover maintenance and operating expenses. During the fiscal year ended September 30, 2017, the City purchased 1,560,053,000 gallons of water from WCID No. 1 for a total charge of \$1,996,354. The City also paid \$144,225 for an option to purchase future water from the Brazos River Authority. This amount is included in current year purchased water expenditures. In addition, the City has two contracts with the Brazos River Authority to pay the Authority annually for the water made available to the City at a price equal to the product of multiplying the system rate times 3,235 acre-feet and 300 acre-feet of water per fiscal year agreed to be made available to the City by Authority from the system regardless of whether, or how much of, said water is diverted and used by the City. The City paid the Brazos River Authority \$261,590 for water which can be pumped directly into the South Water Plant.

**10. Sanitation Service Contract**

On August 1, 2008, the City amended its sanitation contract with Waste Management of Texas, Inc. on the collection and distribution of fees on commercial customers within the city, size and collection of residential brush pickup, and fuel surcharges charged to commercial customers. Waste Management of Texas, Inc. now bills and collects fees from commercial customers and remits a five percent franchise fee to the City.

**V. OTHER INFORMATION**

**1. Risk Management**

The City is exposed to various risks of loss related to torts: theft; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to TML for its general insurance coverage, real and personal property coverage, liability coverage, and workers compensation coverage. The agreement for formation for TML provides that TML will be self-sustaining through member premiums.

**2. Employee Benefit Plans**

**Texas Municipal Retirement System Plan**  
Plan Description

The City of Harker Heights participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas.



**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**2. Employee Benefit Plans (Continued)**

TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

Benefits Provided

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

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

Upon retirement, benefits depend upon the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At inception, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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

Inactive employees or beneficiaries currently receiving benefits	71
Inactive employees entitled to but not yet receiving benefits	133
Active employees	208

Contributions

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

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**2. Employee Benefit Plans (Continued)**

Employees for the City of Harker Heights were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Harker Heights were 15.00% and 15.04% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$1,743,446 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

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

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

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

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumption were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**2. Employee Benefit Plans (Continued)**

30, 2015 the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return (Arithmetic)</b>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

**Discount Rate**

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

<b>Changes in the Net Pension Liability</b>	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a)-(b)</b>
Balance at 12/31/15	\$ 42,361,531	\$ 32,109,441	\$ 10,252,090
Changes for the year:			
Service cost	1,930,469	0	1,930,469
Interest	2,885,469	0	2,885,469
Changes in current period benefits	0	0	0
Difference between expected and actual experience	(36,619)	0	(36,619)
Changes in assumptions	0	0	0
Contributions - employer	0	1,688,302	(1,688,302)
Contributions - employee	0	795,835	(795,835)
Net investment income	0	2,170,104	(2,170,104)
Benefit payments, including refunds of employee contributions	(1,158,162)	(1,158,162)	0
Administrative expense	0	(24,508)	24,508
Other changes	0	(1,321)	1,321
Net changes	\$ 3,621,157	\$ 3,470,250	\$ 150,907
Balance at 12/31/16	\$ 45,982,688	\$ 35,579,691	\$ 10,402,997

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

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**2. Employee Benefit Plans (Continued)**

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 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:

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Discount Rate (6.75%)</b>	<b>1% Increase in Discount Rate (7.75%)</b>
City's net pension liability	\$18,066,490	\$10,402,997	\$4,244,343

**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](http://www.tmr.com).

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

For the year ended the September 30, 2017, the recognized pension expense of \$2,328,091.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience		\$ (161,579)
Changes in actuarial assumptions	\$ 56,040	
Difference between projected and actual investment earnings	1,397,362	
Contributions subsequent to the measurement date	1,338,646	
Total	\$ 2,792,048	\$ (161,579)

\$1,338,646 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	
2017	449,547
2018	452,263
2019	396,077
2020	(6,064)
2021	0
Thereafter	0

Additional schedule of funding progress for TMRS can be found in the required supplementary information on page 73-74.

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**2. Employee Benefit Plans (Continued)**

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The

City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

There is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

<b>Schedule of Contribution Rates</b>			
(RETIREE - only portion of the rate, for OPEB)			
<b>Plan/Calendar Year</b>	<b>Annual Required Contribution Rate</b>	<b>Actual Contribution Made</b>	<b>Percentage of ARC Contributed</b>
2012	0.02%	0.02%	100.00%
2013	0.01%	0.01%	100.00%
2014	0.01%	0.01%	100.00%
2015	0.01%	0.01%	100.00%
2016	0.02%	0.02%	100.00%
2017	0.02%	0.02%	100.00%

Deferred Compensation Plan

On July 29, 1986, the City entered into an agreement with the United States Conference of Mayors to participate in the administration of a deferred compensation plan derived from Section 457 of the Internal Revenue Code. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**2. Employee Benefit Plans (Continued)**

Investments, other than annuity contracts, are held in a custodial account, the assets of which are held by Bank One Trust Company, N.A. as custodian for the exclusive benefit of participants and the beneficiaries thereof of the Plan. The City's USCM Deferred Compensation Program is administered by Nationwide Retirement Solutions. Except as may otherwise be permitted or required by law, no assets or income of the Plan shall be used for, or diverted to, purposes other than for the expenses of administration of the Plan. The assets amounted to \$2,134,837 at September 30, 2017.

It is the opinion of the City's management that the City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. The City provides limited administrative duties. In accordance with GASB Statement No. 32, the Plan is not included in the City's financial statements.

Plan Description

In addition to the pension benefits described in Note V.2. as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance or until 65 if eligible for Medicare to eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established by management.

During the year ended September 30, 2010, the City changed its policy and began allowing new retirees to remain on the City's health plan at the retiree's expense. As of the valuation date, there are five retirees on the City's health plan. Future retirees are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants.

Funding policy

Retirees will contribute to the health plan 100% of the total blended premium for active and retired participants. Retiree contributions rates for fiscal year 2017 were \$5,817 to \$16,842 per year depending on coverage levels selected.

**3. Postemployment Benefits Other than Pensions**

The following table shows the components of the City's annual other postemployment benefit (OPEB) cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Net OPEB Obligation:	
Annual required contribution	\$ 173,212
Interest on net OPEB obligation	18,688
Adjustment to annual required contribution	<u>(32,125)</u>
Annual OPEB cost	159,775
Contributions made	<u>(0)</u>
Increase in net OPEB obligation	159,775
Net OPEB obligation, beginning of year	<u>693,708</u>
Net OPEB obligation, end of the year	<u>\$ 853,483</u>

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**2. Employee Benefit Plans (Continued)**

Trend information is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOC)	Employer Contributions	Percentage of AOC Contributed	Net OPEB Obligation
2012	88,123	0	0%	264,781
2013	0	0	0%	264,781
2014	178,848	0	0%	443,629
2015	90,304	0	0%	533,933
2016	159,775	0	0%	693,708
2017	159,775	0	0%	853,483

Additional schedule of funding progress for Other Postemployment Benefit can be found in the required supplementary information on page 75.

The schedule of actuarial liabilities and funding progress follows:

Actuarial Valuation Date		10/1/15
Actuarial Value of Assets	(A)	\$ 0
Actuarial Accrued Liability	(B)	\$ 1,240,122
Percentage Funded	(C) = (A) / (B)	0%
Unfunded (Overfunded)		
Actuarial Accrued Liability (UAAL)	(D) = (B) – (A)	\$ 1,240,122
Annual Covered Payroll	(E)	\$ 11,496,620
UAAL as a Percentage of Covered Payroll	(D) / (E)	10.79%

The actuarial accrued liability of \$1,240,122 includes \$1,240,122 for active employees and \$0 for retirees. There are no current retirees on the health care plan.

**Actuarial Valuations**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2015 actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions include a 3.5 percent investment rate of return, which is a blended rate of expected long-term investment returns on plan assets and the City's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of ten percent initially, reduced by decrements

**CITY OF HARKER HEIGHTS**  
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
 SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**3. Postemployment Benefits Other than Pensions (Continued)**

to an ultimate rate of five percent after ten years. The City's unfunded actuarial accrued liability is being amortized as a level dollar of active member payroll over a 24 year closed period.

The actuarial assumptions presented here are as follows in the chart form:

The actuarial valuation information is as follows:

Actuarial valuation date	10/1/15
Actuarial cost method	Unprojected Unit Credit
Amortization method	Level Dollar of Payroll
Amortization period	24
Assumed investment rate of return	3.5%
Healthcare cost trend rate	10% initially, reduced by decrements to an ultimate rate of 5% after 10 years

**4. Grants**

During the year ended September 30, 2011, the City was approved by the State of Texas Department of Transportation pass through funding in the amount of \$1,700,000 to construct an eastbound to westbound turn around bridge at US 190. The City will be reimbursed the \$1,700,000 within a 10 – 20 year time frame based on traffic counts. The City recognized \$170,000 of pass through funding proceeds with \$1,020,000 remaining as of September 30, 2017.

The police department received \$3,605 during the year ended September 30, 2016 from a Law Enforcement Officer Standards and Education grant. During fiscal year 2017, \$3,111 was expended and the total amount of \$3,605 has been spent. The City received \$4,036 and \$918 during the year ended September 30, 2017 for police and fire respectively. Of these amounts, \$806 was expended for police and \$918 was expended for fire.

During the year ended September 30, 2015, the City was approved by the U.S. Department of Justice for a grant in the amount of \$7,069 for police vests. As of September 30, 2017, the City recognized \$4,317 in grant proceeds or expenditures.

The police department received a grant in the amount of \$56,573 from the Office of the Governor Criminal Justice Division for the Body Worn Camera Program. As of September 30, 2017, the City recognized \$55,347 in grant proceeds or expenditures.

During the year ended September 30, 2015, the City was approved a Texas Department of Agriculture Community Development Block grant in the amount of \$275,000 for sewer line improvements. As of September 30, 2017, the City recognized no grant proceeds or expenditures.

During the year ended September 30, 2017, the City was approved by the Texas State Library and Archives Commission for a grant in the amount of \$1,393 for the Interlibrary Loan Lending Reimbursement Program. As of September 30, 2017, the City recognized \$1,393 grant proceeds and expenditures.



**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**4. Grants (Continued)**

During the year ended September 30, 2017, the City was approved by the Texas State Library and Archives Commission for a grant in the amount of \$6,000 for the Family Place Libraries Project. As of September 30, 2017, the City recognized \$6,000 in grant proceeds and expenditures.

The Texas Department of Transportation has approved a grant for the Harker Heights Commercial Drive Roundabout project at the federal level of \$391,399 and at a state level of \$5,000. As of September 30, 2017, the City recognized no grant proceeds or expenditures.

At the end of August 2017, the City provided support to victims of Hurricane Harvey through Bell County and the Texas Division of Emergency Management. As of September 30, 2017, the City recognized \$70,518 in grant proceeds and expenditures.

**5. Commitments**

The City has an agreement with WCID No. 1 for the expansion of treatment facilities for the City and another water district. The overall costs for the expansion are being funded by a bond issued by WCID No. 1. The associated debt payments are allocated to the City and the other water district by the additional increase of treated water to each. These debt payments are included in the monthly billing received from WCID No. 1.

The City has two commitments to The Brazos River Authority (Authority) to pay the Authority annually for the water made available to the City hereunder at a price equal to the product of multiplying the system rate times 3,235 acre-feet and 300 acre-feet of water per fiscal year, regardless of whether, or how much of, said water is diverted and used by the City. Current rate is \$72.00 per acre-foot of water.

The City has a commitment to Central Texas 4C, Inc. to allow them the exclusive use, occupancy and right to operate a Head Start Center for the Harker Heights area on the designated City land rent-free for a period of ten years starting August 24, 2015.

On August 1, 2006, the City has entered into a 20-year joint-use operating lease agreement with Killeen Independent School District on 5 acres of land adjacent to Skipcha Estates Elementary School for the development of a public park. The City has agreed to construct and maintain the buildings and playground equipment over the lease period that expires on July 31, 2026.

The City has three contracts with engineering firms for street reconstruction and improvements in the amount of \$36,600 with \$13,000 remaining at September 30, 2017; \$117,000 with \$37,929 remaining at September 30, 2017; and \$70,300 with \$11,207 remaining at September 30, 2017.

The City has one contract with a construction firm for the reconstruction of several streets included in the 2017 miscellaneous street projects in the amount of \$647,069 with \$445,399 remaining at September 30, 2017.

The City has a contract with an engineering firm for sidewalk construction and improvements in the amount of \$24,400 with \$1,955 remaining at September 30, 2017.

The City has a contract with a construction firm for construction and improvements to sidewalks in the amount of \$256,095 with \$92,662 remaining at September 30, 2017.

**CITY OF HARKER HEIGHTS**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
SEPTEMBER 30, 2017

**V. OTHER INFORMATION (CONTINUED)**

**5. Commitments (Continued)**

Two contracts have been signed with architect firms for the renovations and expansion to the Central Fire Station and the Pet Adoption Center in the amount of \$259,410 with \$28,971 remaining at September 30, 2017 and \$137,850 with \$29,229 remaining at September 30, 2017 respectively.

The City has a contract with a construction manager at risk for the construction and renovation of the Central Fire Station in the amount of \$3,653,302 with \$2,071,202 remaining at September 30, 2017.

The City has three signed contracts with engineering firms in the amount \$12,400 with \$2,789 remaining at September 30, 2017 for the Birchwood Drive 6" water main extension; \$10,500 with \$4,000 remaining at September 30, 2017 for the demolition of existing ground storage tanks; \$87,200 with \$58,800 remaining at September 30, 2017 for ground storage and pump station rehabilitation project.

The City has a signed contract with a construction firm in the amount \$95,456 with \$50,598 remaining at September 30, 2017 for the Birchwood Drive 6" water main extension project.

A contract has been signed with a construction firm for the sewer line replacement project in the amount of \$543,393 with \$34,343 remaining at September 30, 2017.

The City has a contract with engineering firm for the FEMA drainage projects in the amount of \$28,000 with \$12,000 remaining at September 30, 2017.

**6. Contingencies**

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



**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF HARKER HEIGHTS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**LAST TEN YEARS (will ultimately be displayed)**  
**SEPTEMBER 30, 2017**  
**(UNAUDITED)**

	2016	2015	2014
<b>Total pension liability</b>			
Service cost	\$ 1,930,469	\$ 1,805,969	\$ 1,607,778
Interest (on the Total Pension Liability)	2,885,469	2,746,611	2,509,002
Changes of benefit terms	0	0	0
Difference between expected and actual experience	(36,619)	(196,637)	(48,522)
Change of assumptions	0	97,704	0
Benefit payments, including refunds of employee contributions	(1,158,162)	(852,850)	(693,040)
<b>Net Change in total Pension Liability</b>	<b>3,621,157</b>	<b>3,600,797</b>	<b>3,375,218</b>
<b>Total Pension Liability - Beginning</b>	<b>42,361,531</b>	<b>38,760,734</b>	<b>35,385,516</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 45,982,688</b>	<b>\$ 42,361,531</b>	<b>\$ 38,760,734</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 1,688,302	\$ 1,618,783	\$ 1,483,963
Contributions - Employee	795,835	757,958	728,453
Net Investment Income	2,170,104	45,109	1,573,307
Benefit payments, including refunds of employee contributions	(1,158,162)	(852,850)	(693,040)
Administrative expense	(24,508)	(27,475)	(16,421)
Other	(1,320)	(1,356)	(1,350)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>3,470,251</b>	<b>1,540,169</b>	<b>3,074,912</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>32,109,441</b>	<b>30,569,272</b>	<b>27,494,360</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 35,579,692</b>	<b>\$ 32,109,441</b>	<b>\$ 30,569,272</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 10,402,996</b>	<b>\$ 10,252,090</b>	<b>\$ 8,191,462</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>77.38%</b>	<b>75.80%</b>	<b>78.87%</b>
<b>Covered Employee Payroll</b>	<b>\$ 11,369,073</b>	<b>\$ 10,827,153</b>	<b>\$ 10,406,469</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>91.50%</b>	<b>94.69%</b>	<b>78.72%</b>

\* The amounts presented above are as of the measurement date of the collective net pension liability.

**CITY OF HARKER HEIGHTS**  
**SCHEDULE OF CONTRIBUTIONS**  
 LAST TEN YEARS (will ultimately be displayed)  
 SEPTEMBER 30, 2017  
 (UNAUDITED)

	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Actuarially determined contribution	\$ 1,743,446	\$ 1,651,050	\$ 1,639,697
Contribution in relation of the actuarially determined contribution	1,761,021	1,686,650	1,589,154
Contribution deficiency (excess)	\$ (17,575)	\$ (35,600)	\$ 50,543
Covered employee payroll	\$ 11,716,161	\$ 11,228,815	\$ 11,100,618
Contributions as a percentage of covered employee payroll	15.03%	15.02%	14.32%

\* The amounts presented above are as of the City's most recent fiscal year-end.

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:**

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

**Methods and Assumption Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes There were no benefit changes during the year

**CITY OF HARKER HEIGHTS**  
**OTHER POSTEMPLOYMENT BENEFITS ANALYSIS OF FUNDING PROGRESS**  
 LAST TEN YEARS (will ultimately be displayed)  
 SEPTEMBER 30, 2017  
 (UNAUDITED)

The schedule of funding progress for Other Postemployment Benefits is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)
10/1/2009	0	1,554,674	(1,554,674)
10/1/2010	0	543,474	(543,474)
10/1/2011	0	590,256	(590,256)
10/1/2012	0	590,256	(590,256)
10/1/2013	0	627,795	(627,795)
10/1/2014	0	627,795	(627,795)
10/1/2015	0	1,240,122	(1,240,122)
10/1/2016	0	1,240,122	(1,240,122)

Actuarial Valuation Date	(4) Funded Obligation (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll ((2) - (1) / (5))
10/1/2009	0%	8,745,958	17.78%
10/1/2010	0%	9,108,379	5.97%
10/1/2011	0%	9,410,363	6.27%
10/1/2012	0%	9,912,468	5.95%
10/1/2013	0%	10,193,960	6.16%
10/1/2014	0%	10,996,982	5.71%
10/1/2015	0%	11,045,660	11.23%
10/1/2016	0%	11,496,620	10.79%

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to future employment, mortality, and the healthcare cost trend.

Note: The most recent actuarial valuation was October 1, 2015.

## COMBINING FINANCIAL STATEMENTS

### NONMAJOR GOVERNMENTAL FUNDS

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#### SPECIAL REVENUE FUNDS

The special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

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**Hotel/Motel Fund** – This fund is used to account for the accumulation of resources of the hotel/motel occupancy tax. These monies are to be spent in accordance with the requirements of state law.

**Restricted Court Fund** – This fund is used to account for fees collected to maintain security for municipal court buildings, state mandated court costs for time payments restricted for judicial efficiency expenditures, and costs restricted for municipal court technology expenditures.

**Memorial Fund** – This fund is used to account for contributions received to give scholarships to individuals for training as police officers.



**CITY OF HARKER HEIGHTS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2017**

	Special Revenue		Total Nonmajor Governmental Funds
	Hotel/Motel Fund	Restricted Court Fund	
<b>ASSETS</b>			
Cash	\$ 18,314	\$ 98,663	\$ 116,977
Investments	92,251	98,731	190,982
Receivables (net of allowance for uncollectibles):			
Accounts	11,972		11,972
Due from other funds		61,020	61,020
 Total Assets	 <u>\$ 122,537</u>	 <u>\$ 258,414</u>	 <u>\$ 380,951</u>
<b>LIABILITIES</b>			
Liabilities:			
Due to other funds	<u>\$ 189</u>	<u>\$ 46,958</u>	<u>47,147</u>
 Total Liabilities	 <u>189</u>	 <u>46,958</u>	 <u>47,147</u>
<b>FUND BALANCES</b>			
Nonspendable			
Restricted for:			
Economic development	122,348		122,348
Public safety		211,456	211,456
Committed			
Assigned			
Unassigned			
 Total Fund Balances	 <u>122,348</u>	 <u>211,456</u>	 <u>333,804</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	 <u><u>\$ 122,537</u></u>	 <u><u>\$ 258,414</u></u>	 <u><u>\$ 380,951</u></u>

**CITY OF HARKER HEIGHTS**  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Special Revenue		
	Hotel/Motel Fund	Restricted Court Fund	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Taxes - other	\$ 95,160		\$ 95,160
Fines		92,334	92,334
Investment earnings	548	925	1,473
Total Revenues	95,708	93,259	188,967
 <b>EXPENDITURES</b>			
Current:			
General government			
Public safety:			
Courts		50,000	50,000
Economic development and assistance	58,103		58,103
Total Expenditures	58,103	50,000	108,103
Excess (Deficiency) of Revenues Over (Under) Expenditures	37,605	43,259	80,864
 <b>OTHER FINANCING SOURCES (USES)</b>			
Transfer out		(3,525)	(3,525)
Total Other Financing Sources (Uses)		(3,525)	(3,525)
Net Change in Fund Balances	37,605	39,734	77,339
Fund Balances - Beginning	84,743	171,722	256,465
Fund Balances - Ending	\$ 122,348	\$ 211,456	\$ 333,804



**SCHEDULES OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

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**DEBT SERVICE AND SPECIAL REVENUE FUNDS**

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**CITY OF HARKER HEIGHTS**

**DEBT SERVICE FUND**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 2,567,900	\$ 2,567,900	\$ 2,568,635	\$ 735
Investment earnings	3,000	3,000	5,564	2,564
Miscellaneous income	0	0	3,286	3,286
<b>Total Revenues</b>	<b>2,570,900</b>	<b>2,570,900</b>	<b>2,577,485</b>	<b>6,585</b>
<b>EXPENDITURES</b>				
Debt service:				
Principal	1,790,269	1,790,269	1,790,269	0
Interest and fiscal charges	883,131	883,131	972,213	(89,082)
Tax collection fees	30,200	30,200	29,778	422
Bond Issuance Cost				
<b>Total Expenditures</b>	<b>2,703,600</b>	<b>2,703,600</b>	<b>2,792,260</b>	<b>(88,660)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(132,700)	(132,700)	(214,775)	(82,075)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of refunding bonds				
Premium on refunding bonds				
Payment to refunded bond escrow agent				
Transfers in	100,000	100,000	350,000	250,000
<b>Total Other Financing Sources (Uses)</b>	<b>100,000</b>	<b>100,000</b>	<b>350,000</b>	<b>250,000</b>
<b>Net Change in Fund Balances</b>	<b>(32,700)</b>	<b>(32,700)</b>	<b>135,225</b>	<b>167,925</b>
Fund Balances – Beginning	38,371	38,371	55,468	
<b>Fund Balances – Ending</b>	<b>\$ 5,671</b>	<b>\$ 5,671</b>	<b>\$ 190,693</b>	<b>\$ 167,925</b>

**CITY OF HARKER HEIGHTS**  
HOTEL/MOTEL SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Hotel/Motel tax	\$ 70,000	\$ 70,000	\$ 95,160	\$ 25,160
Investment earnings	300	300	548	248
	<u>70,300</u>	<u>70,300</u>	<u>95,708</u>	<u>25,408</u>
<b>EXPENDITURES</b>				
Current:				
Economic development				
Advertising	12,500	12,500	12,500	0
Historical restoration & preservation	0	0	38,866	(38,866)
Events	5,000	5,000	4,237	763
Promotion of the arts	2,500	2,500	2,500	0
	<u>20,000</u>	<u>20,000</u>	<u>58,103</u>	<u>(38,103)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	50,300	50,300	37,605	(12,695)
Fund Balances – Beginning	<u>42,199</u>	<u>42,199</u>	<u>84,743</u>	<u>          </u>
Fund Balances – Ending	<u>\$ 92,499</u>	<u>\$ 92,499</u>	<u>\$ 122,348</u>	<u>\$ (12,695)</u>

**CITY OF HARKER HEIGHTS**  
**RESTRICTED COURT SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Fines	\$ 78,500	\$ 78,500	\$ 92,334	\$ 13,834
Investment earnings	400	400	925	525
Total Revenues	<u>78,900</u>	<u>78,900</u>	<u>93,259</u>	<u>14,359</u>
<b>EXPENDITURES</b>				
Current:				
General government	500	500	0	500
Public safety - courts			<u>50,000</u>	<u>(50,000)</u>
Total Expenditures	<u>500</u>	<u>500</u>	<u>50,000</u>	<u>(49,500)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>78,400</u>	<u>78,400</u>	<u>43,259</u>	<u>(35,141)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(54,400)</u>	<u>(54,400)</u>	<u>(3,525)</u>	<u>50,875</u>
Total Other Financing Sources (Uses)	<u>(54,400)</u>	<u>(54,400)</u>	<u>(3,525)</u>	<u>50,875</u>
Net Change in Fund Balances	24,000	24,000	39,734	15,734
Fund Balances – Beginning	<u>191,080</u>	<u>191,080</u>	<u>171,722</u>	
Fund Balances – Ending	<u><u>\$ 215,080</u></u>	<u><u>\$ 215,080</u></u>	<u><u>\$ 211,456</u></u>	<u><u>\$ 15,734</u></u>

**SUPPLEMENTARY INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

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**GENERAL FUND**

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These supplementary statements are included to provide management additional information for financial analysis.



**CITY OF HARKER HEIGHTS**  
**GENERAL FUND**  
**COMPARATIVE BALANCE SHEETS**  
**SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 1,075,200	\$ 1,868,623
Investments	8,518,156	8,450,452
Receivables (net of allowance for uncollectibles):		
Taxes	71,339	60,668
Accounts	1,293,492	844,498
Special assessments	48	66
Due from other funds	3,471,309	1,814,461
Due from other governments	74,835	5,533
Restricted assets:		
Cash	279,818	250,649
Investments	17,354	17,176
	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 14,801,551</u>	<u>\$ 13,312,126</u>
 <b>LIABILITIES</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,338,515	\$ 2,595,416
Due to other funds	888,358	97,649
Unearned revenue	1,222,723	657,330
	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>4,449,596</u>	<u>3,350,395</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Property tax not yet available	57,664	38,305
	<u>                    </u>	<u>                    </u>
Total deferred inflows of resources	<u>57,664</u>	<u>38,305</u>
 <b>FUND BALANCES:</b>		
Nonspendable		
Restricted for:		
Public safety	3,239	2,640
Pet Adoption Center	5,392	
Cemetery	17,879	17,699
Committed		
Assigned to:		
Culture and recreation	270,663	242,854
Unassigned	9,997,118	9,661,733
	<u>                    </u>	<u>                    </u>
Total Fund Balances	<u>10,294,291</u>	<u>9,924,926</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
	<u>\$ 14,801,551</u>	<u>\$ 13,313,626</u>

**CITY OF HARKER HEIGHTS**  
**GENERAL FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>REVENUES</b>		
Taxes and special assessments:		
Property	\$ 8,563,544	\$ 8,322,400
Other taxes and special assessments	7,998,381	7,912,198
Licenses and permits	246,951	320,130
Fines	785,217	741,760
Charges for services	989,607	856,542
Intergovernmental	361,248	187,373
Investment earnings	125,207	68,933
Contributions and donations	28,503	811,443
Miscellaneous	103,614	231,671
	<b>19,202,272</b>	<b>19,452,450</b>
<b>EXPENDITURES</b>		
Current:		
General government	3,778,396	3,668,155
Public safety	11,405,952	12,021,679
Highways and streets	1,488,963	1,540,501
Culture and recreation	2,903,191	2,921,860
Economic development and assistance	363,402	369,043
Debt Service:		
Principal	135,585	227,492
Interest and fiscal charges	9,444	10,119
	<b>20,084,933</b>	<b>20,758,849</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>(882,661)</b>	<b>(1,306,399)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Capital leases	0	208,000
Transfers in	1,353,525	1,375,000
Transfers out	(100,000)	(555,000)
	<b>1,253,525</b>	<b>1,028,000</b>
Net Change in Fund Balances	<b>370,864</b>	<b>(278,399)</b>
Fund Balances – Beginning	<b>9,923,427</b>	<b>10,201,826</b>
Fund Balances – Ending	<b>\$ 10,294,291</b>	<b>\$ 9,923,427</b>



**SUPPLEMENTARY INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

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**DEBT SERVICE FUND**

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These supplementary statements are included to provide management additional information for financial analysis.

**CITY OF HARKER HEIGHTS**  
**DEBT SERVICE FUND**  
**COMPARATIVE BALANCE SHEETS**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Cash	\$ 147,773	\$ 57,206
Investments	72,747	37,864
Receivables (net of allowance for uncollectibles):		
Taxes	22,168	53,557
Due from other governments	16,438	12,572
Total Assets	\$ 259,126	\$ 161,199
 <b>LIABILITIES</b>		
Liabilities:		
Due to other funds	\$ 14,401	\$ 59,071
Total Liabilities	14,401	59,071
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Property tax not yet available	54,032	46,660
Total deferred inflows of resources	54,032	46,660
 <b>FUND BALANCES</b>		
Nonspendable		
Restricted for:		
Debt service	190,693	55,468
Committed		
Assigned		
Unassigned		
Total Fund Balances	190,693	55,468
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	 \$ 259,126	 \$ 161,199

**CITY OF HARKER HEIGHTS**  
**DEBT SERVICE FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>REVENUES</b>		
Taxes and special assessments:		
Property	\$ 2,568,635	\$ 2,567,015
Investment earnings	5,564	2,385
Miscellaneous income	3,286	0
	<u>2,577,485</u>	<u>2,569,400</u>
Total Revenues		
	<u>2,577,485</u>	<u>2,569,400</u>
<b>EXPENDITURES</b>		
Debt service:		
Principal	1,790,269	1,665,532
Interest and fiscal charges	972,213	999,876
Tax collection fees	29,778	29,406
Bond Issuance Cost	0	24,636
	<u>2,792,260</u>	<u>2,719,450</u>
Total Expenditures		
	<u>2,792,260</u>	<u>2,719,450</u>
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	(214,775)	(150,050)
<b>OTHER FINANCING SOURCES (USES)</b>		
Issuance of refunding bonds		1,985,000
Premium on refunding bonds		163,605
Payment to refunded bond escrow agent		(2,105,858)
Transfers in	350,000	55,000
	<u>350,000</u>	<u>97,747</u>
Total Other Financing Sources (Uses)		
	<u>350,000</u>	<u>97,747</u>
Net Change in Fund Balances	135,225	(52,303)
Fund Balances – Beginning	55,468	107,771
	<u>55,468</u>	<u>107,771</u>
Fund Balances – Ending	<u>\$ 190,693</u>	<u>\$ 55,468</u>



**SUPPLEMENTARY INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

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**CAPITAL PROJECTS FUND**

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These supplementary statements are included to provide management additional information for financial analysis.



**CITY OF HARKER HEIGHTS**  
**CAPITAL PROJECTS FUND**  
**COMPARATIVE BALANCE SHEETS**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Cash	\$ 1,021,967	\$ 1,335,338
Investments	3,276,166	2,758,096
Restricted assets:		
Cash	104,166	477,089
Investments	5,536,183	1,018,782
Total Assets	\$ 9,938,482	\$ 5,589,305
 <b>LIABILITIES</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 152,327	\$ 408,231
Due to other funds	1,933,989	829,325
Total Liabilities	2,086,316	1,237,556
 <b>FUND BALANCES</b>		
Nonspendable		
Restricted for:		
Capital projects	5,640,349	1,495,871
Committed		
Assigned		
Capital projects	2,211,817	2,855,878
Unassigned		
Total Fund Balances	7,852,166	4,351,749
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	 \$ 9,938,482	 \$ 5,589,305

**CITY OF HARKER HEIGHTS**  
**CAPITAL PROJECTS FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>REVENUES</b>		
Investment earnings	\$ 25,464	\$ 18,370
Miscellaneous	4,439	24,697
Intergovernmental	0	259,215
Total Revenues	29,903	302,282
 <b>EXPENDITURES</b>		
Debt Service:		
Bond issuance costs	54,757	
Capital outlay	3,570,682	7,431,924
Total Expenditures	3,625,439	7,431,924
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,595,536)	(7,129,642)
 <b>OTHER FINANCING SOURCES (USES)</b>		
Premium on certificates of obligation	125,289	
Issuance of certificates of obligation	4,930,000	
Transfers in	2,850,000	2,170,120
Transfers out	(809,336)	(2,961,602)
Total Other Financing Sources (Uses)	7,095,953	(791,482)
Net Change in Fund Balances	3,500,417	(7,921,124)
Fund Balances – Beginning	4,351,749	12,272,873
Fund Balances – Ending	\$ 7,852,166	\$ 4,351,749



**SUPPLEMENTARY INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

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**SPECIAL REVENUE FUNDS**

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**HOTEL/MOTEL FUND  
RESTRICTED COURT FUND  
MEMORIAL FUND**

These supplementary statements are included to provide management additional information for financial analysis.

**CITY OF HARKER HEIGHTS**  
**HOTEL/MOTEL FUND**  
**COMPARATIVE BALANCE SHEETS**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Cash	\$ 18,314	\$ 16,555
Investments	92,251	56,759
Receivables (net of allowance for uncollectibles):		
Accounts	11,972	11,429
Total Assets	\$ 122,537	\$ 84,743
 <b>LIABILITIES</b>		
Liabilities:		
Due to other funds	189	
Total Liabilities	189	
 <b>FUND BALANCES</b>		
Nonspendable		
Restricted for:		
Economic development	122,348	84,743
Committed		
Assigned		
Unassigned		
Total Fund Balances	122,348	84,743
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	 \$ 122,537	 \$ 84,743

**CITY OF HARKER HEIGHTS**  
**HOTEL/MOTEL FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>REVENUES</b>		
Taxes – other	\$ 95,160	\$ 75,361
Investment earnings	548	300
	95,708	75,661
Total Revenues		
 <b>EXPENDITURES</b>		
Current:		
Economic development and assistance	58,103	97,317
	58,103	97,317
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	37,605	(21,656)
Fund Balances – Beginning	84,743	106,399
Fund Balances – Ending	\$ 122,348	\$ 84,743

**CITY OF HARKER HEIGHTS**  
**RESTRICTED COURT FUND**  
**COMPARATIVE BALANCE SHEETS**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Cash	\$ 98,663	\$ 82,225
Investments	98,731	73,088
Due from other funds	61,020	16,409
Total Assets	\$ 258,414	\$ 171,722
 <b>LIABILITIES</b>		
Liabilities:		
Due to other funds	46,958	0
Total Liabilities	46,958	0
 <b>FUND BALANCES</b>		
Nonspendable		
Restricted for:		
Public safety	211,456	171,722
Committed		
Assigned		
Unassigned		
Total Fund Balances	\$ 211,456	\$ 171,722
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	 \$ 258,414	 \$ 171,722

**CITY OF HARKER HEIGHTS**  
**RESTRICTED COURT FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>REVENUES</b>		
Fines	\$ 92,334	\$ 79,511
Investment earnings	925	472
	93,259	79,983
Total Revenues		
 <b>EXPENDITURES</b>		
Current:		
General government	0	421
Public safety:		
Courts	50,000	55,000
	50,000	55,421
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	43,259	24,562
 <b>OTHER FINANCING SOURCES (USES)</b>		
Transfer out	(3,525)	(20,120)
	(3,525)	(20,120)
Total Other Financing Sources (Uses)		
Net Change in Fund Balances	39,734	4,442
Fund Balances – Beginning	171,722	167,280
	\$ 211,456	\$ 171,722
Fund Balances – Ending		





**SUPPLEMENTARY INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

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**PROPRIETARY FUNDS**

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**ENTERPRISE FUNDS:**

**WATER AND SEWER FUND  
SANITATION FUND  
DRAINAGE FUND**

These supplementary statements are included to provide management additional information for financial analysis.

**CITY OF HARKER HEIGHTS**  
**WATER AND SEWER FUND**  
**COMPARATIVE STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 386,431	\$ 255,586
Investments	1,226,081	2,015,088
Receivables (net of allowance for uncollectibles):		
Accounts	1,048,415	976,136
Due from other funds	627,086	97,703
Inventory of supplies, at first-in, first-out cost	101,711	101,371
Restricted cash	51,348	63,083
Restricted investments	432,868	403,990
Total Current Assets	3,873,940	3,912,957
Noncurrent Assets:		
Capital Assets		
Land and improvements	159,523	159,523
Buildings and lift stations	3,128,004	3,128,004
Furniture and fixtures	12,375	12,375
Machinery and equipment	1,706,938	1,513,910
Vehicles	611,571	611,571
Water and sewer system	50,598,797	47,271,357
Other improvements	1,144	1,144
Construction in progress	917,408	3,348,204
Less accumulated depreciation	(13,922,624)	(12,912,985)
Total Capital Assets (Net of Depreciation)	43,213,136	43,133,103
Total Noncurrent Assets	43,213,136	43,133,103
Total Assets	\$ 47,087,076	\$ 47,046,060
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on refunding of debt	455,047	521,159
Deferred outflows related to pensions	160,482	186,505
Total Deferred Outflows of Resources	\$ 615,529	\$ 707,664

**CITY OF HARKER HEIGHTS**  
**WATER AND SEWER FUND**  
**COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities		
Due to other funds	\$ 1,093,281	\$ 657,431
Accrued compensated absences	25,000	27,000
Refundable meter deposits	342,489	329,108
Accrued interest payable	75,675	76,238
Capital leases payable - current		
General obligation bonds - current	662,399	500,807
Certificates of obligation - current	735,000	705,000
	<u>2,933,844</u>	<u>2,295,584</u>
Total Current Liabilities		
Noncurrent Liabilities:		
Accrued compensated absences	9,000	5,000
Net pension liability	609,143	600,134
Net other postemployment benefit obligation	72,375	60,699
Capital leases payable		
General obligation bonds (net of deferred amount on advanced refunding)	8,565,428	9,227,827
Certificates of obligation (net of unamortized discounts and premiums)	8,649,512	8,457,389
	<u>17,905,458</u>	<u>18,351,049</u>
Total Noncurrent Liabilities		
	<u>\$ 20,839,302</u>	<u>\$ 20,646,633</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pensions	\$ 9,186	\$ 10,449
<b>NET POSITION</b>		
Net investment in capital assets	25,055,844	24,763,239
Restricted for debt service	35,814	32,662
Restricted for capital projects	910,393	670,207
Unrestricted	852,066	1,630,534
	<u>\$ 26,854,117</u>	<u>\$ 27,096,642</u>
Total Net Position		



**CITY OF HARKER HEIGHTS**  
**WATER AND SEWER FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 9,409,047	\$ 9,340,150
Other	9,398	12,756
	<u>9,418,445</u>	<u>9,352,906</u>
<b>OPERATING EXPENSES</b>		
Water purchases	2,402,169	2,109,504
Contractual services	355,515	349,048
Personal services	1,262,773	1,272,184
Utilities and telephone	507,741	504,772
Repairs and maintenance	428,008	436,019
Supplies	145,177	126,019
Uncollectible accounts	54,860	53,782
Professional fees	69,005	143,695
Depreciation	1,010,942	888,071
Other	1,625	853
	<u>6,237,815</u>	<u>5,883,947</u>
Operating Income	<u>3,180,630</u>	<u>3,468,959</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	16,550	16,627
Interest expense	(498,175)	(415,206)
Bond issuance costs	(10,125)	(57,113)
Gain on sale of capital assets		
Loss on sale of capital assets	(24,741)	
	<u>(516,491)</u>	<u>(455,692)</u>
Total Nonoperating Revenues (Expenses)	<u>(516,491)</u>	<u>(455,692)</u>
Income Before Transfers	2,664,139	3,013,267
Transfers in	793,336	2,961,602
Transfers out	<u>(3,700,000)</u>	<u>(2,150,000)</u>
Change in Net Position	(242,525)	3,824,869
Total Net Position - Beginning	<u>27,096,642</u>	<u>23,271,773</u>
Total Net Position – Ending	<u>\$ 26,854,117</u>	<u>\$ 27,096,642</u>

**CITY OF HARKER HEIGHTS**  
**WATER AND SEWER FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 9,350,149	\$ 9,357,839
Cash payments to suppliers	(3,964,440)	(3,724,208)
Cash payments to employees	(1,215,328)	(1,224,260)
Other operating cash receipts (payments)	(84,135)	(687,971)
Net Cash Provided By Operating Activities	<u>4,086,246</u>	<u>3,721,400</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers in	793,336	2,961,602
Transfers out	<u>(3,700,000)</u>	<u>(2,150,000)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(2,906,664)</u>	<u>811,602</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(1,115,715)	(3,468,607)
Proceeds from issuance of debt	1,000,583	4,541,131
Principal repayments	(1,205,807)	(5,781,596)
Interest paid on long-term debt	<u>(498,738)</u>	<u>(425,499)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(1,819,677)</u>	<u>(5,134,571)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	2,944,582	(263,328)
Purchase of investments	(2,201,927)	
Interest & penalties received	<u>16,550</u>	<u>16,627</u>
Net Cash Provided (Used) By Investing Activities	<u>759,205</u>	<u>(246,701)</u>
Net Increase (Decrease) in Cash For The Year	119,110	(848,270)
Cash - Beginning	<u>318,669</u>	<u>1,166,939</u>
Cash - Ending	<u>\$ 437,779</u>	<u>\$ 318,669</u>
Reconciliation of cash:		
Cash	386,431	255,586
Restricted Cash	<u>51,348</u>	<u>63,083</u>
Total Cash	<u>\$ 437,779</u>	<u>\$ 318,669</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF HARKER HEIGHTS**  
**WATER AND SEWER FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 3,180,630	\$ 3,468,959
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	1,010,942	888,071
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(72,279)	12,998
(Increase) Decrease in deferred outflow in net pension obligation	26,023	(97,230)
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds	(529,383)	3,127,963
(Increase) Decrease in inventory	(340)	(516)
Increase (Decrease) in accounts payable and accrued liabilities		
Increase (Decrease) in refundable meter deposits	13,381	4,691
Increase (Decrease) in due to other funds	435,850	(3,828,690)
Increase (Decrease) in compensated absences	2,000	5,000
(Increase) Decrease in deferred inflow in net pension obligation	(1,263)	8,191
Increase (Decrease) in net pension obligation	9,009	116,838
Increase (Decrease) in net other postemployment benefit obligation	11,676	15,125
Total Adjustments	905,616	252,441
Net cash Provided By Operating Activities:	4,086,246	3,721,400
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>		
Decrease in fair value of investments		
Gain on sale of capital assets		
Loss on sale of capital assets	\$ 24,741	
Amortization of deferred amount on advanced refunding of certificates of obligation	66,113	\$ 52,343
Amortization of bond premium	161,073	
Amortization of bond discount	3,264	1,770
Total Noncash Investing, Capital and Financing Activities	\$ 255,191	\$ 54,113

The notes to the financial statements are an integral part of this statement.



**CITY OF HARKER HEIGHTS**  
**SANITATION FUND**  
**COMPARATIVE STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 82,797	\$ 141,547
Investments	963	37,845
Receivables (net of allowance for uncollectibles):		
Accounts	207,403	203,097
Due from other funds	804	525
Total Current Assets	291,967	383,014
Capital Assets:		
Machinery & equipment	19,326	19,326
Improvements other than buildings	23,728	23,728
Less accumulated depreciation	(40,816)	(38,502)
Total Capital Assets (Net of Depreciation)	2,238	4,552
Total Noncurrent Assets	2,238	4,552
Total Assets	\$ 294,205	\$ 387,566
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred outflow related to pensions	4,522	5,700
Total Deferred Outflows of Resources	\$ 4,522	\$ 5,700
<b>LIABILITIES</b>		
Current Liabilities:		
Due to other funds	\$ 144,072	\$ 282,240
Accrued compensated absences	1,000	1,000
Total Current Liabilities	145,072	283,240
Noncurrent Liabilities:		
Accrued compensated absences		
Net pension liability	16,816	16,408
Net other postemployment benefit obligation	5,121	3,260
Total Noncurrent Liabilities	21,937	19,668
Total Liabilities	\$ 167,009	\$ 302,908
<b>DEFERRED INFLOWS RELATED TO PENSIONS</b>	\$ 289	\$ 346
<b>NET POSITION</b>		
Net investment in capital assets	2,238	4,552
Unrestricted	129,191	85,460
Total Net Position	\$ 131,429	\$ 90,012

**CITY OF HARKER HEIGHTS**  
**SANITATION FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,971,149	\$ 1,940,142
Franchise fees	147,848	160,891
Other	1,328	1,301
	<u>2,120,325</u>	<u>2,102,334</u>
<b>OPERATING EXPENSES</b>		
Contractual services	1,699,305	1,664,567
Personal services	57,707	57,226
Utilities	1,118	1,085
Repairs and maintenance	3,576	3,926
Supplies	1,252	462
Uncollectible accounts	9,086	9,699
Depreciation	2,314	5,535
Professional fees	5,000	500
Other	0	0
	<u>1,779,358</u>	<u>1,743,000</u>
Operating Income	<u>340,967</u>	<u>359,334</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	450	516
	<u>450</u>	<u>516</u>
Total Nonoperating Revenues (Expenses)	<u>450</u>	<u>516</u>
Income Before Transfers	341,417	359,850
Transfers in		
Transfers out	<u>(300,000)</u>	<u>(425,000)</u>
Change in Net Position	41,417	(65,150)
Total Net Position - Beginning	<u>90,012</u>	<u>155,162</u>
Total Net Position – Ending	<u><u>\$ 131,429</u></u>	<u><u>\$ 90,012</u></u>

**CITY OF HARKER HEIGHTS**  
**SANITATION FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 1,957,757	\$ 1,918,673
Cash payments to suppliers	(1,848,419)	(1,551,478)
Cash payments to employees	(54,317)	(55,611)
Franchise fees	147,848	160,891
Other operating cash receipts (payments)	1,049	2,607
	<u>203,918</u>	<u>475,082</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers in		
Transfers out	<u>(300,000)</u>	<u>(425,000)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(300,000)</u>	<u>(425,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	<u>                    </u>	<u>                    </u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>                    </u>	<u>                    </u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments		
Purchase of investments	36,882	(114)
Interest received	450	516
	<u>37,332</u>	<u>402</u>
Net Cash Provided (Used) By Investing Activities	<u>37,332</u>	<u>402</u>
Net Increase (Decrease) in Cash For The Year	(58,750)	50,484
Cash - Beginning	<u>141,547</u>	<u>91,063</u>
Cash - Ending	<u>\$ 82,797</u>	<u>\$ 141,547</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF HARKER HEIGHTS**  
**SANITATION FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 340,967	\$ 359,334
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	2,314	5,535
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(4,306)	(11,770)
(Increase) Decrease in deferred outflow in net pension obligation	1,178	(3,431)
(Increase) Decrease in deferred inflow in net pension obligation	(57)	289
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds	(279)	1,306
Increase (Decrease) in due to other funds	(138,168)	119,062
Increase (Decrease) in compensated absences		
Increase (Decrease) in net pension obligation	408	4,121
Increase (Decrease) in net other postemployment benefit obligation	1,861	636
Total Adjustments	(137,049)	115,748
Net cash Provided By Operating Activities:	\$ 203,918	\$ 475,082

The notes to the financial statements are an integral part of this statement.

**CITY OF HARKER HEIGHTS**  
**DRAINAGE FUND**  
**COMPARATIVE STATEMENTS OF NET POSITION**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 25,947	\$ 7,689
Investments	289	5,254
Receivables (net of allowance for uncollectibles):		
Accounts	81,337	79,183
Due from other funds	199,556	1,087
Restricted cash	3,484	3,467
Restricted investments	3,179	3,157
Total Current Assets	313,792	99,837
Capital Assets:		
Land and improvements	125,160	125,160
Machinery and equipment	255,585	232,662
Vehicles	92,354	92,354
Drainage system	5,820,763	5,820,763
Construction in progress	16,000	
Less accumulated depreciation	(891,509)	(776,238)
Total Capital Assets (Net of Depreciation)	5,418,353	5,494,701
Total Noncurrent Assets	5,418,353	5,494,701
Total Assets	\$ 5,732,145	\$ 5,594,538
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow related to pensions	27,686	32,219
Total Deferred Outflows of Resources	\$ 27,686	\$ 32,219

**CITY OF HARKER HEIGHTS**  
**DRAINAGE FUND**  
**COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>LIABILITIES</b>		
Current Liabilities:		
Due to other funds	\$ 238,526	\$ 4,470
Accrued compensated absences	9,000	8,000
Accrued interest payable	6,777	7,296
General obligation bonds - current	66,802	38,924
Certificates of obligation - current	70,000	70,000
Total Current Liabilities	391,105	128,690
Noncurrent Liabilities:		
Accrued compensated absences	4,000	3,000
Net pension liability	105,930	104,360
Net other postemployment benefit obligation	11,010	6,521
General obligation bonds (net of deferred amount on advanced refunding)	366,096	432,898
Certificates of obligation (net of unamortized discounts)	918,273	993,631
Total Noncurrent Liabilities	1,405,309	1,540,410
Total Liabilities	\$ 1,796,414	\$ 1,669,100
<b>DEFERRED INFLOWS RELATED TO PENSIONS</b>	\$ 1,576	\$ 1,796
<b>NET POSITION</b>		
Net investment in capital assets	3,997,182	3,959,248
Restricted for debt service	6,663	6,624
Unrestricted	(42,004)	(10,011)
Total Net Position	\$ 3,961,841	\$ 3,955,861



**CITY OF HARKER HEIGHTS**  
**DRAINAGE FUND**  
**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>OPERATING REVENUES</b>		
Charges for services	\$ 808,622	\$ 796,111
Other	300	958
	808,922	797,069
<b>OPERATING EXPENSES</b>		
Contractual services	2,072	2,175
Personal services	146,363	130,272
Repairs and maintenance	36,682	41,372
Supplies	7,683	10,696
Uncollectible accounts	4,137	3,101
Depreciation	115,272	115,594
Professional fees	5,000	
Other	238	170
	317,447	303,380
Operating Income	491,475	493,689
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	359	433
Bond issuance costs		
Interest expense	(51,854)	(55,124)
	(51,495)	(54,691)
Income Before Transfers	439,980	438,998
Transfers in	16,000	
Transfers out	(450,000)	(450,000)
	5,980	(11,002)
Change in Net Position		
Total Net Position - Beginning	3,955,861	3,966,863
Total Net Position – Ending	\$ 3,961,841	\$ 3,955,861



**CITY OF HARKER HEIGHTS**  
**DRAINAGE FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 806,232	\$ 787,620
Cash payments to suppliers	178,482	(120,435)
Cash payments to employees	(133,991)	(124,761)
Other operating cash receipts (payments)	(198,169)	18,706
Net Cash Provided By Operating Activities	652,554	561,130
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Transfers in	16,000	
Transfers out	(450,000)	(450,000)
Net Cash Provided (Used) By Noncapital Financing Activities	(434,000)	(450,000)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of certificates of obligation		
Acquisition and construction of capital assets	(38,924)	
Principal repayments	(108,924)	(102,872)
Interest paid on long-term debt	(57,731)	(61,210)
Net Cash Provided (Used) By Capital and Related Financing Activities	(205,579)	(164,082)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments		
Purchase of investments	4,941	(25)
Interest received	359	433
Net Cash Provided (Used) By Investing Activities	5,300	408
 Net Increase (Decrease) in Cash For The Year	18,275	(52,544)
 Cash - Beginning	11,156	63,700
Cash - Ending	\$ 29,431	\$ 11,156
 Reconciliation of cash:		
Cash	25,947	7,689
Restricted Cash	3,484	3,467
Total Cash	\$ 29,431	\$ 11,156

The notes to the financial statements are an integral part of this statement.

**CITY OF HARKER HEIGHTS**  
**DRAINAGE FUND**  
**COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 491,475	\$ 493,689
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	115,272	115,594
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(2,152)	(8,320)
(Increase) Decrease in deferred outflow in net pension obligation	4,533	(16,634)
(Increase) Decrease in deferred inflow in net pension obligation	(220)	1,402
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds	(198,469)	17,747
Increase (Decrease) in due to other funds	234,056	(63,091)
Increase (Decrease) in compensated absences	2,000	(1,000)
Increase (Decrease) in net pension obligation	1,570	19,988
Increase (Decrease) in net other post- employment benefit obligation	4,489	1,755
Total Adjustments	<u>161,079</u>	<u>67,441</u>
Net cash Provided By Operating Activities:	<u>\$ 652,554</u>	<u>\$ 561,130</u>
 <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>		
Amortization of bond discount	<u>                    </u>	<u>                    </u>
Total Noncash Investing, Capital and Financing Activities	<u>                    </u>	<u>                    </u>

The notes to the financial statements are an integral part of this statement.



**CAPITAL ASSETS**  
**USED IN THE OPERATION**  
**OF GOVERNMENTAL FUNDS**

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**CITY OF HARKER HEIGHTS**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**COMPARATIVE SCHEDULES BY SOURCE**  
**SEPTEMBER 30, 2017 AND 2016**

	2017	2016
Governmental Funds Capital Assets:		
Land	\$ 15,575,872	\$ 15,575,872
Buildings	16,319,510	13,579,292
Improvements other than buildings	221,520	176,520
Machinery and equipment	6,471,262	6,176,076
Vehicles	5,308,242	5,466,546
Furniture and fixtures	973,431	898,601
Street and drainage improvements	34,285,054	27,874,157
Construction in progress	2,753,754	8,485,842
Total governmental funds capital assets	\$ 81,908,645	\$ 78,232,906
Investment in Governmental Funds Capital Assets by Source:		
General fund	\$ 10,121,219	\$ 10,056,790
Special revenue funds	896,105	892,580
Capital projects fund	63,849,155	60,235,870
Donations	2,360,166	2,365,666
Grants, revenue sharing	4,682,000	4,682,000
Total governmental funds capital assets	\$ 81,908,645	\$ 78,232,906

Note:

This schedule presents only the capital asset balances related to governmental funds. The City's infrastructure capital assets are included in the above street and drainage improvements.

**CITY OF HARKER HEIGHTS**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION AND ACTIVITY**  
**SEPTEMBER 30, 2017**

Function and Activity	Land	Buildings	Improvements other than Buildings	Machinery and Equipment
General government:				
Council				\$ 19,798
Administration	1,246,932	4,159,718	1,100	1,489,321
Finance				173,642
Pet Adoption Center		1,694,162		39,366
Total general government	<u>1,246,932</u>	<u>5,853,880</u>	<u>1,100</u>	<u>1,722,127</u>
Public Safety:				
Police	53,228	2,898,398	47,007	1,222,062
Fire and EMS	27,578	1,074,764		1,383,166
Code Enforcement		125		21,579
Courts				237,713
Total public safety	<u>80,806</u>	<u>3,973,287</u>	<u>47,007</u>	<u>2,864,520</u>
Highways and streets:				
Maintenance	110,811	203,225	1,995	718,096
Street and drainage system				
Total highways and streets	<u>110,811</u>	<u>203,225</u>	<u>1,995</u>	<u>718,096</u>
Culture and recreation:				
Parks and recreation	14,119,960	2,146,765	126,068	829,243
Library	17,363	4,142,353		194,024
Total culture and recreation	<u>14,137,323</u>	<u>6,289,118</u>	<u>126,068</u>	<u>1,023,267</u>
Economic development and assistance			45,350	143,252
Construction in progress				
Total governmental funds capital assets	<u>\$ 15,575,872</u>	<u>\$ 16,319,510</u>	<u>\$ 221,520</u>	<u>\$ 6,471,262</u>

Note:

This schedule presents only the capital asset balances related to governmental funds.

<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Streets and Drainage Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
	\$ 3,755			\$ 23,553
	185,213			7,082,284
	5,501			179,143
<u>123,880</u>	<u>11,717</u>			<u>1,869,125</u>
<u>123,880</u>	<u>206,186</u>			<u>9,154,105</u>
2,052,508	212,661			6,485,864
2,162,722	13,449			4,661,679
53,472				75,176
<u>66,605</u>	<u>8,979</u>			<u>313,297</u>
<u>4,335,307</u>	<u>235,089</u>			<u>11,536,016</u>
598,998				1,633,125
		<u>34,285,054</u>		<u>34,285,054</u>
<u>598,998</u>		<u>34,285,054</u>		<u>35,918,179</u>
250,057	178,146			17,650,239
	<u>351,300</u>			<u>4,705,040</u>
<u>250,057</u>	<u>529,446</u>			<u>22,355,279</u>
	<u>2,710</u>			<u>191,312</u>
			<u>2,753,754</u>	<u>2,753,754</u>
<u>\$ 5,308,242</u>	<u>\$ 973,431</u>	<u>\$ 34,285,054</u>	<u>\$ 2,753,754</u>	<u>\$ 81,908,645</u>

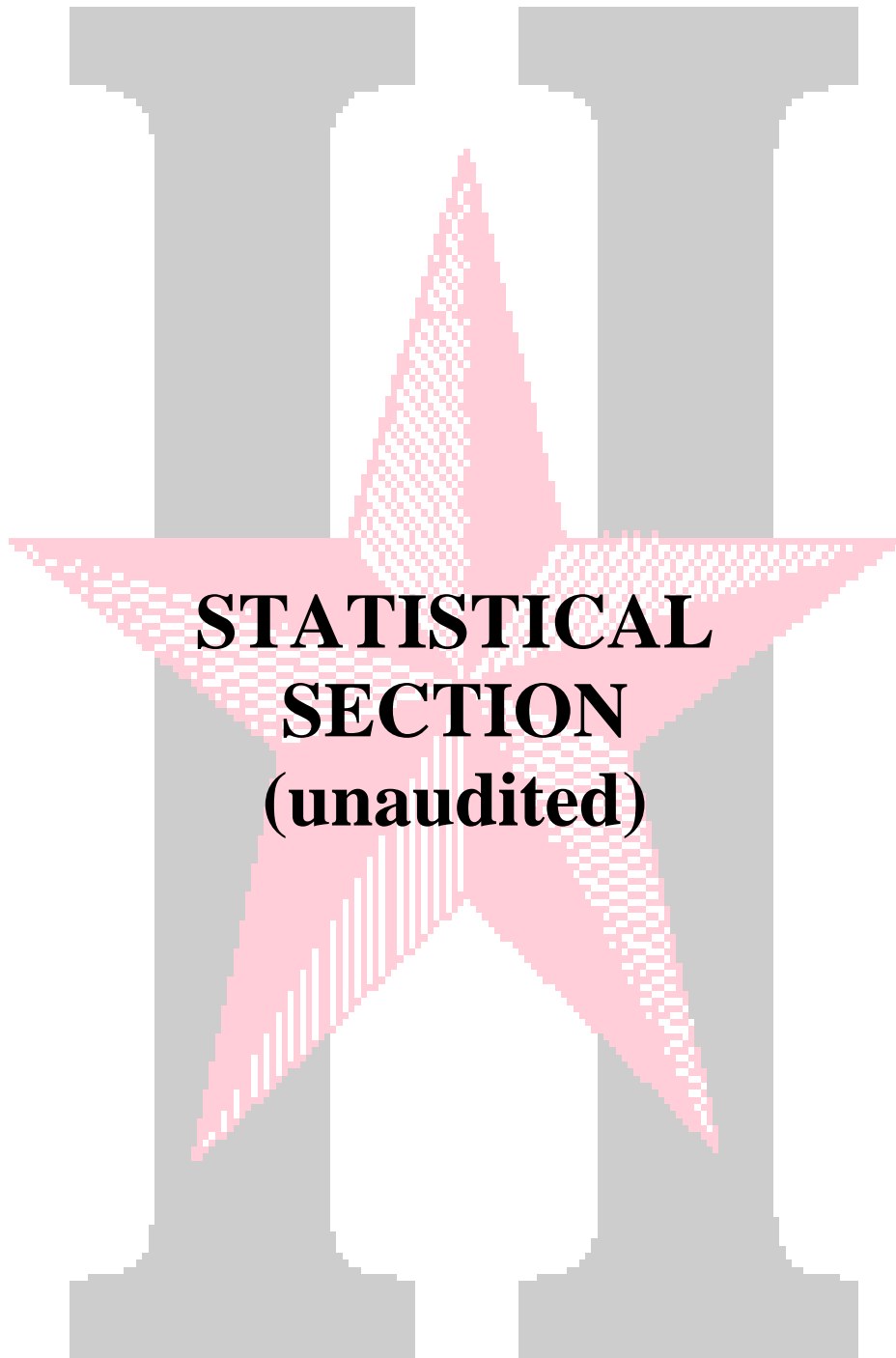


**CITY OF HARKER HEIGHTS**  
**CAPTIAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**  
**SEPTEMBER 30, 2017**

Function and Activity	Capital Assets October 1, 2016	Additions	Transfers and Deletions	Capital Assets September 30, 2017
General government:				
Council	\$ 7,404	\$ 16,149		\$ 23,553
Administration	5,007,956	2,102,625	28,297	7,082,284
Finance	134,131	48,837	3,825	179,143
Pet Adoption Center	1,796,294	74,867	2,036	1,869,125
Total general government	<u>6,945,785</u>	<u>2,242,478</u>	<u>34,158</u>	<u>9,154,105</u>
Public safety:				
Police	6,483,151	158,849	156,136	6,485,864
Fire and EMS	4,805,779	42,484	186,584	4,661,679
Code Enforcement	67,498	21,033	13,355	75,176
Courts	312,849	5,296	4,848	313,297
Total public safety	<u>11,669,277</u>	<u>227,662</u>	<u>360,923</u>	<u>11,536,016</u>
Highways and streets:				
Maintenance	1,511,488	124,242	2,605	1,633,125
Street and drainage system	27,874,157	6,410,897		34,285,054
Total highways and streets	<u>29,385,645</u>	<u>6,535,139</u>	<u>2,605</u>	<u>35,918,179</u>
Culture and recreation:				
Parks and recreation	16,872,830	939,503	162,094	17,650,239
Library	4,686,133	21,065	2,158	4,705,040
Total culture and recreation	<u>21,558,963</u>	<u>960,568</u>	<u>164,252</u>	<u>22,355,279</u>
Economic development and assistance	<u>187,394</u>	<u>3,918</u>		<u>191,312</u>
Construction in progress	<u>8,485,842</u>	<u>3,477,339</u>	<u>9,209,427</u>	<u>2,753,754</u>
Total governmental funds capital assets	<u>\$ 78,232,906</u>	<u>\$ 13,447,104</u>	<u>\$ 9,771,365</u>	<u>\$ 81,908,645</u>

Note:

This schedule presents only the capital asset balances related to governmental funds.



**STATISTICAL  
SECTION  
(unaudited)**

## Statistical Section

This part of the City of Harker Heights' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	<b>118</b>
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	<b>124</b>
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	<b>130</b>
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	<b>139</b>
<b>Operating Information</b> These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information related to the services the City provides and the activities it performs.	<b>143</b>

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.



**CITY OF HARKER HEIGHTS**  
**NET POSITION BY COMPONENT**  
**LAST TEN FISCAL YEARS**  
(amounts expressed in thousands)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Governmental activities:</b>										
Net investment in capital assets	\$ 29,424	\$ 30,534	\$ 26,705	\$ 24,343	\$ 23,247	\$ 21,839	\$ 19,802	\$ 19,815	\$ 18,703	\$ 9,766
Restricted	6,192	1,828	12,894	12,000	4,921	8,773	15,953	11,605	18,516	12,667
Assigned	2,482	3,099		179	146	91				
Unrestricted	434	769	(3,716)	3,358	7,721	5,695	2,911	4,731	(691)	6,716
<b>Total governmental activities net position</b>	<b>38,532</b>	<b>36,230</b>	<b>35,883</b>	<b>39,880</b>	<b>36,035</b>	<b>36,398</b>	<b>38,666</b>	<b>36,151</b>	<b>36,528</b>	<b>29,149</b>
<b>Business-type activities:</b>										
Net investment in capital assets	29,055	28,727	27,659	25,968	25,078	22,756	21,717	20,960	19,893	14,305
Restricted	953	710	57	56	32	34			35	18
Unrestricted	939	1,706	(322)	384	1,657	1,310	(3,873)	(3,711)	(5,627)	2,820
<b>Total business-type activities net position</b>	<b>30,947</b>	<b>31,143</b>	<b>27,394</b>	<b>26,408</b>	<b>26,767</b>	<b>24,100</b>	<b>17,844</b>	<b>17,249</b>	<b>14,301</b>	<b>17,143</b>
<b>Primary Government:</b>										
Net investment in capital assets	58,479	59,261	54,364	50,311	48,325	44,595	41,519	40,775	38,596	24,071
Restricted	7,145	2,538	12,951	12,056	4,953	8,807	15,953	11,605	18,551	12,685
Assigned	2,482	3,099		179	146	91				
Unrestricted	1,373	2,475	(4,038)	3,742	9,378	7,005	(962)	1,020	(6,318)	9,536
<b>Total primary government net position</b>	<b>\$ 69,479</b>	<b>\$ 67,373</b>	<b>\$ 63,277</b>	<b>\$ 66,288</b>	<b>\$ 62,802</b>	<b>\$ 60,498</b>	<b>\$ 56,510</b>	<b>\$ 53,400</b>	<b>\$ 50,829</b>	<b>\$ 46,292</b>

**CITY OF HARKER HEIGHTS  
CHANGES IN NET POSITION  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)**

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Expenses</b>										
Governmental Activities:										
General government	\$ 4,053	\$ 3,866	\$ 3,967	\$ 2,862	\$ 3,247	\$ 2,818	\$ 2,869	\$ 3,304	\$ 2,182	\$ 1,995
Public safety	12,726	12,715	10,478	11,137	10,553	10,383	10,216	9,597	9,079	8,171
Highways/streets	1,771	880	1,768	1,828	1,734	1,782	1,541	1,498	1,488	1,312
Economic development	438	410	447	538	483	468	362	503	357	335
Culture and recreation	3,338	3,378	3,051	3,077	2,932	2,928	2,732	2,575	2,003	1,631
Interest on long-term debt	1,038	1,032	988	1,214	1,094	1,237	1,225	1,154	1,169	964
Other										
Total Governmental Activities	<u>23,364</u>	<u>22,281</u>	<u>20,699</u>	<u>20,656</u>	<u>20,043</u>	<u>19,616</u>	<u>18,945</u>	<u>18,631</u>	<u>16,278</u>	<u>14,408</u>
Business-type Activities:										
Water and sewer	6,771	6,356	6,662	6,397	6,088	5,862	6,593	5,559	5,228	4,905
Drainage	369	359	364	304	325	283	283	251	225	187
Sanitation	1,779	1,743	1,649	1,577	1,536	1,529	1,475	1,361	1,295	1,552
Total Business-type Activities	<u>8,919</u>	<u>8,458</u>	<u>8,675</u>	<u>8,278</u>	<u>7,949</u>	<u>7,674</u>	<u>8,351</u>	<u>7,171</u>	<u>6,748</u>	<u>6,644</u>
Total Expenses	<u>\$ 32,283</u>	<u>\$ 30,739</u>	<u>\$ 29,374</u>	<u>\$ 28,934</u>	<u>\$ 27,992</u>	<u>\$ 27,290</u>	<u>\$ 27,296</u>	<u>\$ 25,802</u>	<u>\$ 23,026</u>	<u>\$ 21,052</u>
<b>Program Revenues</b>										
Governmental Activities:										
Charges for services										
General government	\$ 89	\$ 249	\$ 111	\$ 61	\$ 56	\$ 87	\$ 67	\$ 93	\$ 83	\$ 102
Public safety	1,698	1,554	1,672	1,831	1,858	1,998	2,029	1,874	1,937	1,825
Culture and recreation	259	291	293	311	291	306	246	273	204	136
Other activities	212	278	296	546	249	164	157	202	199	346
Operating grants and contributions	220	1,083	792	66	477	598	246	210	185	121
Capital Grants and contributions							234	138		215
Total Governmental Activities	<u>2,478</u>	<u>3,455</u>	<u>3,164</u>	<u>2,815</u>	<u>2,931</u>	<u>3,153</u>	<u>2,979</u>	<u>2,790</u>	<u>2,608</u>	<u>2,745</u>
Business-type Activities:										
Charges for services	<u>12,200</u>	<u>12,091</u>	<u>11,435</u>	<u>11,189</u>	<u>11,553</u>	<u>11,586</u>	<u>11,833</u>	<u>10,062</u>	<u>9,976</u>	<u>9,616</u>
Total Business-type Activities	<u>12,200</u>	<u>12,091</u>	<u>11,435</u>	<u>11,189</u>	<u>11,553</u>	<u>11,586</u>	<u>11,833</u>	<u>10,062</u>	<u>9,976</u>	<u>9,616</u>
Total Program Revenues	<u>\$ 14,678</u>	<u>\$ 15,546</u>	<u>\$ 14,599</u>	<u>\$ 14,004</u>	<u>\$ 14,484</u>	<u>\$ 14,739</u>	<u>\$ 14,812</u>	<u>\$ 12,852</u>	<u>\$ 12,584</u>	<u>\$ 12,361</u>

**CITY OF HARKER HEIGHTS**  
**CHANGES IN NET POSITION (continued)**  
**LAST TEN FISCAL YEARS**  
**(amounts expressed in thousands)**

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net (Expense)/Revenue										
Governmental Activities	\$ (20,886)	\$ (18,826)	\$ (17,535)	\$ (17,841)	\$ (17,112)	\$ (16,463)	\$ (15,966)	\$ (15,841)	\$ (13,670)	\$ (11,663)
Business-type Activities	3,281	3,633	2,760	2,911	3,604	3,912	3,482	2,891	3,228	2,972
Total Net Expense	<u>\$ (17,605)</u>	<u>\$ (15,193)</u>	<u>\$ (14,775)</u>	<u>\$ (14,930)</u>	<u>\$ (13,508)</u>	<u>\$ (12,551)</u>	<u>\$ (12,484)</u>	<u>\$ (12,950)</u>	<u>\$ (10,442)</u>	<u>\$ (8,691)</u>
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities										
Taxes										
Property taxes	\$ 11,100	\$ 10,833	\$ 10,419	\$ 10,051	\$ 9,189	\$ 9,167	\$ 8,965	\$ 8,839	\$ 8,344	\$ 7,510
Sales taxes	6,672	6,627	6,594	6,186	5,232	5,426	4,859	4,780	4,535	3,342
Mixed drink taxes	113	111	141	116	98	97	126	139	94	104
Bingo taxes	50	52	64	77	101	105	101	105	105	94
Hotel/Motel taxes	95	75	75	100	84	93	92	72	47	39
Special assessments										
Other taxes										
Franchise fees	1,333	1,297	1,342	1,312	1,265	1,436	1,271	1,247	1,197	1,126
Investment earnings	162	115	48	132	40	64	48	205	498	993
Gain on sale of capital assets	22			12	9	9			4	10
Transfers	3,641	63	1,480	3,483	928	(2,203)	3,019	77	6,225	(858)
Total Governmental Activities	<u>23,188</u>	<u>19,173</u>	<u>20,163</u>	<u>21,469</u>	<u>16,946</u>	<u>14,194</u>	<u>18,481</u>	<u>15,464</u>	<u>21,049</u>	<u>12,360</u>
Business-type activities										
Franchise fees	148	161	125	140	137	130	124	112	112	17
Investment earnings	17	18	10	10	13	11	8	19	43	54
Miscellaneous										
Gain on sale of capital assets								3		
Transfers	(3,641)	(63)	(1,480)	(3,483)	(928)	2,203	(3,019)	(77)	(6,225)	858
Total Business-type Activities	<u>(3,476)</u>	<u>116</u>	<u>(1,345)</u>	<u>(3,333)</u>	<u>(778)</u>	<u>2,344</u>	<u>(2,887)</u>	<u>57</u>	<u>(6,070)</u>	<u>929</u>
Total General Revenues and Other Changes in Net Position	<u>\$ 19,712</u>	<u>\$ 19,289</u>	<u>\$ 18,818</u>	<u>\$ 18,136</u>	<u>\$ 16,168</u>	<u>\$ 16,538</u>	<u>\$ 15,594</u>	<u>\$ 15,521</u>	<u>\$ 14,979</u>	<u>\$ 13,289</u>
Change in Net Position										
Governmental Activities	\$ 2,302	\$ 347	\$ 2,628	\$ 3,628	\$ (166)	\$ (2,269)	\$ 2,515	\$ (377)	\$ 7,379	\$ 697
Business-type Activities	(195)	3,749	1,415	(422)	2,826	6,256	595	2,948	(2,842)	3,901
Total Change in Net Position	<u>\$ 2,107</u>	<u>\$ 4,096</u>	<u>\$ 4,043</u>	<u>\$ 3,206</u>	<u>\$ 2,660</u>	<u>\$ 3,987</u>	<u>\$ 3,110</u>	<u>\$ 2,571</u>	<u>\$ 4,537</u>	<u>\$ 4,598</u>

**CITY OF HARKER HEIGHTS  
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE<sup>1</sup>  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)**

<b>Fiscal Year</b>	<b>Property Tax</b>	<b>Sales Tax</b>	<b>Franchise Tax</b>	<b>Bingo Tax</b>	<b>Alcoholic Beverage Tax</b>	<b>Hotel/Motel Tax</b>	<b>Other Tax</b>	<b>Total</b>
2017	11,100	6,672	1,333	50	113	95		19,363
2016	10,833	6,627	1,297	52	111	75		18,995
2015	10,419	6,594	1,342	64	141	75		18,635
2014	10,051	6,186	1,312	78	116	100		17,843
2013	9,189	5,232	1,265	101	98	84		15,969
2012	9,167	5,426	1,436	105	97	93		16,324
2011	8,965	4,859	1,271	101	126	92		15,414
2010	8,839	4,780	1,247	105	139	72		15,182
2009	8,344	4,535	1,197	105	94	47		14,322
2008	7,510	3,342	1,126	94	104	39		12,215

**Source: Audited Financial Statements.**

<sup>1</sup>Includes general, debt services, capital projects, and hotel/motel funds.



**CITY OF HARKER HEIGHTS**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
(amounts expressed in thousands)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Fund										
Reserved								\$ 36	\$ 71	\$ 30
Unreserved								6,607	5,737	4,863
<b>Nonspendable</b>										
Restricted for:							39			
Economic development										
Public safety	3	3	3	1	1	3	3			
Pet Adoption Center	5									
Debt service										
Capital projects										
Cemetery	18	18	18	18	18					
Committed										
Assigned to:										
Culture and recreation	271	243	220	179	146	91				
Unassigned	9,997	9,660	9,962	9,486	8,256	8,342	7,339			
Total general fund	<u>\$ 10,294</u>	<u>\$ 9,924</u>	<u>\$ 10,203</u>	<u>\$ 9,684</u>	<u>\$ 8,421</u>	<u>\$ 8,436</u>	<u>\$ 7,381</u>	<u>\$ 6,643</u>	<u>\$ 5,808</u>	<u>\$ 4,893</u>
<b>All Other Governmental Funds</b>										
Reserved								\$ 11,568	\$ 18,445	\$ 12,637
Unreserved, reported in:										
Special revenue funds								169	214	211
Capital projects funds								2,327	2,241	878
Debt service funds										
Capital projects										
<b>Nonspendable</b>										
Restricted for:										
Economic development	122	85	106	189	206	222	233			
Public safety	212	171	167	216	202	191	194			
Debt service	191	55	108	106	61	48	106			
Capital projects	5,640	1,496	8,321	11,470	4,433	8,291	15,611			
Committed										
Assigned to:										
Culture and recreation	2,212	2,856	3,952	3,860	2,995	2,583	2,407			
Capital projects										
Unassigned										
Total all other governmental funds	<u>\$ 8,377</u>	<u>\$ 4,663</u>	<u>\$ 12,654</u>	<u>\$ 15,841</u>	<u>\$ 7,897</u>	<u>\$ 11,335</u>	<u>\$ 18,551</u>	<u>\$ 14,064</u>	<u>\$ 20,900</u>	<u>\$ 13,726</u>

The City implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

**CITY OF HARKER HEIGHTS**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
(amounts expressed in thousands)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Revenues</b>										
Taxes	\$19,226	\$18,877	\$18,555	\$17,784	\$16,019	\$16,365	\$15,464	\$15,145	\$14,344	\$12,208
Licenses and permits	247	320	330	591	286	204	191	207	181	329
Fines	877	822	1,145	1,541	1,405	1,472	1,399	1,408	1,415	1,313
Charges for services	990	857	795	787	797	721	708	748	645	669
Intergovernmental	361	447	932	198	443	432	397	317	131	324
Investment earnings	158	90	48	32	39	41	48	204	498	993
Contributions and donations	29	811	32	41	39	171	26	31	54	12
Miscellaneous	111	256	107	143	144	74	54	74	87	108
<b>Total revenues</b>	<b>21,999</b>	<b>22,480</b>	<b>21,944</b>	<b>21,117</b>	<b>19,172</b>	<b>19,480</b>	<b>18,287</b>	<b>18,134</b>	<b>17,355</b>	<b>15,956</b>
<b>Expenditures</b>										
General government	3,778	3,669	4,102	2,734	3,072	2,659	3,023	2,750	2,213	1,889
Public safety	11,456	12,076	11,340	10,492	10,550	9,823	9,485	9,242	8,655	8,080
Highways and streets	1,489	1,541	1,288	1,321	1,302	1,558	1,172	1,130	1,104	1,058
Culture and recreation	2,903	2,922	2,837	2,726	2,727	2,541	2,348	2,166	1,974	1,569
Economic development and assistance	421	466	474	526	466	452	337	449	351	324
Debt service										
Principal	1,926	1,893	1,550	1,677	1,509	1,409	1,122	1,127	777	632
Interest	982	1,010	1,059	1,077	1,053	1,169	1,153	1,125	1,104	929
Tax collection fees	30	29	28	28	28	27	22	21	16	15
Bond issuance costs	55	25	64	6	19	36	42		44	
Capital outlay	3,571	7,432	3,849	851	3,296	3,325	2,577	6,254	5,286	7,411
<b>Total expenditures</b>	<b>26,611</b>	<b>31,063</b>	<b>26,591</b>	<b>21,438</b>	<b>24,022</b>	<b>22,999</b>	<b>21,281</b>	<b>24,264</b>	<b>21,524</b>	<b>21,907</b>
Excess of revenues over (under) expenditures	(4,612)	(8,583)	(4,647)	(321)	(4,850)	(3,519)	(2,994)	(6,130)	(4,169)	(5,951)
<b>Other Financing Sources (Uses)</b>										
Issuance of certificates of obligation	5,055	1,985	6,569	6,046	455	3,200	5,000	6,000		
Issuance of refunding bonds		164								
Premium on refunding bonds										
Bond discount										
Payment to refunded bond escrow agent		(2,106)	(6,551)	7,278	(435)	(3,650)	199	52	27	186
Capital leases		208	478	(3,795)	270	10	1		6	11
Sale of capital assets proceeds		3,600	4,150	3,436	3,436	3,034	5,925	2,400	11,071	2,750
Transfers in	(913)	(3,537)	(2,670)	(3,795)	(2,508)	(5,237)	(2,906)	(2,323)	(4,846)	(3,608)
Transfers out										
<b>Total other financing sources (uses)</b>	<b>8,696</b>	<b>314</b>	<b>1,976</b>	<b>9,529</b>	<b>1,218</b>	<b>(2,643)</b>	<b>8,219</b>	<b>129</b>	<b>12,258</b>	<b>(661)</b>
<b>Net change in fund balances</b>	<b>\$4,084</b>	<b>(\$8,269)</b>	<b>(\$2,671)</b>	<b>\$9,208</b>	<b>(\$3,632)</b>	<b>(\$6,162)</b>	<b>\$ 5,225</b>	<b>\$ (6,001)</b>	<b>\$ 8,089</b>	<b>\$ (6,612)</b>
Debt service as a percentage of noncapital expenditures	12.98%	13.42%	12.10%	13.69%	13.00%	13.51%	12.57%	12.95%	12.13%	11.35%

**CITY OF HARKER HEIGHTS  
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS**

Fiscal Year	Personal Property			Less: Exemptions <sup>1</sup>	Total Taxable Assessed Value	Taxable Assessed Value as a Percentage of		Total Direct Rate
	Real Property	Property	Property			Estimated Actual Value	Actual Taxable Value	
2017	1,813,068,923	127,224,231	127,224,231	245,257,629	1,695,035,525	87.36%	1,940,293,154	0.6770
2016	1,726,337,444	129,371,982	129,371,982	201,721,179	1,653,988,247	89.13%	1,855,709,426	0.6770
2015	1,644,815,946	123,164,489	123,164,489	172,716,271	1,595,264,164	90.23%	1,767,980,435	0.6770
2014	1,580,544,133	84,592,701	84,592,701	154,085,334	1,511,051,500	90.75%	1,665,136,834	0.6770
2013	1,466,874,488	77,734,371	77,734,371	141,980,105	1,402,628,754	90.81%	1,544,608,859	0.6770
2012	1,449,939,258	76,917,735	76,917,735	131,985,034	1,394,871,959	91.36%	1,526,856,993	0.6770
2011	1,411,513,611	76,746,575	76,746,575	127,060,247	1,361,199,939	91.46%	1,488,260,186	0.6770
2010	1,375,764,616	80,934,800	80,934,800	120,712,330	1,335,987,086	91.71%	1,456,699,416	0.6770
2009	1,294,284,531	58,064,128	58,064,128	93,844,827	1,258,503,832	93.06%	1,352,348,659	0.6796
2008	1,165,256,114	54,466,657	54,466,657	93,101,967	1,126,620,804	92.37%	1,219,722,771	0.6796

**Source: Bell County Appraisal District**

NOTE: Tax rates are per \$100 of assessed values.

<sup>1</sup> Amount includes productivity loss and the homestead cap as well as local and state exemptions.

**CITY OF HARKER HEIGHTS  
PROPERTY TAX RATES  
DIRECT AND OVERLAPPING GOVERNMENTS  
LAST TEN FISCAL YEARS**

Fiscal Year	City of Harker Heights			Overlapping Rates				Total Direct and Overlapping	
	Operating Millage	Debt Service Millage	Total Direct Rate	Killeen Independent School District	Central Texas College	Bell County	Road District		Clearwater UWCD
2017	0.51980	0.15720	0.67700	1.12600	0.13660	0.42120	0.02990	0.00392	2.39462
2016	0.51740	0.15960	0.67700	1.12800	0.13660	0.42120	0.02990	0.00395	2.39665
2015	0.51670	0.16030	0.67700	1.12800	0.13660	0.42120	0.02990	0.00400	2.39670
2014	0.51160	0.16540	0.67700	1.12800	0.13700	0.42120	0.02990	0.00400	2.39710
2013	0.49880	0.17820	0.67700	1.13100	0.14000	0.42120	0.02990	0.00400	2.40310
2012	0.50240	0.17460	0.67700	1.14119	0.14090	0.40960	0.02990	0.00400	2.40259
2011	0.53110	0.14590	0.67700	1.14119	0.14090	0.38200	0.02990	0.00400	2.37499
2010	0.53430	0.14270	0.67700	1.14119	0.14090	0.37590	0.02950	0.00400	2.36849
2009	0.55680	0.12280	0.67960	1.14119	0.14100	0.37790	0.02950	0.00400	2.37319
2008	0.56750	0.11210	0.67960	1.14119	0.14200	0.37950	0.02950	0.00400	2.37579

**Source: Bell County Appraisal District**

Note: Property tax rates per \$100 of assessed value.

**CITY OF HARKER HEIGHTS  
PRINCIPAL TAXPAYERS  
CURRENT YEAR AND NINE YEARS AGO  
(amounts expressed in thousands)**

<b>Taxpayer</b>	<b>2017</b>			<b>2008</b>		
	<b>Assessed Valuation</b>	<b>Rank</b>	<b>Percentage of Total Assessed Valuation</b>	<b>Assessed Valuation</b>	<b>Rank</b>	<b>Percentage of Total Assessed Valuation</b>
HH/Killeen Health System LLC	\$ 49,663	1	2.93%			
Cole MT Harker Heights TX LLC	33,490	2	1.98%			
HH/Killeen Health System LLC	28,500	3	1.68%			
Wal-Mart Real Estate Business Trust	15,400	4	0.91%	16,864	1	1.50%
Oncor Electric Delivery Co LLC	12,232	5	0.72%	10,298	2	0.91%
HH/Killeen Health System LLC	9,094	6	0.54%			
Sam's East Inc.	7,953	7	0.47%			
HEB Grocery Company LP	6,302	8	0.37%	6,225	3	0.55%
Target Corporation	5,797	9	0.34%			
Sam's Real Estate Business Trust	5,738	10	0.34%			
Onmi Lion's Run LP				4,423	4	0.39%
Boose Properties, LTD				3,981	5	0.35%
Will Properties, Inc.				3,953	6	0.35%
House, Charles, Etal				3,423	7	0.30%
Omni Lookout Ridge LP				3,370	8	0.30%
Extraco Banks NA				2,689	9	0.24%
Furniture Row USA LLC				2,546	10	0.23%
	<b>\$ 174,169</b>		<b>10.28%</b>	<b>\$ 57,772</b>		<b>5.12%</b>

**Source: Bell County Appraisal District**

**CITY OF HARKER HEIGHTS  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)**

Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections to Date			Outstanding Delinquent Taxes	Ratio of Outstanding Delinquent Taxes to Total Tax Levy
	Amount Collected	Percentage of Levy	Less Refunds	Amount Disbursed	Percentage of Levy	Delinquent Taxes Collected		
2017	11,475	98.02%	88	11,160	97.25%	134	251	2.19%
2016	11,198	97.85%	87	10,870	97.07%	111	227	2.03%
2015	10,800	98.05%	76	10,513	97.34%	95	222	2.06%
2014	10,230	100.55%	112	10,174	99.45%	161	213	2.08%
2013	9,496	98.22%	98	9,229	97.19%	114	257	2.71%
2012	9,443	98.12%	59	9,206	97.49%	121	242	2.56%
2011	9,215	98.29%	41	9,016	97.84%	143	252	2.73%
2010	9,045	97.99%	62	8,801	97.30%	139	261	2.89%
2009	8,553	97.92%	23	8,352	97.65%	109	257	3.00%
2008	7,657	97.53%	n/a	7,468	97.53%	90	221	2.89%

**Source: Bell County Appraisal District**

NOTE: Fiscal Year 2008 total collections already has the refund amount deducted.

**CITY OF HARKER HEIGHTS  
MUNICIPAL SALES TAX HISTORY  
LAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>Total Sales Tax Collected</b>	<b>Percentage of Ad Valorem Tax Levy<sup>1</sup></b>	<b>Equivalent of Ad Valorem Tax Rate<sup>2</sup></b>	<b>Per Capita<sup>3</sup></b>
2017	6,501,937	56.66%	\$ 0.3836	\$ 214.13
2016	6,451,743	57.62%	\$ 0.3901	\$ 207.94
2015	6,421,009	59.45%	\$ 0.4025	\$ 217.33
2014	6,012,836	58.78%	\$ 0.3979	\$ 207.70
2013	5,227,669	55.05%	\$ 0.3727	\$ 185.68
2012	5,420,826	57.41%	\$ 0.3886	\$ 196.02
2011	4,855,167	52.69%	\$ 0.3567	\$ 177.77
2010	4,780,090	52.85%	\$ 0.3578	\$ 179.03
2009	4,534,785	53.02%	\$ 0.3603	\$ 172.87
2008	3,342,350	43.65%	\$ 0.2967	\$ 130.66

**Sources:** <sup>1</sup>See the Schedule of Property Tax Levies and Collections (page 127) for tax levy data.

<sup>2</sup>See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property (page 124) for assessed value data.

<sup>3</sup>See the Schedule of Demographic and Economic Statistics (page 139) for population data.

**CITY OF HARKER HEIGHTS**  
**OWN SOURCE REVENUES<sup>1</sup>, SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**  
(amounts expressed in thousands except rates and meters)

Fiscal Year	Water & Sewer			Drainage			Special Assessments <sup>6</sup>	
	Program Revenues	Water Rate <sup>2</sup>	Sewer Rate <sup>3</sup>	Program Revenues	Residential Rate <sup>4</sup>	Commercial Rate <sup>5</sup>	Number of Water Meters	Billings Collected
2017	9,418	10.28 / 3.20	18.53 / 3.10	809	6.00	7.20 / 14.40	10,887	32 28
2016	9,353	10.28 / 3.20	18.53 / 3.10	797	6.00	7.20 / 14.40	10,638	30 18
2015	8,776	9.98 / 3.11	17.99 / 3.01	772	6.00	7.20 / 14.40	10,384	25 16
2014	8,588	9.98 / 3.11	17.99 / 3.01	775	6.00	7.20 / 14.40	10,006	36 5
2013	8,990	9.98 / 3.11	17.99 / 3.01	738	6.00	7.20 / 14.40	9,666	37 5
2012	9,099	9.98 / 3.11	17.99 / 3.01	729	6.00	7.20 / 14.40	9,740	49 5
2011	9,381	9.98 / 3.11	17.99 / 3.01	716	6.00	7.20 / 14.40	9,533	46 6
2010	7,635	9.50 / 2.96	17.13 / 2.87	706	6.00	7.20 / 14.40	9,474	46 1
2009	7,622	9.05 / 2.82	16.31 / 2.73	684	6.00	7.20 / 14.40	9,415	42 18
2008	7,072	8.62 / 2.69	15.53 / 2.60	557	5.00	6.00 / 12.00	9,043	61 2

**Source: Audited Financial Statements, Annual Fee Schedules, and Utility Reports.**

<sup>1</sup>The Sanitation Fund is not included because, although funds are received for this service, garbage collection is outsourced.

<sup>2</sup>Rates are for within City limits (base rate/per 1,000 gallon rate).

<sup>3</sup>Residential customers are capped at 10,000 gallons for sewer charges (First 3,000 gallons rate/3-10,000 gallons per gallon rate).

<sup>4</sup>Rate shown is for single family homes, fee is paid per billing cycle.

<sup>5</sup>Rates shown is for commercial buildings up to 2,500 square feet/2,501 to 10,000 square feet, our two largest categories. Fee is paid per billing cycle.

<sup>6</sup>The special assessment billings and collection amounts include the general and proprietary funds.



**CITY OF HARKER HEIGHTS  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
(amount expressed in thousands)**

Fiscal Year	Bonded Debt	Notes Payable	Capital Leases	Bonded Debt	Capital Leases	Total Outstanding Debt	Percentage of Personal Income <sup>1</sup>	Per Capita <sup>1</sup>
	<u>Governmental Activities</u>			<u>Business-type Activities</u>				
2017	24,911		416	19,985		45,312	n/a	1,510.40
2016	26,972		552	20,426		47,950	n/a	1,546.77
2015	28,586	69	571	21,513		50,739	0.29%	1,691.30
2014	29,512	138	185	22,413		52,248	0.32%	1,801.66
2013	25,054	205	322	20,397	54	46,032	0.29%	1,644.00
2012	26,485		107	21,552	106	48,250	0.30%	1,723.21
2011	28,220		243	22,246	156	50,865	0.32%	1,883.89
2010	24,127		241	20,316	204	44,888	0.30%	1,662.52
2009	24,934	81	462	21,322	251	47,050	0.32%	1,809.62
2008	19,428	131	647	13,731	5	33,942	0.23%	1,305.46

**Source: Audited Financial Statements**

<sup>1</sup>See the Schedule of Demographic and Economic Statistics (page 139) for population and personal income data.

**CITY OF HARKER HEIGHTS  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS  
(amount expressed in thousands)**

<b>Fiscal Year</b>	<b>Bonded Debt<sup>1</sup></b>	<b>Less: Amounts Available in Debt Service Fund<sup>2</sup></b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property<sup>3</sup></b>	<b>Per Capita<sup>4</sup></b>
2017	44,895	233	44,662	2.30%	1,488.73
2016	47,399	95	47,304	2.55%	1,525.94
2015	50,099	165	49,934	2.82%	1,664.47
2014	51,925	161	51,764	3.11%	1,784.97
2013	45,451	94	45,357	2.94%	1,619.89
2012	48,037	81	47,956	3.14%	1,712.71
2011	50,466	107	50,359	3.38%	1,865.15
2010	44,443	14	44,429	3.05%	1,645.52
2009	46,256	142	46,114	3.41%	1,773.62
2008	33,160	192	32,968	2.70%	1,268.00

**Source: Audited Financial Statements.**

<sup>1</sup>This is the general bonded debt of both governmental and business-type activities.

<sup>2</sup>This is the amount restricted for debt service.

<sup>3</sup>See Schedule of Assessed and Estimated Value of Property (page 124) for property data

<sup>4</sup>See Schedule of Demographic and Economic Statistics (page 139) for population data

**CITY OF HARKER HEIGHTS  
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT  
AS OF SEPTEMBER 30, 2017**

<b>Government Subdivisions</b>	<b>Debt Amount<sup>1</sup></b>	<b>Estimated Percentage Applicable</b>	<b>City's Overlapping Debt</b>
Bell County	\$ 127,695,000	9.71%	\$ 12,399,185
Killeen Independent School District	50,665,000	23.15%	11,728,948
Subtotal, overlapping debt			24,128,133
City of Harker Heights Direct Debt			45,311,703
Total direct and overlapping net funded debt			<u>\$ 69,439,836</u>

**Source: Municipal Advisory Council of Texas and Audited Financial Statements**

<sup>1</sup>Gross Debt. Some debt may be supported by other revenues and thus be considered self-supporting debt. Using gross debt may overstate the actual amount of debt supported by ad valorem taxes.

Methodology for Deriving Overlapping Percentages:

- (1) Determine the estimated shared assessed valuation of taxable property within both the overlapping taxing body(s) and the municipality.
- (2) Divide that shared value by the total assessed value of taxable property within the overlapping taxing body.

**CITY OF HARKER HEIGHTS  
COMPUTATION OF SELF-SUPPORTING DRAINAGE SYSTEM DEBT  
AS OF SEPTEMBER 30, 2017**

Net System Revenue from Water and Sewer Fund	\$9,197,500
Less: Requirements for Drainage System Supported Tax Bonds	<u>1,841,321</u>
Balance	\$7,356,179

**CITY OF HARKER HEIGHTS  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total Taxable Assessed Value</u>	<u>Taxable Assessed Value as a Percentage of Estimated Actual Value</u>	<u>Estimated Actual Taxable Value</u>
2017	1,695,035,525	87.36%	1,940,293,154
2016	1,653,988,247	89.13%	1,855,709,426
2015	1,595,264,164	90.23%	1,767,980,435
2014	1,511,051,500	90.75%	1,665,136,834
2013	1,402,628,754	90.81%	1,544,608,859
Total Five Year Valuation			<u>8,773,728,708</u>
Five Year Average Full Valuation of Taxable Real Property			<u>1,754,745,742</u>
Constitutional Debt Limit (7% of Average Full Valuation)			<u>122,832,202</u>
Outstanding Indebtness as of September 30, 2017			
Total Bonded Debt			48,625,001
Less: Revenue bonds			19,357,225
Less: Amount available for repayment of general obligation bonds			190,693
Net indebtness subject to debt limit			<u>29,077,083</u>
Net debt contracting margin			93,755,119
Percentage of net debt contracting margin available			76.33%
Percentage of net debt contracting power exhausted			23.67%

**Last Ten Fiscal Years**

<u>Year</u>	<u>Constitutional Debt Limit</u>	<u>Outstanding Indebtness September 30</u>	<u>Percentage of Net Debt Contracting Margin Available</u>
2017	122,832,202	29,077,083	76.33%
2016	117,044,096	26,074,077	77.72%
2015	111,899,806	27,697,306	75.25%
2014	107,541,872	29,487,215	72.58%
2013	103,162,838	25,072,017	75.70%
2012	98,614,432	26,524,950	73.10%
2011	92,101,940	28,209,000	69.37%
2010	83,145,606	24,227,000	70.86%
2009	72,864,154	24,958,000	65.75%
2008	63,171,483	19,406,000	69.28%

**CITY OF HARKER HEIGHTS  
PLEGGED-REVENUE COVERAGE  
LAST TEN FISCAL YEARS  
(amounts expressed in thousands)**

Fiscal Year	Water and Sewer Fund			Drainage Fund			Debt Service Requirements			
	Gross Revenues	Operating Expenses <sup>1</sup>	Net Revenue Available for Debt Service	Gross Revenues	Operating Expenses <sup>1</sup>	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
2017	9,418	5,227	4,191	809	202	607	1,315	677	1,992	2.41
2016	9,353	4,996	4,357	797	188	609	5,884	707	6,591	0.75
2015	8,776	5,201	3,575	772	180	592	1,216	791	2,007	2.08
2014	8,588	4,911	3,677	775	183	592	1,019	800	1,819	2.35
2013	8,988	4,925	4,063	738	204	534	1,171	814	1,985	2.32
2012	9,098	4,719	4,379	729	165	564	4,101	912	5,013	0.99
2011	9,381	4,875	4,506	716	189	527	1,133	405	1,538	3.27
2010	7,635	4,497	3,138	706	192	514	1,073	934	2,007	1.82
2009	7,622	4,415	3,207	684	181	503	932	718	1,650	2.25
2008	7,072	4,240	2,832	557	155	402	737	630	1,367	2.37

**Source: Audited Financial Statements.**

<sup>1</sup>Total operating expenses, exclusive of depreciation.

**CITY OF HARKER HEIGHTS  
INTEREST AND SINKING FUND BUDGET PROJECTION  
AS OF SEPTEMBER 30, 2017**

Net Tax Supported Debt Service Requirements for Fiscal Year Ending September 30, 2017		\$	4,754,468
Interest and Sinking Fund Balance - September 30, 2016	96,890		
Budgeted Transfers	1,991,979		
Interest and Fund Tax Levy @ 98% Collection	<u>2,618,599</u>		<u>4,707,468</u>
Estimated Interest and Sinking Balance - September 30, 2017		\$	47,000

**CITY OF HARKER HEIGHTS  
 AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS  
 AS OF SEPTEMBER 30, 2017**

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Previously Issued</u>	<u>Authorization Being Used</u>	<u>Unissued Balance</u>
Gas System	11/15/1962	\$ 245,000			\$ 245,000
Streets	09/10/1963	300,000	250,000		50,000
Total		<u>\$ 545,000</u>	<u>\$ 250,000</u>		<u>\$ 295,000</u>



**CITY OF HARKER HEIGHTS  
TAX ADEQUACY  
AS OF SEPTEMBER 30, 2017**

Average Annual Principal and Interest Requirements, 2017-2037	\$ 1,921,296
\$0.1166 Tax Rate at 97% Collection Produces	\$ 1,922,475
Maximum Principal and Interest Requirements, 2023	\$ 2,948,108
\$0.1789 Tax Rate at 97% Collection Produces	\$ 2,949,663

**CITY OF HARKER HEIGHTS  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**

Fiscal Year	Population <sup>1</sup>	Median Age <sup>2</sup>	Per Capita Income <sup>3</sup>	Personal Income <sup>3</sup>	Education Attainment, 25 Years and Over <sup>2</sup>		Peak School Enrollment <sup>4</sup>	Unemployment Rate <sup>5</sup>
					High School Graduate or Higher	Four or More Years of College		
2017	30,365		n/a	n/a			43,832	4.2%
2016	31,027		n/a	n/a			43,428	4.5%
2015	29,545		40,237	17,343,480			42,929	4.7%
2014	28,950		38,786	16,489,760			41,414	5.6%
2013	28,154		37,862	16,016,380			41,969	6.9%
2012	27,654		38,556	16,196,150			41,172	7.2%
2011	27,312		38,699	15,970,160			40,609	7.6%
2010	26,700	31.6	37,048	15,128,210	90.70%	27.50%	40,463	7.2%
2009	26,232		37,536	14,840,670			39,964	5.5%
2008	25,581		36,835	14,447,870			38,761	4.3%

**Sources:** <sup>1</sup> Population is estimated by the City of Harker Heights Planning Department with the exception of the 2010 data which is from Census 2010.

<sup>2</sup> Census 2010.

<sup>3</sup> Texas Workforce Commission information for Killeen-Temple Metropolitan Statistical Area. Personal income is shown in thousands.

<sup>4</sup> Killeen Independent School District.

<sup>5</sup> Texas Workforce Commission information for Harker Heights.

**CITY OF HARKER HEIGHTS  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO**

Employer	2017			2008		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Killeen Independent School District <sup>1</sup>	722.0	1	5.99%	759.0	1	6.98%
Wal-Mart Supercenter	537.0	2	4.46%	532.0	2	4.89%
City of Harker Heights	273.0	3	2.27%	218.0	5	2.01%
HEB Store	243.0	4	2.02%	225.0	4	2.07%
Indian Oaks	186.0	5	1.54%	250.0	3	2.30%
Target	155.0	6	1.29%	150.0	6	1.38%
Cheddar's Restaurant	140.0	7	1.16%			
Cracker Barrel	101.0	8	0.84%			
Razzoo's Cajun Café	76.0	9	0.63%			
McDonald's Restaurant	58.0	10	0.48%	62.0	7	0.57%
Pizza Hut				50.0	8	0.46%
Cooper & Bright Plumbing				48.0	9	0.44%
Furniture Row				44.0	10	0.40%
	<u>2,491.0</u>		<u>20.68%</u>	<u>2,338.0</u>		<u>21.50%</u>

**Source: Human Resource Department (or person) of each business.**

<sup>1</sup>Killeen Independent School District numbers only include campuses in Harker Heights.

**CITY OF HARKER HEIGHTS  
PRINCIPAL WATER CUSTOMERS  
CURRENT YEAR AND NINE YEARS AGO  
(usage shown in thousands)**

Customer Name	2017			2008		
	Usage In Gallons	Rank	Percentage of Total Usage	Usage In Gallons	Rank	Percentage of Total Usage
Pleasant View Mobile Home Park	91,120	1	5.93%			0.00%
Ancient Oaks Mobile Home Park	84,373	2	5.49%	101,659	1	6.81%
Big Oaks Mobile Home Park	81,243	3	5.29%	90,482	2	6.06%
Seton Medical Center	80,324	4	5.23%			
Harker Heights High School	68,588	5	4.47%	79,039	3	5.29%
Indian Oaks Nursing Center	66,316	6	4.32%	76,855	4	5.14%
Today's Car Wash II, LLC	59,289	7	3.86%			
Wells Laundry, Inc.	49,699	8	3.24%	47,133	5	
Cracker Barrel Old Country Store	31,996	9	2.08%			
Cheddar's Casual Café, Inc.	31,466	10	2.05%			
Wal-Mart Store #01-3319				36,942	6	
Cinco DQ, Inc.				36,260	7	
Lions Run Apartments				35,602	8	
Harker Heights High School				29,374	9	
Woodlawn Trailer Park				23,150	10	
	644,414		41.96%	556,496		23.30%

**Source: City of Harker Heights Public Works Department and Utility Billing Department.**

**CITY OF HARKER HEIGHTS**  
**PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS**  
**LAST TEN FISCAL YEARS**  
(amounts expressed in thousands)

Fiscal Year	Property Value <sup>1</sup>			Total	Commercial Construction <sup>2</sup>		Residential Construction <sup>2</sup>		Bank Deposits <sup>4</sup>
	Commercial	Residential	Exemptions		Number of Units <sup>3</sup>	Value	Number of Units <sup>3</sup>	Value	
2017	362,632	1,513,435	240,147	1,635,920	10	3,338	194	47,456	1,345,469,011 <sup>(c)</sup>
2016	360,466	1,432,212	197,181	1,595,497	6	2,688	201	48,340	1,258,120,955 <sup>(c)</sup>
2015	338,112	1,367,445	169,171	1,536,386	8	20,715	209	45,616	1,251,135,124 <sup>(c)</sup>
2014	288,694	1,313,510	149,488	1,452,716	10	15,887	221	46,070	1,190,961,291 <sup>(c)</sup>
2013	223,105	1,257,787	137,688	1,343,204	9	21,801	219	45,655	1,081,249,810 <sup>(c)</sup>
2012	213,902	1,250,016	127,787	1,336,131	41	12,329	184	41,389	1,045,296,830 <sup>(b)</sup>
2011	212,744	1,212,457	122,373	1,302,828	34	112,383	113	24,058	999,452,924 <sup>(b)</sup>
2010	209,511	1,181,173	116,507	1,274,177	27	8,638	188	35,936	842,872,885 <sup>(b)</sup>
2009	151,564	1,135,363	86,790	1,200,137	31	8,665	156	30,024	1,840,455 <sup>(a)</sup>
2008	135,163	1,021,406	83,360	1,073,209	62	29,854	270	52,979	1,686,403 <sup>(a)</sup>

**Sources:** <sup>1</sup>Bell County Appraisal District

<sup>2</sup>Harker Heights Planning and Development Department

<sup>3</sup>Amounts are as shown

<sup>4</sup>FDIC Call Report for (a) Extraco Bank, Union State Bank and First National Bank Texas, (b) add Chase Bank and Bank of America, and (c) add First State Bank Central Texas

**CITY OF HARKER HEIGHTS**  
**FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**

As of September 30,

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>General Government:</b>										
Mayor and Council	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Municipal Services	36.5	33.5	31.5	26.5	26.5	26.5	26.0	26.0	25.0	24.5
Planning and Building	9.0	9.0	9.0	9.0	9.0	8.0	8.0	8.0	8.0	7.0
<b>Public Safety:</b>										
Police	61.0	61.0	60.0	62.0	62.0	62.0	61.0	61.0	59.0	56.0
Fire	44.5	44.5	44.5	43.5	43.5	43.5	43.5	43.5	38.5	36.5
Streets	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
<b>Culture and Recreation:</b>										
Parks and Recreation	46.0	47.5	47.5	47.5	46.0	45.0	45.0	43.0	43.0	35.0
Library	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	6.5
Public Works	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Water and Sewer	18.0	18.0	18.0	17.0	17.0	16.0	16.0	16.0	16.0	15.0
Drainage	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Sanitation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0
<b>Total</b>	<b>249.5</b>	<b>248.0</b>	<b>245.0</b>	<b>240.0</b>	<b>238.5</b>	<b>235.5</b>	<b>234.0</b>	<b>232.0</b>	<b>224.0</b>	<b>203.5</b>

**Source: City of Harker Heights Finance Department**

**CITY OF HARKER HEIGHTS  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Planning and Building										
Building Permits Issued	1,518	2,109	2,386	4,665	1,763	1,502	1,479	1,796	1,811	2,091
Value of Building Permits <sup>1</sup>	59,557	75,212	79,598	96,333	75,077	59,115	144,518	50,070	44,377	92,218
Police										
Physical Arrest	1,168	2,386	1,173	1,496	1,320	1,593	1,528	1,493	1,552	1,969
Parking Violations	43	27	42	27	58	139	30	0	3	19
Traffic Violations	4,127	2,979	3,916	8,800	8,800	8,776	7,989	7,282	7,626	8,727
Fire										
Calls Answered	3,970	3,930	4,049	3,547	3,627	3,643	3,405	3,137	2,818	2,763
Fire and Emergency Responses	3,858	3,823	3,931	3,469	3,558	3,582	3,300	3,042	2,964	2,715
Fires Extinguished	100	82	103	133	91	111	193	116	134	197
Inspections	500	444	600	800	933	540	561	514	552	678
Parks and Recreation										
Aquatic Center Usage	11,953	14,469	20,443	12,470	12,773	13,069	15,498	12,420	15,086	16,458
Program Participants	7,026	8,058	8,118	7,933	9,948	9,497	8,780	7,157	5,994	5,418
Library										
Annual Circulation	164,372	176,788	199,529	166,256	165,405	152,117	146,130	131,477	101,194	76,002
Water and Sewer										
Average daily water consumption in gallons <sup>1</sup>	4,207	4,163	4,000	3,954	4,325	4,534	4,940	3,770	4,390	4,093
Residential water rate - inside city limits										
Base	\$10.28	\$10.28	\$9.98	\$9.98	\$9.98	\$9.98	\$9.98	\$9.98	\$9.05	\$8.62
Per 1,000 gallons	\$3.20	\$3.20	\$3.11	\$3.11	\$3.11	\$3.11	\$3.11	\$3.11	\$2.82	\$2.69
Residential water rate - outside city limits										
Base	\$20.56	\$20.56	\$19.96	\$19.96	\$19.96	\$19.96	\$19.96	\$19.96	\$18.10	\$17.24
Per 1,000 gallons	\$6.40	\$6.40	\$6.22	\$6.22	\$6.22	\$6.22	\$6.22	\$6.22	\$5.64	\$5.38
Average daily sewage treatment in gallons <sup>1</sup>	1,990	2,780	1,940	1,790	1,880	1,760	1,900	1,800	1,700	1,700
Residential sewer rates - inside city limit:										
1,000 - 3,000 gallons	\$18.53	\$18.53	\$17.99	\$17.99	\$17.99	\$17.99	\$17.99	\$17.99	\$16.31	\$15.53
Per 1,000 gallons (3,000 - 10,000 gallons)	\$3.10	\$3.10	\$3.01	\$3.01	\$3.01	\$3.01	\$3.01	\$3.01	\$2.73	\$2.60
Residential sewer rates - outside city limit:										
1,000 - 3,000 gallons	\$37.06	\$37.06	\$35.98	\$35.98	\$35.98	\$35.98	\$35.98	\$35.98	\$32.62	\$31.06
Per 1,000 gallons (3,000 - 10,000 gallons)	\$6.20	\$6.20	\$6.02	\$6.02	\$6.02	\$6.02	\$6.02	\$6.02	\$5.46	\$5.20

NOTE: The City of Harker Heights was incorporated in 1961 as a Home Rule form of government

Source: Various City of Harker Heights departments.

<sup>1</sup> expressed in thousands

**CITY OF HARKER HEIGHTS  
CAPITAL ASSETS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Area (square miles)	15.65	15.65	15.4	15.4	15.4	15.4	15.4	15.24	15.23	14.2
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Cars	21	20	20	20	17	17	33	38	38	38
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Fire Trucks	5	5	5	5	5	5	5	5	5	3
Ambulances	3	3	3	3	3	3	3	3	3	3
Command Van	1	1	1	1	1	1	1	1	1	1
Street (miles)	145.3	145.4	145.64	140	140	166.49	164.65	175	170.26	132
Street lights	1,480	1,470	1,445	1,438	1,379	1,262	1,275	1,250	1,211	1,154
Parks and Recreation										
Recreation/community center	1	1	1	1	1	1	1	1	1	1
Parks	8	8	8	8	7	6	8	7	10	8
Acreage	194	194	194	194	194	177	194	230	230	230
Baseball/softball diamonds	9	9	9	9	9	8	9	8	6	3
Soccer/football fields	6	6	6	6	6	6	6	6	6	3
Swimming pools	1	1	1	1	1	1	1	1	1	1
Library/Activity Center Building	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	183.77	187.1	179.13	177.55	172.66	171.13	168.06	171.48	171.48	153
Service connections	10,887	10,638	10,384	10,006	9,666	9,740	9,533	9,445	9,415	9,043
Fire hydrants	1,181	1,102	1,102	1,101	1,090	1,080	1,060	1,050	980	885
Maximum daily capacity	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	10,000,000	13,500,000	13,500,000	13,500,000
Sewer										
Sanitary sewer (miles)	132.07	131.33	130.36	125.92	121.43	120.62	116.97	116.84	117.64	117
Service connections	9,486	9,228	8,959	8,842	8,586	8,580	8,314	8,286	8,257	8,199
Storm sewer (miles)	9.6	9.5	9.5	9.5	9.0	9.0	8.5	8.0	8.0	7.0
Treatment capacity (gallons)	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000

**Source: Various City of Harker Heights departments.**



**CITY OF HARKER HEIGHTS  
WATER USAGE (GALLONS)  
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Peak Day Usage</u>	<u>Average Day Usage</u>	<u>Total Usage</u>
2017	8,090,000	4,207,136	1,535,605,000
2016	9,040,000	4,162,500	1,489,060,000
2015	9,250,000	4,105,833	1,484,095,000
2014	8,070,000	4,006,667	1,443,064,000
2013	9,340,000	4,237,500	1,566,775,000
2012	8,530,000	4,530,000	1,655,008,000
2011	8,930,000	4,944,658	1,804,800,000
2010	7,700,000	3,900,000	1,412,700,000
2009	8,300,000	4,400,000	1,591,960,000
2008	6,450,000	4,092,630	1,493,810,000





**YELLOW BOOK  
AUDIT**



**LOTT, VERNON & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

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Certified Public Accountants

**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 Mayor and  
Members of the City Council  
City of Harker Heights, 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, each major fund, and the aggregate remaining fund information of City of Harker Heights (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated February 2, 2018.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

### Purpose of this Report

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

A handwritten signature in cursive script that reads "Jett, Neuman & Co., P.C.".

Killeen, Texas

February 2, 2018