

THE CITY OF HARKER HEIGHTS, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDING SEPTEMBER 30, 2014

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

OF THE

CITY OF HARKER HEIGHTS

For the Fiscal Year Ended September 30, 2014

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, 2014

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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
Rob Robinson

Mayor Protem
Hal Schiffman

City Council
Sam Murphey
Pat Christ
John Reider
Spencer H. Smith

March 10, 2015

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, 2014.

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, 2014, 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 unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2014, 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 15.4 square miles and serves a population of approximately 28,950. 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 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 2014, the average unemployment rate for Harker Heights was 5.5%, a decrease from a rate of 6.7% in 2013. This is slightly lower than the average rate for Bell County of 5.9 % and higher than the state average of 5.2%.

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 2014	Fiscal Year 2013	Difference
Fence	\$879,401	\$880,972	(\$1,571)
Home Improvement/Other	33,453,949	6,585,532	26,868,417
New Commercial	15,887,017	21,801,016	(5,913,999)
New Residence	46,069,899	45,654,915	414,984
Plumbing	28,360	141,246	(112,886)
Total:	\$96,318,626	\$75,063,681	\$21,254,945

Building permits are up significantly from the prior year in the home improvement/other category due primarily to the purchase of permits for reroofing of homes after a hail storm hit the Central Texas area in March 2014. Residential permits show an increase because of the continued building in residential subdivisions, such as Tuscan Meadows and Evergreen Estates.

Long-Term Financial Planning

In 2014, the City issued the Series 2014 Combination Tax and Revenue Certificates of Obligation in the amount of \$9.0 million to fund water system improvements; sewer system improvements; 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 associated with these projects..

Capital improvements are budgeted at over \$13.4 million which include various water and sewer improvements, street projects, building expansion/renovation, and various park improvements. Series 2015 General Obligation Refunding Bonds as an advance refund for the Series 2006 Combination Tax and Utility System Revenue Certificates of Obligation.

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 2013-14, the general fund had just under a six month fund balance or 48% of operating expenditures. The Utility Fund had an eight month fund balance or 72% 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

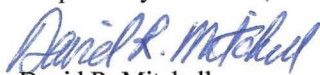
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Harker Heights for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2013. This was the nineteenth consecutive year that 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, 2013. 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**

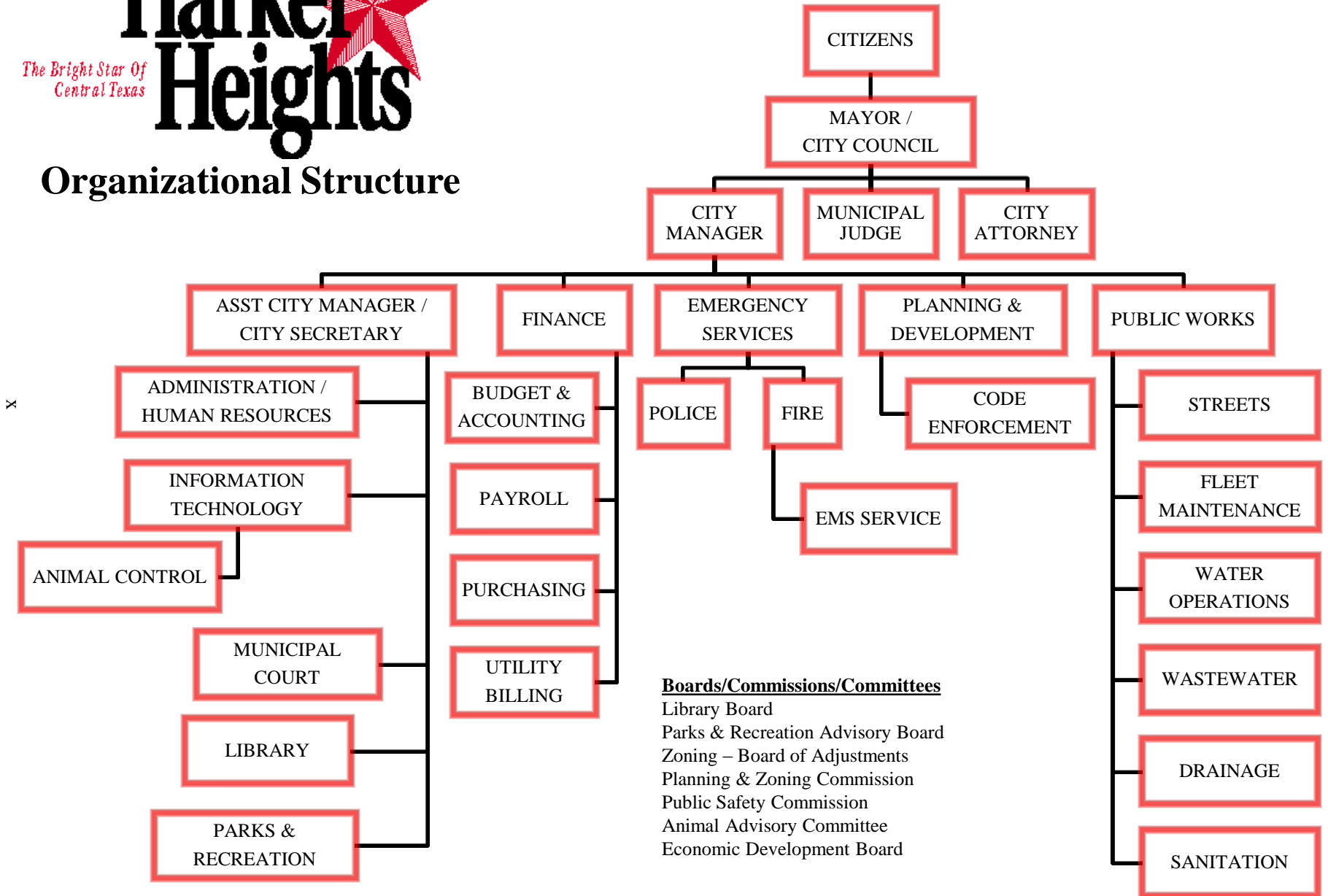
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO



Organizational Structure



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

CITY COUNCIL

Rob RobinsonMayor
Hal Schiffman Mayor Protempore
Sam Murphey Council Member
Pat Christ..... Council Member
John Reider Council Member
Spencer Smith Council Member

APPOINTED OFFICIALS

David R. Mitchell City Manager
Burk Roberts City Attorney
Tony Kosta..... City Judge
Patricia Brunson..... Assistant City Manager/City Secretary
Alberta Barrett Finance Director
Michael Gentry Police Chief
Jack Collier Fire Chief
Jerry Bark.....Parks & Recreation Director
Lisa Youngblood..... Library Director
Mark Hyde Public Works Director
Joseph Molis Interim Development & Planning Director



FINANCIAL SECTION



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

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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, and the aggregate remaining fund information of City of Harker Heights, Texas, as of and for the year ended September 30, 2014, 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, and the aggregate remaining fund information of the City of Harker Heights, Texas, as of September 30, 2014, 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 required supplementary information, 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 January 28, 2015, 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
January 28, 2015

City of Harker Heights, Texas
Management's Discussion and Analysis
September 30, 2014

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, 2014. 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 of the City of Harker Heights exceeded its liabilities at the close of the fiscal year ending September 30, 2014 by \$66.3 million (*net position*). Of this amount, \$11.5 million is restricted for capital projects.
- The City's total net position increased by \$2.6 million for the year ended September 30, 2014. The majority of the increase in net position can be attributed to increases in appraised property values, licenses and permits, other taxes, and the issuance of \$9.0 million in certificates of obligation.
- As of the September 30, 2014, the City of Harker Heights' governmental funds reported combined ending fund balances of \$25.5 million, an increase of \$9.2 million in comparison with the prior year. This increase is a result of the issuance of \$6.0 million in certificates of obligation during 2014. Of the governmental funds reported combined fund balances, \$13.3 million or 52.3 percent is available for spending within the City's guidelines (*unassigned fund balance*).
- At fiscal year end, the general fund unassigned fund balance was \$9.5 million, or 53.5 percent of total general fund expenditures. An increase in revenues, as described in the second paragraph, along with maintaining expenditures during the year is the result of this increase.
- Residential growth overall has seen a slight increase. Single family permits decreased by 9 permits with a decreased value of \$1.5 million. Two family residential permits, however, have increased by 11 with an increased value of \$2.0 million. New commercial permits also decreased by \$5.9 million in value.
- The Evergreen Elevated Storage Tank in the amount of \$1.4 million was completed during the year. Also, the City completed several wastewater projects.
- During this fiscal year, the City completed the westbound U-turn at US 190 and FM 2410 in the amount of \$2.4 million.
- Various park improvement projects were completed during the year. The City also completed \$316 in residential drainage projects.

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

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City 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

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

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, drainage utility, and sanitation.

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 73-74 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 76-118 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 exceeded liabilities by \$66.3 million at the close of the most recent fiscal year.

A portion of the City of Harker Heights' net position (18 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	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$27,869	\$18,337	\$4,331	\$5,115	\$32,200	\$23,452
Capital assets	46,041	46,373	45,031	42,597	91,072	88,970
Total assets	<u>73,910</u>	<u>64,710</u>	<u>49,362</u>	<u>47,712</u>	<u>123,272</u>	<u>112,422</u>
Long-term liabilities						
outstanding	29,523	24,787	21,301	19,514	50,824	44,301
Other liabilities	4,507	3,889	1,654	1,430	6,161	5,319
Total liabilities	<u>34,030</u>	<u>28,676</u>	<u>22,955</u>	<u>20,944</u>	<u>56,985</u>	<u>49,620</u>
Net position:						
Invested in capital assets, net of related debt	24,342	23,247	25,969	25,078	50,311	48,325
Restricted	12,001	4,920	54	33	12,055	4,953
Assigned	179	146			179	146
Unrestricted	3,358	7,721	384	1,657	3,742	9,378
Total net position	<u>\$39,880</u>	<u>\$36,034</u>	<u>\$26,407</u>	<u>\$26,768</u>	<u>\$66,287</u>	<u>\$62,802</u>

An additional portion of the City of Harker Heights' net position (76 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

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

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. The remaining balance of *unrestricted net position* \$3.7 million may be used to meet the government's ongoing obligations to citizens and creditors.

Total net position for the City of Harker Heights reflects a \$3.2 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	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$2,749	\$2,454	\$11,189	\$11,552	\$13,938	\$14,006
Operating grants and contributions	66	477			66	477
Capital grants and contributions						
General revenues:						
Property taxes	10,051	9,189			10,051	9,189
Sales taxes	6,186	5,232			6,186	5,232
Other taxes	294	283			294	283
Franchise fees	1,312	1,265	140	137	1,452	1,402
Investment earnings	132	40	10	13	142	53
Gain on sale of capital assets	12	9			12	9
Total revenues	20,802	18,949	11,339	11,702	32,141	30,651
Expenses:						
General government	2,862	3,247			2,862	3,247
Public safety	11,137	10,553			11,137	10,553
Highways/streets	1,828	1,734			1,828	1,734
Culture and recreation	3,077	2,932			3,077	2,932
Economic development	538	483			538	483
Interest on long-term debt	1,214	1,094			1,214	1,094
Water and sewer			6,397	6,088	6,397	6,088
Sanitation			1,577	1,535	1,577	1,535
Drainage			304	325	304	325
Total expenses	20,656	20,043	8,278	7,948	28,934	27,991
Increase (decrease) in net position before transfers	146	(1,094)	3,061	3,754	3,207	2,660
Transfers	3,483	928	(3,483)	(928)		
Increase (decrease) in net position	3,629	(166)	(422)	2,826	3,207	2,660
Net position (beginning of year as restated see Note V.8 on page 70-71)	36,034	36,200	26,768	23,942	62,802	60,142
Net position (end of year)	\$39,880	\$36,034	\$26,407	\$26,768	\$66,287	\$62,802

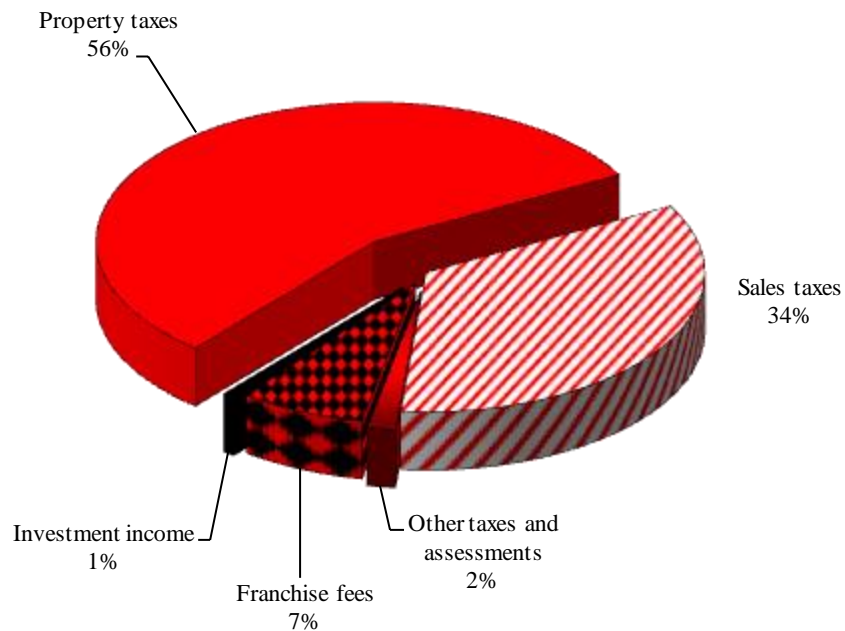
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

Governmental activities. The City's general revenues increased when compared to the prior year by 12.3 percent or \$1,969. The major increase was due to a \$954 increase in sales tax revenues and an \$822 increase in property tax revenues. Franchise fees, investment income and other taxes had a slight increase of \$150.

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

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)
Governmental activities			
Property taxes	\$10,051	\$9,189	\$862
Sales taxes	6,186	5,232	954
Other taxes and assessments	294	283	11
Franchise fees	1,312	1,265	47
Investment income	132	40	92
Gain on sale of capital assets	12	9	3
Total governmental activities	\$17,987	\$16,018	1,969

**General Revenues for the Year Ended
September 30, 2014**



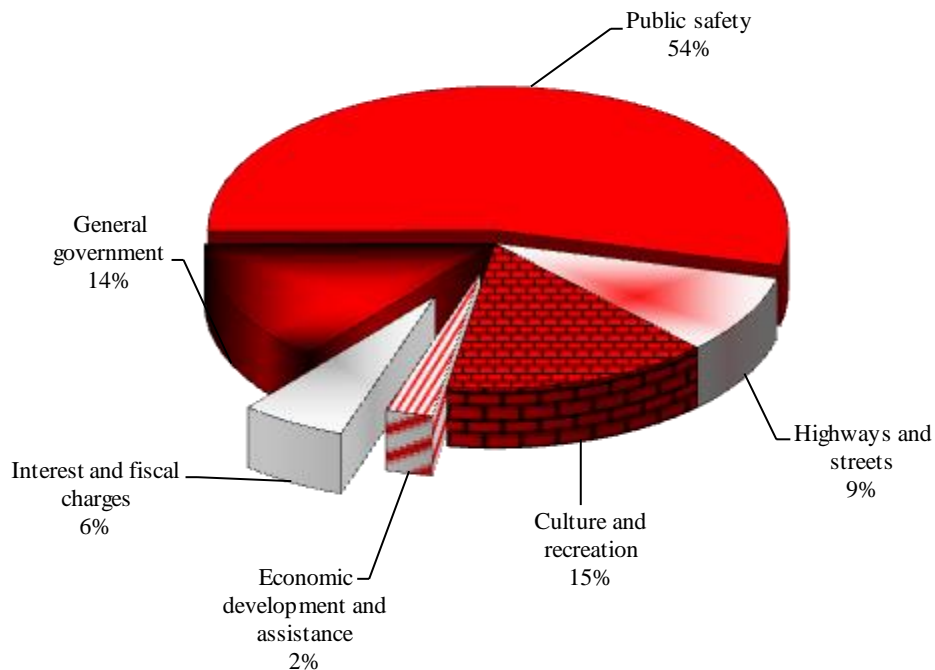
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$11.1 million. These expenses were offset by revenues collected from a variety of sources, with the largest consisting of court fines of \$1.4 million, property taxes which are \$10.1 million and sales tax revenues of \$6.2 million for the fiscal year ending September 30, 2014. The major components of public safety are Police, Fire and Emergency Medical Services (EMS). Police accounted for \$5.3 million in public safety expense of which \$4.2 million was incurred for salary and benefits. Fire and EMS accounted for \$3.6 million in public safety expense, of which \$3.3 million was incurred for salary and benefits.

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

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)
Governmental activities			
General government	\$2,862	\$3,248	(\$386)
Public safety	11,137	10,553	\$584
Highways and streets	1,828	1,734	\$94
Culture and recreation	3,077	2,932	\$145
Economic development and assistance	538	483	\$55
Interest and fiscal charges	1,214	1,094	\$120
Total governmental activities	\$20,656	\$20,044	\$612

**Governmental Expenditures for the Year Ended
September 30, 2014**



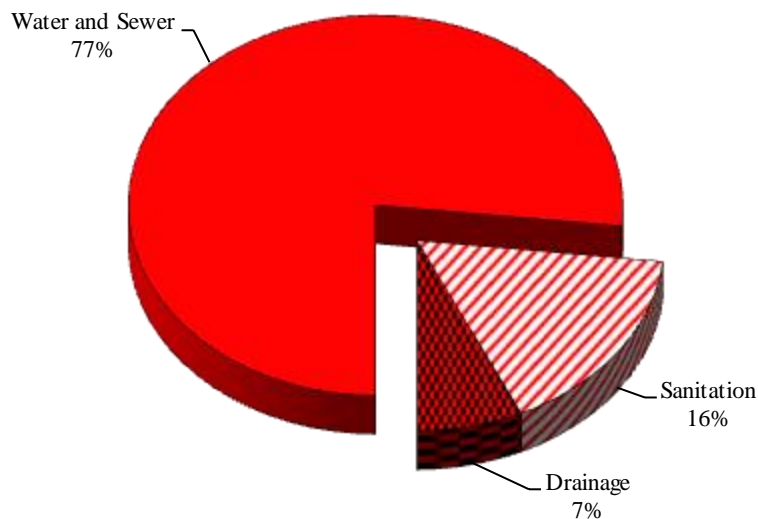
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

Business-type activities. Business-type activities decreased the City of Harker Heights' net position by \$(422). Revenues of the City's business-type activities were \$11.1 million for the fiscal year ending September 30, 2014.

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

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)
Water and Sewer	\$8,588	\$8,990	(\$402)
Sanitation	1,826	1,825	1
Drainage	775	738	37
	<u>\$11,189</u>	<u>\$11,553</u>	<u>(\$364)</u>

**Business Type Revenues for the Year Ended
September 30, 2014**



Water and Sewer rates did not increase for FY 2013-14 and the City saw growth but that was offset with heavy rainfall during the year. Sanitation revenues remained constant. Drainage income increased by \$37 or by 5.0 percent which is due to overall growth in the City.

Expenses for the City's business-type activities were \$8.3 million for the year, resulting in net revenues of \$2.9 million and a change in net position of \$(422). The changes in net position are the result of several factors, including the following:

- The City recorded charges for services of \$8.6 million from the water and sewer system. The most significant expenses were \$2.4 million to purchase water and \$1.1 million in salaries and benefits.
- Sanitation services are contracted out. Total revenue equaled \$2.0 million with the majority of the revenue from collections for sanitation services of \$1.8 million; the major expense for sanitation is \$1.5 million in contractual services.

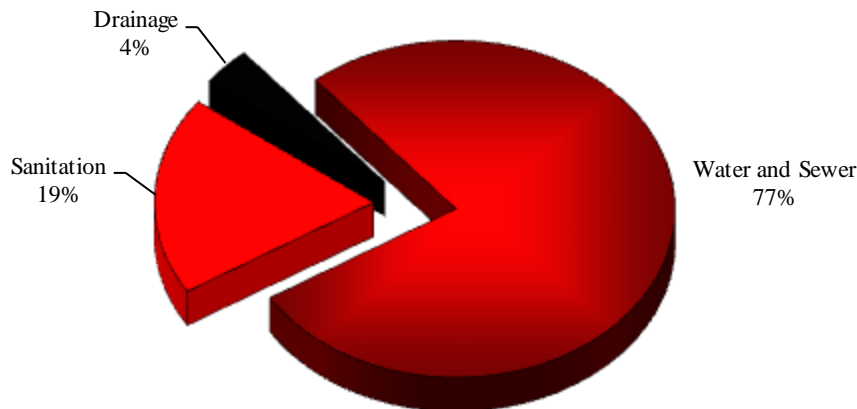
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

- Drainage revenues totaled \$741 in charges for services. The major operating expenses include salaries and benefits of \$121.

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

	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease)
Water and Sewer	\$6,397	\$6,088	\$309
Sanitation	1,577	1,536	41
Drainage	304	325	(21)
	<u>\$8,278</u>	<u>\$7,949</u>	<u>\$329</u>

**Business Type Expenses for the Year Ended
September 30, 2014**



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 \$25.5 million, an increase of \$9.2 million in comparison with the prior year. Approximately 52 percent or \$13.3 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 (\$106), 2) capital assets (\$11.5 million) related to the bond issue, 3) federal or state grant restrictions (\$407), 4) cemetery (\$18), and assigned to 5) other (\$179).

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

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 \$9.5 million, while total fund balance reached \$9.7 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 54 percent of total general fund expenditures, while total fund balance represents 55 percent of that same amount. The fund balance of the City of Harker Heights' general fund has increased by \$1.3 million during the current fiscal year. Key factors for this increase are more sales tax revenues, more property tax revenue, an increase in fine collections, and maintaining expenditures.

The debt service fund has a total fund balance of \$106, all of which is restricted for the payment of debt service.

The capital projects fund balance is \$15.3 million of which \$11.5 million is restricted for capital improvement projects financed by bonded debt. This fund had a \$7.9 million increase in fund balance from the previous year. During this past fiscal year, the City completed street projects of \$2.4 million, park projects of \$72, drainage projects of \$586, and \$2.9 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 \$26.4 million, a slight decrease of \$(360) in comparison with the prior year. Unrestricted net position totals \$384. A total of \$26.0 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 \$125 while total net position was \$22.4 million. Total net position for the water and sewer fund have decreased by \$898 during the current fiscal year.

The sanitation fund has total net position of \$225, a decrease of \$10 from the prior year. The majority of this decrease is due to an increase in due to other funds.

Drainage fund reflects a liability of \$1.7 million for capital improvements and total net position in the drainage utility system of \$3.8 million.

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$12.7 million compared to the budget amount of \$17.9 million. The \$242 positive variance is mainly due to all departments holding expenses steady.

For FY 2013-14, actual revenues were \$18.3 million as compared to the budget amount of \$17.1 million. The majority of the \$1.2 million positive variance was due to more licenses and permits, an increase of \$495 in sales tax and other tax revenues, and \$235 in property tax revenues.

The City of Harker Heights has an actual General Fund balance of \$9.7 million as of the fiscal year end, compared to the budgeted fund balance of \$7.5 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, 2014, amounts to \$91,072 (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 (zero percent increase for governmental activities and a 2.0 percent increase for business-type activities) and is attributed to the following:

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

- The majority of the capital asset increase is in infrastructure. Infrastructure increased in governmental activities by \$2.0 million bringing the previous year total of \$17.7 million to \$19.7 million. This is primarily due to the completion of the westbound U-turn at US 190 and FM 2410.
- Infrastructure in business-type activities increased by \$2.6 million bringing the previous year total of \$37.4 million to \$40.0 million. The majority of the increase is the completion of the Evergreen Elevated Storage Tank, Iron Jacket drainage project, and miscellaneous sewer projects.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$15,513	\$15,197	\$279	\$279	\$15,792	\$15,476
Buildings and lift stations	7,821	8,453	1,691	1,669	9,512	10,122
Improvements other than buildings	95	65	8	9	103	74
Furniture and fixtures	191	253			191	253
Machinery and equipment	1,068	1,141	308	335	1,376	1,476
Vehicles	952	1,138	153	123	1,105	1,261
Infrastructure	19,697	17,714	39,977	37,375	59,674	55,089
Construction in progress	704	2,412	2,615	2,807	3,319	5,219
Total	\$46,041	\$46,373	\$45,031	\$42,597	\$91,072	\$88,970

Additional information on the City of Harker Heights' capital assets can be found in note IV.3 on pages 43-47 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 2014, Standard & Poor's considers the City's economy to be strong which is aided by access to the broad and diverse economy of the Killeen-Temple MSA and the stabilizing presence of Fort Hood. 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	
	2014	2013	2013	2013	2014	2013
General obligation bonds	\$3,541	\$4,098	\$3,490	\$3,865	\$7,031	\$7,963
Certificates of obligation	25,971	20,956	18,924	16,532	44,895	37,488
Capital leases payable	185	323		54	185	377
Note payable	138				138	
Compensated absences	703	678	38	38	741	716
Net pension obligation	707	652	54	49	761	701
Net other postemployment benefit obligation	399	238	44	27	443	265
Total	\$31,644	\$26,945	\$22,550	\$20,565	\$54,194	\$47,510

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2014**

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 \$107.5 million which is \$78.0 million more than the City's outstanding indebtedness of \$29.5 million.

Additional information on the City of Harker Heights' long-term debt can be found in note IV.6 on pages 49-61 of this report.

Economic Factors and Next Year's Budgets and Rates

The annual unemployment rate for Harker Heights in 2013 was 6.7% which is a decrease of 0.2% from a rate of 6.9% in 2012. This is lower than Bell County's annual unemployment rate of 7.0% and the national average rate of 7.4%; it is slightly higher than the state average of 6.3%.

All of these factors were considered in preparing the fiscal year 2014-2015 budget for the City of Harker Heights.

During the current fiscal year, the fund balance in the general fund is projected to increase to \$8.4 million. The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2014-15 is \$0.6770 per \$100 valuation. Of this tax rate 76.32 percent or \$0.5167 is utilized for General Fund activities. The remaining 23.68 percent or \$0.1603 is used for debt service. The General Fund's portion of property tax revenue for FY 2014-15 is estimated to be \$7.9 million. Sales tax revenue for FY 2014-15 is budgeted at \$6.0 million.

The largest revenue source for the water and sewer fund is water sales at \$5.8 million. The rate for FY 2014-15 is \$9.98 as a base rate and \$3.11 per 1,000 gallons used. The second largest revenue source for the water and sewer fund is sewer charges at \$3.3 million based on a FY 2014-15 base rate of \$17.99 plus \$3.01 per 1,000 gallons over 3,000 gallons and caps at 10,000 gallons. These rates are the same as the rates set for FY 2013-14.

Sanitation fees for residential garbage are \$18.33 per month which remained the same from FY 2013-14.

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, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 8,193,591	\$ 1,393,213	\$ 9,586,804
Investments	5,651,053	2,821,080	8,472,133
Receivables (net of allowance for uncollectibles)			
Taxes	114,540		114,540
Accounts	453,512	1,325,239	1,778,751
Special assessments	922		922
Internal Balances	1,770,538	(1,770,538)	
Due from other governments	17,517		17,517
Inventory of supplies, at first in, first out		100,962	100,962
Restricted Assets:			
Restricted cash	6,057,404	95,167	6,152,571
Restricted investments	5,610,052	366,099	5,976,151
Capital assets (net of accumulated depreciation):			
Land	15,512,984	279,273	15,792,257
Building and lift stations	7,821,376	1,691,953	9,513,329
Improvements other than buildings	94,731	7,540	102,271
Furniture and fixtures	191,193		191,193
Machinery and equipment	1,067,940	307,692	1,375,632
Vehicles	951,987	153,591	1,105,578
Infrastructure	19,696,544	39,976,813	59,673,357
Construction in progress	703,824	2,614,623	3,318,447
Total Assets	<u>73,909,708</u>	<u>49,362,707</u>	<u>123,272,415</u>
LIABILITIES			
Accounts payable and accrued liabilities	1,879,341		1,879,341
Accrued interest payable	139,574	102,612	242,186
Refundable Meter Deposit		303,119	303,119
Unearned revenue	366,440		366,440
Noncurrent liabilities:			
Due within one year	2,120,795	1,248,837	3,369,632
Due in more than one year	29,523,357	21,300,792	50,824,149
Total Liabilities	<u>34,029,507</u>	<u>22,955,360</u>	<u>56,984,867</u>
NET POSITION			
Net investment in capital assets	24,342,270	25,968,476	50,310,746
Restricted for:			
Economic development	189,478		189,478
Public safety	217,611		217,611
Debt service	106,025	54,512	160,537
Capital projects	11,469,774		11,469,774
Cemetery	17,583		17,583
Assigned to:			
Culture and recreation	178,966		178,966
Unrestricted	<u>3,358,494</u>	<u>384,359</u>	<u>3,742,853</u>
Total Net Position	<u>\$ 39,880,201</u>	<u>\$ 26,407,347</u>	<u>\$ 66,287,548</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, 2014

<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>
Primary Government:				
Governmental Activities:				
General government	\$ 2,862,109	\$ 61,361	\$ 360	
Public safety	11,137,124	1,831,317	28,058	
Highways and streets	1,827,694			
Culture and recreation	3,076,587	310,527	38,063	
Economic development and assistance	537,713	545,505		
Interest and fiscal charges	1,214,389			
Total governmental activities	20,655,616	2,748,710	66,481	
Business-type Activities:				
Water and Sewer	6,397,487	8,588,008		
Sanitation	1,576,624	1,826,179		
Drainage	303,701	774,759		
Total business-type activities	8,277,812	11,188,946		
Total primary government	\$ 28,933,428	\$ 13,937,656	\$ 66,481	

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 (as restated
see Note V.8. on page 70-71)

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
\$ (2,800,388)		\$ (2,800,388)
(9,277,749)		(9,277,749)
(1,827,694)		(1,827,694)
(2,727,997)		(2,727,997)
7,792		7,792
(1,214,389)		(1,214,389)
<u>(17,840,425)</u>		<u>(17,840,425)</u>
	2,190,521	2,190,521
	249,555	249,555
	471,058	471,058
	<u>2,911,134</u>	<u>2,911,134</u>
<u>\$ (17,840,425)</u>	<u>\$ 2,911,134</u>	<u>\$ (14,929,291)</u>
10,050,652		10,050,652
6,185,590		6,185,590
116,082		116,082
77,906		77,906
99,634		99,634
1,312,073	139,795	1,451,868
131,793	10,009	141,802
12,017		12,017
3,483,231	(3,483,231)	
<u>21,468,978</u>	<u>(3,333,427)</u>	<u>18,135,551</u>
3,628,553	(422,293)	3,206,260
<u>36,251,648</u>	<u>26,829,640</u>	<u>63,081,288</u>
<u>\$ 39,880,201</u>	<u>\$ 26,407,347</u>	<u>\$ 66,287,548</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 (as restated
 see Note V.8. on page 70-71)

Net position - ending

CITY OF HARKER HEIGHTS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2014

	General	Debt Service	Capital Projects
ASSETS			
Cash	\$ 5,430,347	\$ 62,799	\$ 2,556,235
Investments	3,987,621	38,770	1,398,222
Receivables (net of allowance for uncollectibles):			
Taxes	62,616	51,924	
Accounts	439,049		
Special Assessments	922		
Due from other funds	1,767,941		
Due from other governments	3,641	13,876	
Restricted assets:			
Cash	180,615		5,876,789
Investments	17,067		5,592,985
Total Assets	<u>\$ 11,889,819</u>	<u>\$ 167,369</u>	<u>\$ 15,424,231</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,768,848		\$ 110,493
Due to other funds	20,843	13,436	(16,033)
Unearned revenue	366,440		
Total Liabilities	<u>2,156,131</u>	<u>13,436</u>	<u>94,460</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax not yet available	50,194	47,908	
Total deferred inflows of resources	<u>50,194</u>	<u>47,908</u>	
Fund Balances:			
Nonspendable			
Restricted for:			
Economic development			
Public safety	1,133		
Debt service		106,025	
Capital projects			11,469,774
Cemetery	17,583		
Committed			
Assigned to:			
Culture and recreation	178,966		
Unassigned	9,485,812		3,859,997
Total Fund Balances	<u>9,683,494</u>	<u>106,025</u>	<u>15,329,771</u>
Total Liabilities and Fund Balances	<u>\$ 11,889,819</u>	<u>\$ 167,369</u>	<u>\$ 15,424,231</u>

Other Governmental Funds	Total Governmental Funds
\$ 144,210	\$ 8,193,591
226,440	5,651,053
	114,540
14,463	453,512
	922
20,843	1,788,784
	17,517
	6,057,404
	5,610,052
\$ 405,956	\$ 27,887,375
\$ 405,956	\$ 27,887,375

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 AND FUND BALANCES

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
Debt service
Capital projects
Cemetery
Committed
Assigned to:
Culture and recreation
Unassigned

Total Fund Balances
Total Liabilities 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, 2014

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

Total fund balance per balance sheet	\$ 25,525,246
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	46,040,579
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(95,307)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(31,590,317)</u>
Net position of governmental activities	<u><u>\$ 39,880,201</u></u>

CITY OF HARKER HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
REVENUES			
Taxes and special assessments:			
Property	\$ 7,682,846	\$ 2,482,341	
Other taxes and special assessments	7,518,896		
Licenses and permits	591,518		
Fines	1,449,318		
Charges for services	787,569		
Intergovernmental	198,343		
Investment earnings	25,938	535	5,076
Contributions and donations	6,074		
Miscellaneous	42,572		100,000
	<u>18,303,074</u>	<u>2,482,876</u>	<u>105,076</u>
EXPENDITURES			
Current:			
General government	2,734,420		
Public safety	10,380,068		
Highways and streets	1,320,544		
Culture and recreation	2,725,815		
Economic development and assistance	410,423		
Debt service:			
Principal	137,210	1,540,274	
Interest and fiscal charges	6,514	1,070,551	
Tax collection fees		27,523	
Bond Issuance Cost			6,003
Capital outlay			850,791
	<u>17,714,994</u>	<u>2,638,348</u>	<u>856,794</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>588,080</u>	<u>(155,472)</u>	<u>(751,718)</u>
OTHER FINANCING SOURCES (USES)			
Capital Leases			
Proceeds from sale of bonds			6,045,595
Payment to refunded bond escrow agent			
Transfers in	1,475,000	200,000	5,602,950
Transfers out	(800,000)		(2,994,720)
	<u>675,000</u>	<u>200,000</u>	<u>8,653,825</u>
Net Change in Fund Balances	1,263,080	44,528	7,902,107
Fund Balances -Beginning (as Restated see Note V.8 on page 71)	<u>8,420,414</u>	<u>61,497</u>	<u>7,427,664</u>
Fund Balances - Ending	<u>\$ 9,683,494</u>	<u>\$ 106,025</u>	<u>\$ 15,329,771</u>

Other Governmental Funds	Total Governmental Fund
	\$ 10,165,187
99,634	7,618,530
	591,518
91,671	1,540,989
	787,569
	198,343
280	31,829
34,818	40,892
	142,572
<u>226,403</u>	<u>21,117,429</u>
112,007	2,734,420
	10,492,075
	1,320,544
	2,725,815
115,810	526,233
	1,677,484
	1,077,065
	27,523
	6,003
	850,791
<u>227,817</u>	<u>21,437,953</u>
<u>(1,414)</u>	<u>(320,524)</u>

REVENUES

Taxes and special assessments:

- Property
- Other taxes and special assessments
- Licenses and permits
- Fines
- Charges for services
- Intergovernmental
- Investment earnings
- Contributions and donations
- Miscellaneous

Total Revenues

EXPENDITURES

Current:

- General government
- Public safety
- Highways and streets
- Culture and recreation
- Economic development and assistance

Debt service:

- Principal
- Interest and fiscal charges
- Tax collection fees
- Bond Issuance Cost

Capital outlay

Total Expenditures

Excess (Deficiency) of Revenues

Over (Under) Expenditures

OTHER FINANCING SOURCES (USES)

- Capital Leases
- Proceeds from sale of bonds
- Payment to refunded bond escrow agent
- Transfers in
- Transfers out

Total Other Financing Sources (Uses)

Net Change in Fund Balances

Fund Balances – Beginning (as Restated
see Note V.8 on page 71)

Fund Balances - Ending



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, 2014

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

Net change in fund balances – total governmental funds	\$ 9,208,301
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.	1,325,865
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.	(1,873,245)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, transfers, disposals, and donations) is to decrease net position.	(234,940)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(316,491)
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.	(25,000)
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 the net decrease in pension costs not reported as an expenditure in governmental funds.	(55,237)
The net decrease in the other postemployment benefit obligation (OPEB) is not reported in the funds.	(161,307)
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 issuance costs, 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.	(4,204,892)
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.	(48,662)
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>14,161</u>
Change in net position of governmental activities	<u><u>\$ 3,628,553</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, 2014

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Positive (Negative)
REVENUES				
Taxes and special assessments:				
Property	\$ 7,448,200	\$ 7,448,200	\$ 7,682,846	\$ 234,646
Other taxes and special assessments	7,023,800	7,023,800	7,518,896	495,096
Licenses and permits	240,000	240,000	591,518	351,518
Fines	1,390,000	1,390,000	1,449,318	59,318
Charges for services	720,900	720,900	787,569	66,669
Intergovernmental	200,000	200,000	198,343	(1,657)
Investment earnings	35,000	35,000	25,938	(9,062)
Contributions and donations			6,074	6,074
Miscellaneous	23,000	23,000	42,572	19,572
	17,080,900	17,080,900	18,303,074	1,222,174
EXPENDITURES				
Current:				
General government:				
Council	191,200	191,200	180,966	10,234
Administration	1,854,500	1,854,500	1,970,234	(115,734)
Finance	582,100	582,100	583,220	(1,120)
Public safety:				
Police	5,418,900	5,418,900	5,215,276	203,624
Courts	1,058,300	1,058,300	1,034,176	24,124
Code enforcement	514,000	514,000	480,977	33,023
Fire/EMS	3,682,400	3,682,400	3,649,639	32,761
Highways and streets:				
Streets	1,059,000	1,059,000	1,066,090	(7,090)
Maintenance	256,200	256,200	254,454	1,746
Culture and recreation:				
Library	639,500	639,500	596,799	42,701
Parks and recreation	2,170,200	2,170,200	2,129,016	41,184
Economic development and assistance	385,500	385,500	410,423	(24,923)
Debt Service:				
Principal	138,200	138,200	137,210	990
Interest and fiscal charges	6,500	6,500	6,514	(14)
	17,956,500	17,956,500	17,714,994	241,506
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (875,600)	\$ (875,600)	\$ 588,080	\$ 1,463,680

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Capital Leases				
Sale of capital assets proceeds				
Transfers in	815,000	815,000	1,475,000	660,000
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(800,000)</u>	<u>(750,000)</u>
Total Other Financing Sources (Uses)	<u>765,000</u>	<u>765,000</u>	<u>675,000</u>	<u>(90,000)</u>
Net Change in Fund Balances	(110,600)	(110,600)	1,263,080	1,373,680
Fund Balances – Beginning	<u>7,567,698</u>	<u>7,567,698</u>	<u>8,420,414</u>	<u></u>
Fund Balances – Ending	<u><u>\$ 7,457,098</u></u>	<u><u>\$ 7,457,098</u></u>	<u><u>\$ 9,683,494</u></u>	<u><u>\$ 1,373,680</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, 2014

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash	\$ 1,276,567	\$ 106,937	\$ 9,709	\$ 1,393,213
Investments	2,763,141	52,704	5,235	2,821,080
Receivables (net of allowance for uncollectibles):				
Accounts	1,068,289	188,366	68,584	1,325,239
Due from other funds		71		71
Inventory of supplies, at first-in, first-out cost	100,962			100,962
Restricted cash	91,722		3,445	95,167
Restricted investments	362,954		3,145	366,099
Total Current Assets	5,663,635	348,078	90,118	6,101,831
Capital Assets:				
Land and improvements	154,113		125,160	279,273
Buildings and lift stations	3,110,968			3,110,968
Improvements other than buildings	1,144	23,728		24,872
Furniture and fixtures	12,375			12,375
Machinery and equipment	1,004,650	19,325	214,916	1,238,891
Vehicles	626,250		92,354	718,604
Water, sewer, and drainage systems	43,360,390		5,389,888	48,750,278
Construction in progress	2,416,318		198,305	2,614,623
Less accumulated depreciation	(11,155,797)	(27,431)	(535,171)	(11,718,399)
Total Capital Assets (Net of Depreciation)	39,530,411	15,622	5,485,452	45,031,485
Total Noncurrent Assets	39,530,411	15,622	5,485,452	45,031,485
Total Assets	\$ 45,194,046	\$ 363,700	\$ 5,575,570	\$ 51,133,316

CITY OF HARKER HEIGHTS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2014

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
LIABILITIES				
Current Liabilities:				
Due to other funds	\$ 1,631,885	\$ 134,079	\$ 4,646	\$ 1,770,610
Accrued compensated absences	23,000	2,000	7,000	32,000
Refundable meter deposits	303,119			303,119
Accrued interest payable	94,438		8,174	102,612
Capital leases payable - current				
General obligation bonds - current	219,491		37,346	256,837
Certificates of obligation - current	895,000		65,000	960,000
	3,166,933	136,079	122,166	3,425,178
Noncurrent Liabilities:				
Accrued compensated absences	2,000	1,000	3,000	6,000
Net pension obligation	44,926	1,113	7,849	53,888
Net other postemployment benefit obligation	40,015	399	3,948	44,362
Capital leases payable				
General obligation bonds payable	2,723,269		509,694	3,232,963
Certificates of obligation	16,823,390		1,140,191	17,963,581
	19,633,600	2,512	1,664,682	21,300,794
	22,800,533	138,591	1,786,848	24,725,972
NET POSITION				
Net investment in capital assets	22,219,633	15,622	3,733,221	25,968,476
Restricted for debt service	47,922		6,590	54,512
Unrestricted	125,961	209,487	48,911	384,359
	\$ 22,393,516	\$ 225,109	\$ 3,788,722	\$ 26,407,347

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, 2014

	Business-type Activities – Enterprise Funds			Total Enterprise Funds
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	
OPERATING REVENUES				
Charges for services	\$ 8,573,314	\$ 1,825,101	\$ 741,601	\$ 11,140,016
Franchise fees		139,795		139,795
Other	14,694	1,078	33,158	48,930
Total Operating Revenues	<u>8,588,008</u>	<u>1,965,974</u>	<u>774,759</u>	<u>11,328,741</u>
OPERATING EXPENSES				
Water purchases	2,407,417			2,407,417
Contractual services	229,014	1,505,406	3,537	1,737,957
Personal services	1,088,569	45,433	120,589	1,254,591
Utilities and telephone	461,285	290		461,575
Repairs and maintenance	379,818	2,560	26,073	408,451
Supplies	229,451	1,331	15,138	245,920
Uncollectible accounts	65,077	10,664	2,796	78,537
Professional fees	48,800	5,000	14,587	68,387
Depreciation	857,687	5,535	110,135	973,357
Other	1,608	405	359	2,372
Total Operating Expenses	<u>5,768,726</u>	<u>1,576,624</u>	<u>293,214</u>	<u>7,638,564</u>
Operating Income	<u>2,819,282</u>	<u>389,350</u>	<u>481,545</u>	<u>3,690,177</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	9,607	263	139	10,009
Taxes & assessments				
Interest expense	(603,735)		(10,487)	(614,222)
Bond issuance costs	(25,026)			(25,026)
Total Nonoperating Revenues (Expenses)	<u>(619,154)</u>	<u>263</u>	<u>(10,348)</u>	<u>(629,239)</u>
Income Before Transfers	2,200,128	389,613	471,197	3,060,938
Transfers In	2,543,099		451,621	2,994,720
Transfers Out	(5,702,951)	(400,000)	(375,000)	(6,477,951)
Change in Net Position	(959,724)	(10,387)	547,818	(422,293)
Total Net Position – Beginning (as Restated see Note V.8. on page 70)	23,353,240	235,496	3,240,904	26,829,640
Total Net Position – Ending	<u>\$ 22,393,516</u>	<u>\$ 225,109</u>	<u>\$ 3,788,722</u>	<u>\$ 26,407,347</u>

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

CITY OF HARKER HEIGHTS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

SEPTEMBER 30, 2014

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 8,557,113	\$ 1,823,467	\$ 749,730	\$ 11,130,310
Cash payments to suppliers	(2,795,883)	(1,498,042)	(165,173)	(4,459,098)
Cash payments to employees	(1,072,014)	(44,029)	(116,596)	(1,232,639)
Franchise fees		139,795		139,795
Other operating cash receipts (payments)	14,694	1,243	33,158	49,095
Net Cash Provided By Operating Activities	4,703,910	422,434	501,119	5,627,463
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	2,543,099		451,621	2,994,720
Transfers out	(5,702,951)	(400,000)	(375,000)	(6,477,951)
Net Cash Provided (Used) By Noncapital Financing Activities	(3,159,852)	(400,000)	76,621	(3,483,231)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(2,795,784)		(549,538)	(3,345,322)
Proceeds from issuance of debt	2,949,948			2,949,948
Principal repayments	(889,967)		(128,906)	(1,018,873)
Interest paid on long-term debt	(576,343)		(17,375)	(593,718)
Net Cash Provided (Used) By Capital and Related Financing Activities	(1,312,146)		(695,819)	(2,007,965)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales and maturities of investments	1,248,690		70,000	1,318,690
Purchase of investments	(753,000)	(18)	(2,000)	(755,018)
Interest & penalties received	9,607	263	139	10,009
Net Cash Provided (Used) By Investing Activities	505,297	245	68,139	573,681
Net Increase (Decrease) in Cash For The Year	737,209	22,679	(49,940)	709,948
Cash - Beginning	631,080	84,258	63,094	778,432
Cash - Ending	\$ 1,368,289	\$ 106,937	\$ 13,154	\$ 1,488,380

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

CITY OF HARKER HEIGHTS
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	
Reconciliation of cash:				
Cash	\$ 1,276,567	\$ 106,937	\$ 9,709	\$ 1,393,213
Restricted Cash	91,722		3,445	95,167
Total Cash	\$ 1,368,289	\$ 106,937	\$ 13,154	\$ 1,488,380
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	<u>\$ 2,819,282</u>	<u>\$ 389,350</u>	<u>\$ 481,545</u>	<u>\$ 3,690,177</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	857,687	5,535	110,135	973,357
Change in Assets and Liabilities:				
(Increase) Decrease in accounts receivable	(38,198)	9,030	8,487	(20,681)
Increase in allowance for doubtful accounts				
(Increase) Decrease in due from other funds		165		165
(Increase) Decrease in inventory	25,802			25,802
Increase (Decrease) in accounts payable and accrued liabilities				
Increase (Decrease) in refundable meter deposits	21,997			21,997
Increase (Decrease) in due to other funds	1,000,785	16,950	(103,041)	914,694
Increase (Decrease) in compensated absences	(3,000)	1,000	2,000	
Increase (Decrease) in net pension obligation	3,609	164	640	4,413
Increase (Decrease) in net other postemployment benefit obligation	15,946	240	1,353	17,539
Total Adjustments	<u>1,884,628</u>	<u>33,084</u>	<u>19,574</u>	<u>1,937,286</u>
Net cash Provided By Operating Activities:	<u><u>\$ 4,703,910</u></u>	<u><u>\$ 422,434</u></u>	<u><u>\$ 501,119</u></u>	<u><u>\$ 5,627,463</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Amortization of deferred amount on advanced refunding of certificates of obligation	\$ 34,366			\$ 34,366
Amortization of bond discount	2,692			2,692
Amortization of bond issuance costs				
Total Noncash Investing, Capital and Financing Activities	<u><u>\$ 37,058</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 37,058</u></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, 2014

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 government-wide and proprietary fund financial statements apply private-sector standards of accounting and financial reporting issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. 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 interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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, 2014

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 nonmajor funds are combined in a column in the fund financial statements. The nonmajor 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, 2014

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 nonoperating 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 nonoperating 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 nonmajor 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, 2014

I. 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.

D. 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, 2014

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, 2014

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, 2014

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, 2014, 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, 2014, the City had restricted funds for economic development, public safety, 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, 2014, 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, 2014, the City had assigned funds for culture and recreation.

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.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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 \$31,590,317 difference are as follows:

Certificates of obligation	\$25,850,000
Less: Issuance discount (to be amortized as interest expense)	(72,389)
General obligation refunding	3,743,240
Plus: Premium on current year issuance	0
Less: Deferred charges for advanced refunding costs (to be amortized as interest expense)	(202,693)
Accrued interest payable	139,574
Capital leases payable	185,211
Note payable	137,689
Compensated absences	703,000
Net pension obligation	707,419
Net postemployments benefit obligation	399,266
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	\$31,590,317

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.”

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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 (Continued)

The details of this \$(4,204,892) difference are as follows:

Current Year Issuance:	
Certificates of obligation (Net of Discount)	\$ (5,949,949)
Capital Leases	0
Principal repayments:	
Certificates of obligation	\$ 940,000
General obligation refunding	600,274
Capital leases	137,210
Note payable	67,573
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$ (4,204,892)

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 \$(48,662) difference are as follows:

Amortization of bond discounts	(6,044)
Amortization of advanced refunding costs	(42,618)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$(48,662)

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.

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 10, 2013.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

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.
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.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

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 certificates of deposit at a local banking institution as well as through a broker. Collateral for the certificates of deposit held at a local bank institution consisted of securities with a fair market value of \$17,667,149 at September 30, 2014. 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. Of the certificates of deposit purchased through an authorized broker/dealer, \$679,000 was covered by federal depository insurance.

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, 2014.

At September 30, 2014, the carrying amount of the City's deposits was \$15,737,915, and the respective bank balances totaled \$15,810,454. Of the bank balances, \$755,175 was covered by federal depository insurance. Collateral for the bank balances over the federal depository insurance amount consisted of securities with a fair market value of \$13,329,292 and a letter of credit valued at \$9,250,000 at September 30, 2014.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

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, 2014.

	Fair Value/Carrying Value			Cost	Weighted Average Days to Maturity (1)
	Governmental Activities	Business- type Activities	Total		
Investments:					
Certificates of deposit	\$ 9,983,179	\$2,866,735	\$12,849,914	\$12,849,914	212
Local government investment pools					
TexSTAR	1,129,500	222,666	1,352,166	1,352,166	1
Texas Class	26,049	3,624	29,673	29,673	1
Lone Star Investment Pool	<u>122,378</u>	<u>94,154</u>	<u>216,532</u>	<u>216,532</u>	1
Total local government investment pools	<u>1,277,927</u>	<u>320,444</u>	<u>1,598,371</u>	<u>1,598,371</u>	
Total Investments	<u>\$11,261,106</u>	<u>\$3,187,179</u>	<u>\$14,448,285</u>	<u>\$14,448,285</u>	

(1) Interest rate risk is estimated using weighted average days to maturity.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

As of September 30, 2014, the City of Harker Heights' investments were rated by Standard & Poor's as follows:

	Average Credit Quality/ Ratings
Tex STAR	AAAm
MBIA 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	\$ 1,460
Carrying amount of deposits	15,737,915
Carrying amount of investments	14,448,285
Total Cash and Investments	\$ 30,187,660
Cash	\$ 9,586,804
Cash – restricted	6,152,571
Investments	
Short-Term	8,472,134
Investments – restricted	
Short-Term	5,976,151
Total Cash and Investments	\$ 30,187,660

2. Receivables

Receivables at September 30, 2014, 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	\$ 160,616	\$ 51,924					\$ 212,540
Accounts	1,768,646		14,463	1,103,289	193,366	69,584	3,149,348
Special							
assessments	22,922			13,080			36,002
Intergovernmental	3,641	13,876					17,517
Gross receivables	1,955,825	65,800	14,463	1,116,369	193,366	69,584	3,415,407
Less:							
Allowance for uncollectibles	1,449,597	32,000		48,080	5,000	1,000	1,535,677
Net total receivables	\$ 506,228	\$ 33,800	\$ 14,463	\$ 1,068,289	\$ 188,366	\$ 68,584	\$ 1,879,730

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS

3. Capital Assets

Capital asset activity for the year ended September 30, 2014 was as follows:

Governmental Activities:	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Transfers and Decreases</u>	<u>Balance at End of Year</u>
Capital assets, not being depreciated:				
Land	\$ 15,477,158	\$ 35,826		\$ 15,512,984
Construction in progress	2,349,906	850,790	2,496,872	703,824
Total capital assets, not being depreciated	<u>17,827,064</u>	<u>886,616</u>	<u>2,496,872</u>	<u>16,216,808</u>
(as Restated see Note V.8 on page 71)				
Capital assets, being depreciated				
Buildings	13,398,571	5,180		13,403,751
Improvements other than buildings	82,687	47,006		129,693
Machinery and equipment	4,909,461	306,187	61,795	5,153,853
Vehicles	3,889,248	139,953	175,958	3,853,243
Furniture and fixtures	877,666	12,799		890,465
Street and drainage improvements	22,101,281	2,424,996		24,526,277
Total capital assets, being depreciated	<u>45,258,914</u>	<u>2,936,121</u>	<u>237,753</u>	<u>47,957,282</u>
Less accumulated depreciation for:				
Buildings	4,945,502	636,873		5,582,375
Improvements other than buildings	17,680	17,282		34,962
Machinery and equipment	3,769,005	378,703	61,795	4,085,913
Vehicles	2,751,371	323,419	173,534	2,901,256
Furniture and fixtures	624,726	74,546		699,272
Street and drainage improvements	4,387,311	442,422		4,829,733
Total accumulated depreciation	<u>16,495,595</u>	<u>1,873,245</u>	<u>235,329</u>	<u>18,133,511</u>
Total capital assets, being depreciated, net	<u>28,763,319</u>	<u>1,062,876</u>	<u>2,424</u>	<u>29,823,771</u>
Governmental activities capital assets, net	<u>\$ 46,590,383</u>	<u>\$ 1,949,492</u>	<u>\$ 2,499,296</u>	<u>\$ 46,040,579</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

Business-type Activities:	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Transfers and Decreases</u>	<u>Balance at End of Year</u>
Water and Sewer Fund				
Capital assets, not being depreciated:				
Land	\$ 154,113			\$ 154,113
Construction in progress	<u>2,587,707</u>	<u>2,685,510</u>	<u>2,856,899</u>	<u>2,416,318</u>
Total capital assets, not being depreciated	<u>2,741,820</u>	<u>2,685,510</u>	<u>2,856,899</u>	<u>2,570,431</u>
Capital assets, being depreciated				
Buildings and lift stations	3,025,713	85,255		3,110,968
Improvements other than Buildings	1,144			1,144
Machinery and equipment	973,687	32,014	1,051	1,004,650
Vehicles	567,672	78,259	19,681	626,250
Furniture and fixtures	12,375			12,375
Water and sewer system	<u>40,588,748</u>	<u>2,771,642</u>		<u>43,360,390</u>
Total capital assets, being depreciated	<u>45,169,339</u>	<u>2,967,170</u>	<u>20,732</u>	<u>48,115,777</u>
Less accumulated depreciation for:				
Buildings and lift stations	1,357,057	61,958		1,419,015
Improvements other than Buildings	775	77		852
Machinery and equipment	695,216	81,357	1,051	775,522
Vehicles	461,027	38,352	19,681	479,698
Furniture and fixtures	12,375			12,375
Water and sewer system	<u>7,792,392</u>	<u>675,943</u>		<u>8,468,335</u>
Total accumulated depreciation	<u>10,318,842</u>	<u>857,687</u>	<u>20,732</u>	<u>11,155,797</u>
Total capital assets, being depreciated, net	<u>34,850,497</u>	<u>2,109,483</u>		<u>36,959,980</u>
Water and sewer fund capital assets, net	<u>\$ 37,592,317</u>	<u>\$ 4,794,993</u>	<u>\$ 2,856,899</u>	<u>\$ 39,530,411</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

	Balance at Beginning of Year	Increases	Transfers and Decreases	Balance at End of Year
Sanitation Fund				
Capital assets, being depreciated:				
Machinery and equipment	\$ 19,325			\$ 19,325
Improvements other than buildings	23,728			23,728
Total capital assets, being depreciated	43,053			43,053
Less accumulated depreciation for:				
Machinery and equipment	7,086	3,865		10,951
Improvements other than buildings	14,810	1,670		16,480
Total accumulated depreciation	21,896	5,535		27,431
Total capital assets, being depreciated, net	21,157	(5,535)		15,622
Sanitation fund capital assets, net	\$ 21,157	\$ (5,535)		\$ 15,622
Drainage Fund				
Capital assets, not being depreciated:				
Land	\$ 125,000	\$ 160		\$ 125,160
Construction in progress	281,522	502,840	586,057	198,305
Total capital assets, not being depreciated	406,522	503,000	586,057	323,465
Capital assets, being depreciated:				
Machinery and equipment	168,378	46,538		214,916
Vehicles	92,354			92,354
Drainage system	4,803,830	586,058		5,389,888
Total capital assets, being depreciated	5,064,562	632,596		5,697,158
Less accumulated depreciation for:				
Machinery and equipment	124,256	20,470		144,726
Vehicles	75,714	9,601		85,315
Drainage system	225,066	80,064		305,130
Total accumulated depreciation	425,036	110,135		535,171
Total capital assets, being depreciated, net	4,639,526	522,461		5,161,987
Drainage fund capital assets, net	\$ 5,046,048	\$ 1,025,461	\$ 586,057	\$ 5,485,452

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

	Balance at Beginning of Year	Increases	Transfers and Decreases	Balance at End of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 279,113	\$ 160		\$ 279,273
Construction in progress	2,869,229	3,188,350	3,442,956	2,614,623
Total capital assets, not being depreciated	3,148,342	3,188,510	3,442,956	2,893,896
Capital assets, being depreciated				
Buildings and lift stations	3,025,713	85,255		3,110,968
Improvements other than buildings	24,872			24,872
Machinery and equipment	1,161,390	78,552	1,051	1,238,891
Vehicles	660,026	78,259	19,681	718,604
Furniture and fixtures	12,375			12,375
Water, sewer and drainage systems	45,392,578	3,357,700		48,750,278
Total capital assets, being depreciated	50,276,954	3,599,766	20,732	53,855,988
Less accumulated depreciation for:				
Buildings and lift stations	1,357,057	61,958		1,419,015
Improvements other than buildings	15,585	1,747		17,332
Machinery and equipment	826,558	105,692	1,051	931,199
Vehicles	536,741	47,953	19,681	565,013
Furniture and fixtures	12,375			12,375
Water, sewer and drainage system	8,017,458	756,007		8,773,465
Total accumulated depreciation	10,765,774	973,357	20,732	11,718,399
Total capital assets, being depreciated, net	39,511,180	2,626,409		42,137,589
Business-type activities capital assets, net	\$ 42,659,522	\$ 5,814,919	\$ 3,442,956	\$ 45,031,485

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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	\$ 201,982
Public safety	709,746
Highways and streets, including depreciation of infrastructure	503,880
Culture and recreation	452,725
Economic development and assistance	4,912
Total depreciation expense – governmental activities	\$ 1,873,245

Business-type Activities:

Water, sewer, drainage, and sanitation	\$ 973,357
Total depreciation expense – business-type activities	\$ 973,357

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, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 1,131,797
	Drainage Utility Fund	4,662
	Sanitation Fund	134,079
	Capital Projects Fund	483,967
	Debt Service Fund	13,436
Capital Projects Fund	Water and Sewer Fund	500,000
Drainage Utility Fund	Water and Sewer Fund	16
Sanitation Fund	Water and Sewer Fund	71
Nonmajor Governmental Funds	General Fund	20,843
Total		\$ 2,288,871

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 Capital Project Fund receivables represent an investment maturity on September 30, 2014 that was transferred out in the following period. The Drainage and Sanitation Funds receivables represent outstanding amounts collected for charges and services between the enterprise funds. The Nonmajor Governmental Funds receivable represents a prior year expense in the Restricted Courts Fund not yet reimbursed by the General Fund.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

4. Interfund Transactions (Continued)

Transfers between funds during the year ended September 30, 2014, were as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 950,000
	Sanitation Fund	400,000
	Drainage Utility Fund	125,000
Capital Projects Fund	General Fund	700,000
	Water and Sewer Fund	4,696,998
	Drainage Utility Fund	250,000
Water and Sewer Fund	Capital Projects Fund	2,543,099
Drainage Utility Fund	Capital Projects Fund	451,621
Debt Service Fund	General Fund	100,000
	Water and Sewer Fund	100,000
Total		<u>\$10,316,718</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 Water and Sewer and Drainage Utility Funds are used to complete enterprise fund capital projects. 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, 2014, including equipment rentals not covered under noncancellable leases, were \$45,715.

Capital Leases

The City has entered into five lease agreements as lessee for financing the acquisition of five copiers. The City has also entered into lease agreements as lessee for financing the acquisition of a fire truck, 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	\$ 899,205	\$ 6,169
Vehicles	670,344	248,673
Less: Accumulated depreciation	<u>(1,073,833)</u>	<u>(254,842)</u>
Total	<u>\$ 495,716</u>	<u>\$ 0</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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, 2014 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
2015	\$ 95,225		\$ 95,225
2016	95,225		95,225
Total minimum lease payments	190,450		190,450
Less: amount representing interest	(5,239)		(5,239)
Present value of minimum lease payments	<u>\$ 185,211</u>		<u>\$ 185,211</u>

6. Long-term Debt

At September 30, 2014, long-term debt of the City consists of the following:

Certificates of Obligation:

	<u>Governmental</u>	<u>Business-type</u>
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 \$75,000 to \$180,000 through August 15, 2024.		1,505,000
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 \$40,000 to \$75,000 through February 15, 2025.	680,000	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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 2006, to be used for the cost of street reconstruction, construction and equipment of a new library and community center; construction and equipment of an animal control facility, construction and equipment of administrative facilities, renovation and improvements to existing municipal buildings to wit: the police department building, library building, and recreation center; construction and equipment of a new fire station; construction and equipment of City park projects including an athletic complex and recreation center; the acquisition of land for any of the above named purposes; and the costs 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 \$12,000,000. The certificates bear interest at 4.00% to 4.5% per annum through August 15, 2027. Principal is payable in annual installments of \$465,000 to \$915,000 through August 15, 2027.

9,295,000

Combination tax and utility system revenue certificates of obligation, Series 2006, to be used for the cost of construction of water and sewer system improvements, the acquisition of land for any of the above named purposes, and the costs 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 4.00% to 4.5% per annum through August 15, 2027. Principal is payable in annual installments of \$130,000 to \$400,000 through August 15, 2027.

4,060,000

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 \$65,000 to \$475,000 through August 15, 2028.

5,170,000

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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 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 \$80,000 to \$155,000 through August 15, 2028.</p>		1,640,000
<p>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 \$55,000 to \$110,000 through August 15, 2028.</p>		1,170,000
<p>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% to 4.5% per annum through August 15, 2029. Principal is payable in annual installments of \$60,000 to \$430,000 through August 15, 2029.</p>		4,690,000
<p>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 2.0% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$95,000 to \$520,000 through August 15, 2031.</p>	4,705,000	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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 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 2.0% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$90,000 to \$220,000 through August 15, 2031.

2,705,000

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 \$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 \$150,000 to \$455,000 through August 15, 2034.

6,000,000

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

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 a 1.50% to 4.00% per annum through August 15, 2034. Principal is payable in annual installments of \$150,000 to \$455,000 through August 15, 2034.

		3,000,000
Total certificates of obligation	25,850,000	18,770,000
Plus: Net unamortized issuance premium (discount)	121,020	153,581
Total certificates of obligation, net	25,971,020	18,923,581

General Obligation Bonds Payable:

	<u>Governmental</u>	<u>Business-type</u>
General Obligation Refunding Bonds, Series 2005, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation Series 1997. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$2,370,000. The bonds bear interest at 4.32% per annum payable in annual installments of \$225,000 to \$305,000 through August 15, 2017.	875,000	
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 between 2.00% and 3.00% payable in annual installments of \$70,000 to \$740,000 through August 15, 2023.	2,463,240	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

	<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 between 2.00% and 3.00% payable in annual installments of \$70,000 to \$740,000 through August 15, 2023.</p>		2,189,720
<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 between 2.00% and 3.00% payable in annual installments of \$70,000 to \$740,000 through August 15, 2023</p>		547,040
<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 between 1.50% and 2.00% payable in annual installments of \$30,000 to \$180,000 through August 15, 2023.</p>	405,000	
<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 between 1.50% and 2.00% payable in annual installments of \$30,000 to \$180,000 through August 15, 2023.</p>		935,000
<p>Total general obligation bonds payable</p>	3,743,240	3,671,760
<p>Less: Deferred amount on advanced refunding</p>	(202,693)	(181,962)
<p>Total general obligation bonds payable, net</p>	3,540,547	3,489,798

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Capital Leases Payable:

	<u>Governmental</u>	<u>Business-type</u>
Capital lease payable to a company to finance the acquisition of video mobile data equipment. The lease is secured by the equipment and is paid by the General Fund. The lease bears interest of 1.88%. The original principal balance was \$258,891. The lease is payable in annual payments of \$91,165 including interest through February 29, 2016.	177,314	
Capital lease payable to a company to finance the acquisition of video mobile data equipment. The lease is secured by the equipment and is paid by the General Fund. The lease bears interest of 1.88%. The original principal balance was \$11,531. The lease is payable in annual payments of \$4,060 including interest through February 29, 2016.	7,897	
	185,211	
Total capital leases payable	185,211	

Note Payable:

	<u>Governmental</u>	<u>Business-type</u>
Note payable to an individual to purchase 19.026 acres of the Elizabeth Dawson Survey, Abstract No. 258, Harker Heights, Texas for creating a historical park. The note is secured by the land and is paid by tax revenues. The note bears interest of 1.25%. The original principal balance was \$272,000. The note is payable in annual payments of \$70,138 including interest through July 20, 2016.	137,689	
Total note payable	137,689	
Total debt before compensated absences, net	29,834,467	22,413,379
Compensated absences	703,000	38,000
Net pension obligation	707,419	53,887
Net other postemployment benefit obligation	399,266	44,363
Total long-term debt	\$ 31,644,152	\$ 22,549,629

Reconciliation to Government-wide Statement of Net Position:

Noncurrent liabilities:		
Due within one year	\$ 2,120,795	\$ 1,248,837
Due in more than one year	29,523,357	21,300,792
Total long-term debt, net	\$ 31,644,152	\$ 22,549,629

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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, 2014 is as follows:

Governmental Activities:	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Retirements and Other</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
Certificates of obligation	\$ 20,790,000	\$ 6,000,000	\$ 940,000	\$ 25,850,000	\$ 980,000
Plus net deferred amounts:					
Issuance (discounts) premiums	<u>166,095</u>	<u> </u>	<u>45,075</u>	<u>121,020</u>	<u> </u>
Total certificates of obligation	<u>20,956,095</u>	<u>6,000,000</u>	<u>985,075</u>	<u>25,971,020</u>	<u>980,000</u>
General obligation bonds payable	4,343,514		600,274	3,743,240	478,164
Less deferred amount on advanced refunding	<u>245,311</u>	<u> </u>	<u>42,618</u>	<u>202,693</u>	<u> </u>
Total general obligation bonds payable	<u>4,098,203</u>	<u> </u>	<u>557,656</u>	<u>3,540,547</u>	<u>478,164</u>
Capital leases payable	<u>322,421</u>	<u> </u>	<u>137,210</u>	<u>185,211</u>	<u>91,743</u>
Note payable	<u>205,262</u>	<u> </u>	<u>67,573</u>	<u>137,689</u>	<u>68,417</u>
Compensated absences	<u>678,000</u>	<u>560,794</u>	<u>535,794</u>	<u>703,000</u>	<u>502,471</u>
Net pension obligation	<u>652,182</u>	<u>1,414,013</u>	<u>1,358,776</u>	<u>707,419</u>	<u> </u>
Net other postemployment benefit obligation	<u>237,959</u>	<u>161,307</u>	<u> </u>	<u>399,266</u>	<u> </u>
Governmental activity long-term debt	<u>27,150,122</u>	<u>8,136,114</u>	<u>3,642,084</u>	<u>31,644,152</u>	<u>2,120,795</u>

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Business-type Activities:	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Retirements and Other</u>	<u>Balance September 30, 2014</u>	<u>Due Within One Year</u>
Certificates of obligation	\$16,325,000	\$ 3,000,000	\$ 555,000	18,770,000	960,000
Plus deferred amounts:					
Issuance discounts	<u>206,850</u>	<u> </u>	<u>53,269</u>	<u>153,581</u>	<u> </u>
Total certificates of obligation	<u>16,531,850</u>	<u>3,000,000</u>	<u>608,269</u>	<u>18,923,581</u>	<u>960,000</u>
General obligation bonds payable	4,081,487		409,727	3,671,760	256,837
Less deferred amount on advanced refunding	<u>216,328</u>	<u> </u>	<u>34,366</u>	<u>181,962</u>	<u> </u>
Total general obligation bonds payable	<u>3,865,159</u>	<u> </u>	<u>375,361</u>	<u>3,489,798</u>	<u>256,837</u>
Capital leases payable	<u>54,147</u>	<u> </u>	<u>54,147</u>	<u>0</u>	<u> </u>
Compensated absences	<u>38,000</u>	<u>30,996</u>	<u>30,996</u>	<u>38,000</u>	<u>32,000</u>
Net pension obligation	<u>49,475</u>	<u>113,726</u>	<u>109,314</u>	<u>53,887</u>	<u> </u>
Net other postemployment benefit obligation	<u>26,823</u>	<u>17,540</u>	<u> </u>	<u>44,363</u>	<u> </u>
Business-type activity long-term debt	<u>20,565,454</u>	<u>3,162,262</u>	<u>1,178,087</u>	<u>22,549,629</u>	<u>1,248,837</u>
Total government	<u>\$ 47,715,576</u>	<u>\$ 11,298,376</u>	<u>\$ 4,820,171</u>	<u>\$ 54,193,781</u>	<u>\$ 3,369,632</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

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

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 980,000	\$ 987,057	\$ 960,000	\$ 715,286	\$ 3,642,343
2016	1,175,000	947,675	1,005,000	681,808	3,809,483
2017	1,270,000	904,248	1,035,000	646,871	3,856,119
2018	1,340,000	859,588	1,075,000	611,091	3,885,679
2019	1,400,000	811,798	1,120,000	573,325	3,905,123
2020-2024	8,180,000	3,227,236	6,300,000	2,209,326	19,916,562
2025-2029	8,395,000	1,440,096	5,850,000	934,223	16,619,319
2030-2034	<u>3,110,000</u>	<u>298,550</u>	<u>1,425,000</u>	<u>138,975</u>	<u>4,972,525</u>
Total	<u>\$ 25,850,000</u>	<u>\$ 9,476,248</u>	<u>\$ 18,770,000</u>	<u>\$ 6,510,905</u>	<u>\$60,607,153</u>

General Obligation Bonds Payable

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 478,164	\$ 116,260	\$ 256,837	\$ 96,690	\$ 947,951
2016	490,532	100,351	254,468	91,903	937,254
2017	505,269	83,812	264,731	86,814	940,626
2018	350,800	64,878	449,201	79,571	944,450
2019	357,905	54,854	462,095	67,246	942,100
2020-2023	<u>1,560,570</u>	<u>113,106</u>	<u>1,984,428</u>	<u>138,344</u>	<u>3,796,448</u>
Total	<u>\$ 3,743,240</u>	<u>\$ 533,261</u>	<u>\$ 3,671,760</u>	<u>\$ 560,568</u>	<u>\$ 8,508,829</u>

Capital Leases Payable

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 91,743	\$ 3,482			\$ 95,225
2016	<u>93,468</u>	<u>1,757</u>			<u>95,225</u>
Total	<u>\$ 185,211</u>	<u>\$ 5,239</u>			<u>\$ 190,450</u>

Note Payable

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2015	\$ 68,417	\$ 1,721			\$ 70,138
2016	<u>69,272</u>	<u>866</u>			<u>70,138</u>
Total	<u>\$ 137,689</u>	<u>\$ 2,587</u>			<u>\$ 140,276</u>

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

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.

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, 2014 is \$23,007 for governmental activities and \$33,376 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 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.

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, 2014 is \$170,403 for governmental and \$148,586 for water and sewer fund.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Advance Refunding – 2005

On May 3, 2005, the City issued \$2,370,000 in general obligation refunding bonds from the debt service fund with an interest rate of 4.32% to advance refund \$2,225,000 of outstanding 1997 Series certificates of obligation with interest rates of 5.3% to 5.5%. The net proceeds of \$2,334,986 (after payment of \$31,375 in underwriting fees, insurance, and other issuance costs and \$3,639 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 on \$2,225,000 of refunded debt. As a result, the refunded certificates of obligation are considered to be defeased and the liability has been removed from the government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2009 through August 15, 2017. All maturities were redeemed prior to original maturity on August 15, 2007 for a total of \$2,225,000. There is no defeased debt remaining outstanding at September 30, 2014.

The reacquisition price exceeded the net carrying amount of the old debt by \$109,986 for governmental activities. 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 2017 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2014, is \$9,283.

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; and Combination Tax and Utility System Revenue Certificates of Obligation, Series 2014

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, 2014

IV. 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.

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, 2014, was \$0.6770 per \$100 valuation.

8. Interest Expense

Interest expense paid during the year ended September 30, 2014, is as follows:

General Fund	\$ 9,079
Debt Service Fund	1,070,594
Proprietary Fund Type	
Water and Sewer Fund	731,363
Drainage	68,574
 Total interest paid	 \$ 1,879,610

Interest accrued in the Water and Sewer Fund at September 30, 2014, was \$94,438. Capitalized interest incurred during the construction phase of capital assets of \$142,410 was netted with interest earned on the invested proceeds over the same period of \$13,942, resulting in a net capitalized amount of \$128,469 for the year ended September 30, 2014. Amortization of deferred amount on advance refunding of certificates of obligation in the Water and Sewer Fund was \$34,366 for the year ended September 30, 2014. Amortization of bond discount in the Water and Sewer Fund was \$2,692 for the year ended September 30, 2014. Amortization of bond premium of refunding bonds in the Water and Sewer Fund was \$(27,562) for the year ended September 30, 2014.

Interest accrued in the Drainage Fund at September 30, 2014, was \$8,174. Amortization of bond premium of refunding bonds in the Drainage Fund was \$(6,376) for the year ended September 30, 2014. Capitalized interest expense of \$51,219 was netted with interest earned on the invested proceeds of \$1,057 resulting in a net capitalized amount of \$50,162 for the year ended September 30, 2014. Interest accrued in the governmental activities on the government-wide statement of net position at September 30, 2014, was \$142,140, and amortization of bond discount was \$6,044. Amortization of deferred amount on advance refunding costs was \$42,618.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

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, 2014, the City purchased 1,443,216,000 gallons of water from WCID No. 1 for a total charge of \$2,021,054. The City also paid \$386,363 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 \$245,683 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

Pension Trust Fund

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 849 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 849 municipalities has an annual, individual actuarial valuation performed. All assumptions for the 12-31-13 valuations are contained in the 2012 TMRS Comprehensive Annual Financial Report (CAFR), a copy of which may be obtained at www.tmr.com, by calling 1-800-924-8677, or by writing to P.O. Box 149153, Austin, TX 78714-9153.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

V. OTHER INFORMATION (Continued)

2. Employee Benefit Plans (Continued)

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. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, either annually or on an annual repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically re-computing the member's account balance by assuming that the current City's deposit rate, seven percent, has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on a 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by three percent each year, not the actual interest credited to member accounts in previous years, and increased by the city match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or updated service credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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.

Contributions

The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25.2-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating updates, such as updated service credit and annuity increases. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, 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. (i.e. December 31, 2012, valuation is effective for rates beginning January 2014).

Cities are required to contribute at an actuarially determined rate. These rates are provided to the city on an annual basis, following the completion of the actuarial valuation. Note that there is a time delay in the valuation and when the rate becomes effective. If a change in plan provisions is elected by the city, this rate can change. The actuary determines contribution rates on a calendar-year basis; the city discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the city's fiscal year.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2011 and December 31, 2012, the basis for determining the contribution rates for calendar years 2013 and 2014. The December 31, 2013 actuarial valuation is the most recent valuation.

The actuarial valuation information is as follows:

Actuarial valuation date	12/31/11	12/31/12	12/31/13
Actuarial cost method	Projected unit credit	Projected unit credit	Entry age normal
Amortization method	Level percent of payroll, closed	Level percent of payroll, closed	Level percent of payroll, closed
Amortization period	26.1	25.2	30.0
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions:			
Investment rate of return	7.0%	7.0%	7.0%
Projected salary increase	Varies by age & service	Varies by age & service	Varies by age & service
Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%
City-specific assumptions:			
Payroll growth assumption	3.0%	3.0%	3.0%
Withdrawal rates for Male/Female	High/High	High/High	High/High

Net Pension Obligation:

Annual required contribution (ARC)	\$1,522,789
Interest on net pension obligation (NPO)	49,116
Adjustment to annual required contribution	(44,165)
Annual pension cost (APC)	<u>1,527,740</u>
Contributions made	(1,468,090)
Increase in net pension obligation	59,650
Net pension obligation, beginning of year	<u>701,656</u>
Net pension obligation, end of year	<u><u>\$ 761,306</u></u>

Trend information is as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Employer Contributions	Percentage of APC Contributed	Net Pension Obligation (NPO)
2008	840,704	840,704	100.00%	
2009	1,062,598	939,511	88.43%	123,087
2010	1,263,397	1,070,783	84.75%	315,701
2011	1,363,824	1,175,958	86.23%	503,568
2012	1,370,725	1,256,953	91.70%	617,340
2013	1,457,682	1,373,366	94.22%	701,656
2014	1,527,740	1,468,090	96.10%	761,306

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

The schedule of actuarial liabilities and funding progress follows:

Actuarial Valuation Date		12/31/2013
Actuarial Value of Assets	(A)	\$ 26,045,814
Actuarial Accrued Liability	(B)	\$ 35,385,216
Percentage Funded	(C) = (A) / (B)	73.61%
Unfunded (Over-funded)		
Actuarial Accrued Liability (UAAL)	(D) = (B) – (A)	\$ 9,339,702
Annual Covered Payroll	(E)	\$ 10,039,852
UAAL as a Percentage of Covered Payroll	(D) / (E)	93.03%

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

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.

Schedule of Contributions Rates:
 (Retiree-only portion of the rate)

Calendar Year	Annual Required Contribution Rate	Actual Contribution Made	Percentage of ARC Contributed
2007	0.03%	0.03%	100.0%
2008	0.02%	0.02%	100.0%
2009	0.02%	0.02%	100.0%
2010	0.02%	0.02%	100.0%
2011	0.02%	0.02%	100.0%
2012	0.02%	0.02%	100.0%
2013	0.01%	0.01%	100.0%

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

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.

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 \$1,015,944 at September 30, 2014.

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.

3. Postemployment Benefits Other than Pensions

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 two 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 2014 were \$3,891 to \$11,765 per year depending on coverage levels selected.

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.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (Continued)

Net OPEB Obligation:

Annual required contribution	\$ 91,946
Interest on net OPEB obligation	10,591
Adjustment to annual required contribution	<u>(15,591)</u>
Annual OPEB cost	86,946
Contributions made	<u>(0)</u>
Increase in net OPEB obligation	86,946
Net OPEB obligation, beginning of year	<u>264,781</u>
Net OPEB obligation, end of the year	<u>\$ 351,727</u>

Trend information is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOC)	Employer Contributions	Percentage of AOC Contributed	Net OPEB Obligation
2010	\$88,792	0	0%	\$ 88,792
2011	87,866	0	0%	176,658
2012	88,123	0	0%	264,781
2013	0	0	0%	264,781
2014	86,946	0	0%	351,727

Additional schedule of funding progress for Other Postemployment Benefit can be found in the required supplementary information on page 73.

The schedule of actuarial liabilities and funding progress follows:

Actuarial Valuation Date		10/1/11
Actuarial Value of Assets	(A)	\$ 0
Actuarial Accrued Liability	(B)	\$ 590,256
Percentage Funded	(C) = (A) / (B)	0%
Unfunded (Overfunded)		
Actuarial Accrued Liability (UAAL)	(D) = (B) – (A)	\$ 590,256
Annual Covered Payroll	(E)	N/A
UAAL as a Percentage of Covered Payroll	(D) / (E)	N/A

The actuarial accrued liability of \$590,256 includes \$590,256 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.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (Continued)

In the October 1, 2010 actuarial valuation, the unit credit method was used. The actuarial assumptions include a four 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 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 30 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	10/1/11
Actuarial cost method	Unit Credit
Amortization method	Level Dollar of Payroll
Amortization period	27
Assumed investment rate of return	4.0%
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, 2013, the City was approved by the U.S. Department of Justice for a grant in the amount of \$3,414 for police vests. As of September 30, 2014, the City recognized \$3,104 of grant proceeds and expenditures.

During the year ended September 30, 2013, the City was approved by the U.S. Department of Justice for a grant in the amount of \$3,180 for police vests. As of September 30, 2014, the City recognized \$102 of grant proceeds and expenditures.

During the year ended September 30, 2010, the City was approved by the U.S. Department of Homeland Security for a grant in the amount of \$541,900 for the hiring of five additional firefighters. As of September 30, 2014, the City recognized \$541,900 of grant proceeds and expenditures.

During the year ended September 30, 2010, the City was approved by U.S. Department of Housing and Urban Development for a grant in the amount of \$750,000 for the construction of a YMCA facility in a city park. As of September 30, 2014, the City recognized no grant proceeds and expenditures, and the City expended no local matching funds.

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. As of September 30, 2014, the City has recognized \$170,000 of pass through funding proceeds.

During the year ended September 30, 2013, the City was approved by the Texas State Library and Archives Commission for a grant in the amount of \$10,000 for the purchase of equipment, supplies, and educational performances. As of September 30, 2014, the City recognized \$10,000 grant proceeds and expenditures.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

4. Grants (Continued)

The City received \$3,803 and expended \$1,907 for police and received \$908 and expended \$435 for fire from a Law Enforcement Officer Standards and Education grant. In addition, the City received and expended \$435 from the Texas A&M Forest Service. Also, the Wal-Mart Local Giving Program provided \$1,500 which was expended during the fiscal year 2013 – 2014.

5. Commitments

The City has a commitment to pay WCID No. 1 for 618 acre feet of option water and 4,647 acre feet of election use water from the Brazos River Authority beginning January 1, 1992, and each year thereafter until December 31, 2041. Beginning January 2012, all Option Use water was moved into Election Use water, bringing the Election Use total to 5,265 acre feet. The current rate for the election use water is \$26.72 per acre-foot; however, the contract between WCID No. 1 and the Brazos River Authority contains escalation provisions that would be passed through to the City.

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 \$69.50 per acre-foot of water.

The City has a commitment to Hill Country Community Action Association, Inc. to allow them the exclusive use, occupancy and right to operate a Head Start Center on the designated City land rent-free for a period of seventeen years starting March 9, 1998.

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 a promissory note in the amount of \$272,000 for the purchase of 19.026 acres out of the Elizabeth Dawson Survey, Abstract No. 258, Harker Heights, Bell County, Texas known as the Comanche Gap Park. This note will be paid in four annual installments. The balance on the note as of September 30, 2014 is \$140,276.

The City has four contracts with an engineering firm for street reconstruction and improvements in the amount of \$86,250 with \$62,150 remaining at September 30, 2014; \$348,600 with \$143,653 remaining at September 30, 2014; \$45,825 with \$14,841 remaining at September 30, 2014; and \$323,210 with \$165,389 remaining at September 30, 2014.

A signed contract with the Neighborhood Wal-Mart for the landscape, irrigation, and lighting has been signed in the amount of \$75,177 with \$15,035 remaining at September 30, 2014. Also, the City has a contract for the construction of a fence at the FM 2410 Community Park in the amount of \$28,200 with \$28,200 remaining at September 30, 2014.

A contract has been signed with an Architect firm for the renovations to the City Hall building and the Recreation Center building in the amount of \$155,741 with \$154,616 remaining at September 30, 2014 and \$85,447 with \$84,322 remaining at September 30, 2014 respectively.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

5. Commitments (Continued)

The City has three signed contracts with an engineering firm in the amount of \$93,375 with \$69,954 remaining at September 30, 2014 for the Cedar Knob pump station improvements, Verna Lee pump station improvements and the Cedar Oaks Tank mixing project. The City has a contract with a construction firm for water supply, fire hydrants, and waterlines in the amount of \$383,209 with \$25,662 remaining at September 30, 2014. Also, a contract has been signed for the relocation of utilities near the Highland Oaks intersection in the amount of \$39,900 with \$39,900 remaining at September 30, 2014.

Three contracts have been signed between the City and engineering firms for wastewater diversion project in the amount of \$240,000 with \$31,680 remaining at September 30, 2014, \$230,668 with \$66,176 remaining at September 30, 2014, and \$26,500 with \$26,270 remaining at September 30, 2014. The City has a signed contract with a construction firm for the wastewater diversion project in the amount of \$2,423,563 with \$1,316,169 remaining at September 30, 2014. Also, the City has a contract with an engineering firm for the Warrior's Path lift station improvements in the amount of \$31,125 with \$23,318 remaining at September 30, 2014.

A contract has been signed between the City and an engineering firm for the development of a Federal Emergency Management Agency (FEMA) Phase 2 in the amount of \$373,800 with \$177,028 remaining at September 30, 2014.

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.

7. Related Party Transactions

The City hired an upholstery center to repair upholstery on the City's vehicles and furniture. This upholstery center is owned and operated by a spouse of one of the City's department heads. The total amount billed to the City for this service during the year was \$2,225 of which none was outstanding at September 30, 2014.

8. Prior Period Adjustment

In the Water and Sewer Fund, the City made a prior period adjustment of \$62,072 to accurately reflect the classification of a completed building project. This amount increased the beginning net position.

Water and Sewer Fund:

Net Position as of September 30, 2013	\$ 23,291,168
Plus reclassification of completed building project	<u>62,072</u>
Net Position as of September 30, 2013, restated	<u>\$ 23,353,240</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2014

V. OTHER INFORMATION (CONTINUED)

8. Prior Period Adjustment (Continued)

In Capital Assets, the City made a prior period adjustment of \$217,791 to accurately reflect the classification of the purchase of land and construction in progress. This amount increased the total capital assets, not being depreciated.

Capital Assets, Governmental Activities:

Capital assets, not being depreciated as of September 30, 2013	\$ 17,609,273
Plus classification of the purchase of land	279,863
Less reclassification of construction in progress	<u>(62,072)</u>
Capital assets, not being depreciated as of September 30, 2013, restated	<u>\$ 17,827,064</u>

In the General Fund, the City made an adjustment of \$241 to accurately reflect the due to/due from Employee Benefits Fund.

General Fund

Fund Balance as of September 30, 2013	\$ 8,420,655
Less reclassification of due to/from Employee Benefits Fund	<u>(241)</u>
Fund Balance as of September 30, 2013	<u>\$ 8,420,414</u>

As a result of these adjustments, the net positions for governmental and business-type activities as of September 30, 2013 have changed as follows:

Ending net position as of September 30, 2013 – Governmental Activities	\$ 36,034,098
Plus net adjustments described above for governmental activities and General Fund	<u>217,550</u>
Ending net position as of September 30, 2013 – Governmental Activities	<u>\$ 36,251,648</u>
Ending net position as of September 30, 2013 – Business-Type Activities	\$ 26,767,568
Plus reclassification described above for Water and Sewer Fund	<u>62,072</u>
Ending net position as of September 30, 2013 – Business-Type Activities	<u>\$ 26,829,640</u>



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARKER HEIGHTS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014
(UNAUDITED)

TEXAS MUNICIPAL RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS

The schedule of funding progress for TMRS is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) – (1)
12/31/00	3,070,636	3,625,715	(555,079)
12/31/01	3,704,603	4,438,527	(733,924)
12/31/02	4,432,425	6,445,242	(2,012,817)
12/31/03	5,424,045	8,175,496	(2,751,451)
12/31/04	6,622,384	8,933,821	(2,311,437)
12/31/05	7,834,744	10,298,670	(2,463,926)
12/31/06	8,479,946	11,473,458	(2,993,512)
12/31/07	9,762,880	15,929,666	(6,166,786)
12/31/08	11,275,779	18,787,573	(7,511,794)
12/31/09	13,416,439	21,390,191	(7,973,752)
12/31/10	17,265,452	25,939,525	(8,674,073)
12/31/11	19,878,412	27,999,789	(8,121,377)
12/31/12	22,848,037	31,184,554	(8,336,517)
12/31/13	26,045,814	35,385,516	(9,339,702)

Actuarial Valuation Date	(4) Funded Obligation (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll ((2) – (1) / (5))
12/31/00	84.69%	3,767,433	(14.7%)
12/31/01	83.46%	4,035,415	(18.2%)
12/31/02	68.77%	4,128,230	(48.8%)
12/31/03	66.35%	4,259,189	(64.6%)
12/31/04	74.13%	4,791,572	(48.2%)
12/31/05	76.08%	5,216,465	(47.2%)
12/31/06	73.91%	5,663,714	(52.9%)
12/31/07	61.29%	6,668,434	(92.5%)
12/31/08	60.02%	8,187,672	(91.7%)
12/31/09	62.72%	8,405,370	(94.9%)
12/31/10	66.56%	8,967,938	(96.7%)
12/31/11	71.00%	9,183,929	(88.4%)
12/31/12	73.27%	9,666,391	(86.2%)
12/31/13	73.61%	10,039,852	(93.0%)

GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27 was issued June of 2012 and will apply to the City’s financial statements beginning with the year ended September 30, 2015. This statement will require the City to recognize a liability for its proportionate share of the net pension liability.

CITY OF HARKER HEIGHTS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014
(UNAUDITED)

OTHER POSTEMPLOYMENT BENEFITS
ANALYSIS OF FUNDING PROGRESS

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)
10/01/09	0	1,554,674	(1,554,674)
10/01/10	0	543,474	(543,474)
10/01/11	0	590,256	(590,256)
10/01/12	0	590,256	(590,256)
10/01/13	0	590,256	(590,256)

Actuarial Valuation Date	(4) Funded Obligation (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll ((2) – (1) / (5))
10/01/09	0%	N/A	N/A
10/01/10	0%	N/A	N/A
10/01/11	0%	N/A	N/A
10/01/12	0%	N/A	N/A
10/01/13	0%	N/A	N/A

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, 2013.



COMBINING FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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, 2014

	Special Revenue			Total Nonmajor Governmental Funds
	Hotel/Motel Fund	Restricted Court Fund	Memorial Fund	
ASSETS				
Cash	\$ 61,373	\$ 82,837		\$ 144,210
Investments	113,642	112,798		226,440
Receivables (net of allowance for uncollectibles):				
Accounts	14,463			14,463
Due from other funds	<u> </u>	<u>20,843</u>	<u> </u>	<u>20,843</u>
Total Assets	<u><u>\$ 189,478</u></u>	<u><u>\$ 216,478</u></u>	<u><u> </u></u>	<u><u>\$ 405,956</u></u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances:				
Nonspendable				
Restricted for:				
Economic development	189,478			189,478
Public safety		216,478		216,478
Committed				
Assigned				
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>189,478</u>	<u>216,478</u>	<u> </u>	<u>405,956</u>
Total Liabilities and Fund Balances	<u><u>\$ 189,478</u></u>	<u><u>\$ 216,478</u></u>	<u><u> </u></u>	<u><u>\$ 405,956</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, 2014

	Special Revenue			Total Nonmajor Governmental Funds
	Hotel/Motel Fund	Restricted Court Fund	Memorial Fund	
REVENUES				
Taxes - other	\$ 99,634			\$ 99,634
Fines		91,671		91,671
Charges for services				
Investment earnings	124	145	11	280
Donations			34,818	34,818
Total Revenues	<u>99,758</u>	<u>91,816</u>	<u>34,829</u>	<u>226,403</u>
EXPENDITURES				
Current:				
Public safety:				
Courts		65,000		65,000
Economic development and assistance	115,810			115,810
Monument payments			47,007	47,007
Total Expenditures	<u>115,810</u>	<u>65,000</u>	<u>47,007</u>	<u>227,817</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,052)	26,816	(12,178)	(1,414)
Fund Balances - Beginning	<u>205,530</u>	<u>189,662</u>	<u>12,178</u>	<u>407,370</u>
Fund Balances - Ending	<u>\$ 189,478</u>	<u>\$ 216,478</u>		<u>\$ 405,956</u>



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

DEBT SERVICE AND SPECIAL REVENUE FUNDS

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 2,408,000	\$ 2,408,000	\$ 2,482,341	\$ 74,341
Investment earnings	2,000	2,000	535	(1,465)
Total Revenues	<u>2,410,000</u>	<u>2,410,000</u>	<u>2,482,876</u>	<u>72,876</u>
EXPENDITURES				
Debt service:				
Principal	1,540,300	1,540,300	1,540,274	26
Interest and fiscal charges	998,600	998,600	1,070,551	(71,951)
Tax collection fees	27,000	27,000	27,523	(523)
Bond Issuance Cost				
Total Expenditures	<u>2,565,900</u>	<u>2,565,900</u>	<u>2,638,348</u>	<u>(72,448)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(155,900)	(155,900)	(155,472)	428
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds				
Payment to refunded bond escrow agent				
Transfers in	<u>150,000</u>	<u>150,000</u>	<u>200,000</u>	<u>50,000</u>
Total Other Financing Sources (Uses)	150,000	150,000	200,000	50,000
Net Change in Fund Balances	(5,900)	(5,900)	44,528	50,428
Fund Balances – Beginning	<u>34,816</u>	<u>34,816</u>	<u>61,497</u>	
Fund Balances – Ending	<u>\$ 28,916</u>	<u>\$ 28,916</u>	<u>\$ 106,025</u>	<u>\$ 50,428</u>

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, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Hotel/Motel tax	\$ 60,000	\$ 60,000	\$ 99,634	\$ 39,634
Investment earnings	200	200	124	(76)
Total Revenues	<u>60,200</u>	<u>60,200</u>	<u>99,758</u>	<u>39,558</u>
EXPENDITURES				
Current:				
Economic development				
Advertising	7,500	7,500	7,500	
Historical restoration & preservation	107,200	107,200	102,406	4,794
Events			3,404	(3,404)
Softball tournament	5,000	5,000		5,000
Promotion of the arts	2,500	2,500	2,500	
Total Expenditures	<u>122,200</u>	<u>122,200</u>	<u>115,810</u>	<u>6,390</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(62,000)	(62,000)	(16,052)	45,948
Fund Balances – Beginning	<u>172,789</u>	<u>172,789</u>	<u>205,530</u>	
Fund Balances – Ending	<u>\$ 110,789</u>	<u>\$ 110,789</u>	<u>\$ 189,478</u>	<u>\$ 45,948</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines	\$ 72,000	\$ 72,000	\$ 91,671	\$ 19,671
Investment earnings	200	200	145	(55)
Total Revenues	<u>72,200</u>	<u>72,200</u>	<u>91,816</u>	<u>19,616</u>
EXPENDITURES				
Current:				
Public safety - courts			65,000	(65,000)
Total Expenditures			<u>65,000</u>	<u>(65,000)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>72,200</u>	<u>72,200</u>	<u>26,816</u>	<u>(45,384)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(65,000)</u>	<u>(65,000)</u>		<u>65,000</u>
Total Other Financing Sources (Uses)	<u>(65,000)</u>	<u>(65,000)</u>		<u>65,000</u>
Net Change in Fund Balances	7,200	7,200	26,816	19,616
Fund Balances – Beginning	<u>184,477</u>	<u>184,477</u>	<u>189,662</u>	
Fund Balances – Ending	<u><u>\$ 191,677</u></u>	<u><u>\$ 191,677</u></u>	<u><u>\$ 216,478</u></u>	<u><u>\$ 19,616</u></u>

CITY OF HARKER HEIGHTS

MEMORIAL SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 20	\$ 20	\$ 11	\$ (9)
Donations			34,818	34,818
Total Revenues	<u>20</u>	<u>20</u>	<u>34,829</u>	<u>34,809</u>
EXPENDITURES				
Monument payments			47,007	(47,007)
Total Expenditures			<u>47,007</u>	<u>(47,007)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	20	20	(12,178)	(12,198)
Fund Balances – Beginning	<u>12,179</u>	<u>12,179</u>	<u>12,178</u>	
Fund Balances – Ending	<u>\$ 12,199</u>	<u>\$ 12,199</u>	<u></u>	<u>\$ (12,198)</u>



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

GENERAL FUND

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

CITY OF HARKER HEIGHTS
GENERAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash	\$ 5,430,347	\$ 4,526,158
Investments	3,987,621	4,256,108
Receivables (net of allowance for uncollectibles):		
Taxes	62,616	50,703
Accounts	439,049	377,296
Special assessments	922	922
Due from other funds	1,767,941	862,701
Due from other governments	3,641	304,693
Restricted assets:		
Cash	180,615	129,784
Investments	17,067	17,052
	\$ 11,889,819	\$ 10,525,417
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,768,848	\$ 1,582,614
Due to other funds	20,843	167,866
Unearned revenue	366,440	325,365
	2,156,131	2,075,845
 DEFERRED INFLOWS OF RESOURCES		
Property tax not yet available	50,194	29,158
	50,194	29,158
 Fund Balances:		
Nonspendable		
Restricted for:		
Public safety	1,133	1,131
Cemetery	17,583	17,567
Committed		
Assigned to:		
Culture and recreation	178,966	145,705
Unassigned	9,485,812	8,256,011
	9,683,494	8,420,414
Total Fund Balances		
	\$ 11,889,819	\$ 10,525,417

CITY OF HARKER HEIGHTS
GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
REVENUES		
Taxes and special assessments:		
Property	\$ 7,682,846	\$ 6,813,196
Other taxes and special assessments	7,518,896	6,691,380
Licenses and permits	591,518	285,907
Fines	1,449,318	1,326,703
Charges for services	787,569	796,710
Intergovernmental	198,343	100,851
Investment earnings	25,938	32,037
Contributions and donations	6,074	38,884
Miscellaneous	42,572	143,711
	18,303,074	16,229,379
EXPENDITURES		
Current:		
General government	2,734,420	3,071,871
Public safety	10,380,068	10,482,239
Highways and streets	1,320,544	1,302,496
Culture and recreation	2,725,815	2,726,822
Economic development and assistance	410,423	364,536
Debt Service:		
Principal	137,210	55,061
Interest and fiscal charges	6,514	5,813
	17,714,994	18,008,838
Excess (Deficiency) of Revenues Over (Under) Expenditures	588,080	(1,779,459)
OTHER FINANCING SOURCES (USES)		
Capital leases		270,422
Sale of capital assets proceeds		
Transfers in	1,475,000	1,625,000
Transfers out	(800,000)	(310,000)
	675,000	1,585,422
Net Change in Fund Balances	1,263,080	(194,037)
Fund Balances – Beginning (as Restated see Note V.8 on page 71)	8,420,414	8,614,451
Fund Balances – Ending	\$ 9,683,494	\$ 8,420,414



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

DEBT SERVICE FUND

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, 2014 AND 2013

	2014	2013
ASSETS		
Cash	\$ 62,799	\$ 14,269
Investments	38,770	46,182
Receivables (net of allowance for uncollectibles):		
Taxes	51,924	67,766
Due from other governments	13,876	614
Total Assets	\$ 167,369	\$ 128,831
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to other funds	\$ 13,436	\$ 7,264
Unearned revenue		
Total Liabilities	13,436	7,264
 DEFERRED INFLOWS OF RESOURCES		
Property tax not yet available	47,908	60,070
Total deferred inflows of resources	47,908	60,070
 Fund Balances:		
Nonspendable		
Restricted for:		
Debt service	106,025	61,497
Committed		
Assigned		
Unassigned		
Total Fund Balances	106,025	61,497
Total Liabilities and Fund Balances	\$ 167,369	\$ 128,831

CITY OF HARKER HEIGHTS
DEBT SERVICE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
REVENUES		
Taxes and special assessments:		
Property	\$ 2,482,341	\$ 2,430,478
Investment earnings	535	930
Total Revenues	2,482,876	2,431,408
 EXPENDITURES		
Debt service:		
Principal	1,540,274	1,453,953
Interest and fiscal charges	1,070,551	1,047,256
Tax collection fees	27,523	28,020
Bond Issuance Cost	18,787	18,787
Total Expenditures	2,638,348	2,548,016
Excess (Deficiency) of Revenues Over (Under) Expenditures	(155,472)	(116,608)
 OTHER FINANCING SOURCES (USES)		
Proceeds from sale of bonds		455,447
Payment to refunded bond escrow agent		(435,427)
Transfers in	200,000	110,569
Total Other Financing Sources (Uses)	200,000	130,589
Net Change in Fund Balances	44,528	13,981
Fund Balances – Beginning	61,497	47,516
Fund Balances – Ending	\$ 106,025	\$ 61,497



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CAPITAL PROJECTS FUND

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, 2014 AND 2013

	2014	2013
ASSETS		
Cash	\$ 2,556,235	\$ 731,069
Investments	1,398,222	2,137,737
Restricted assets:		
Cash	5,876,789	1,111,669
Investments	5,592,985	3,321,391
Total Assets	\$ 15,424,231	\$ 7,301,866
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 110,493	\$ 23,243
Due to other funds	(16,033)	(149,041)
Total Liabilities	94,460	(125,798)
Fund Balances:		
Nonspendable		
Restricted for:		
Capital projects	11,469,774	4,433,060
Committed		
Assigned		
Unassigned	3,859,997	2,994,604
Total Fund Balances	15,329,771	7,427,664
Total Liabilities and Fund Balances	\$ 15,424,231	\$ 7,301,866

CITY OF HARKER HEIGHTS
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
REVENUES		
Investment earnings	\$ 5,076	\$ 5,682
Miscellaneous	100,000	
Intergovernmental		342,000
	105,076	347,682
Total Revenues	105,076	347,682
EXPENDITURES		
Debt Service:		
Principal		
Interest and fiscal charges		
Bond issuance costs	6,003	
Capital outlay	850,791	3,295,798
	856,794	3,295,798
Total Expenditures	856,794	3,295,798
Excess (Deficiency) of Revenues Over (Under) Expenditures	(751,718)	(2,948,116)
OTHER FINANCING SOURCES (USES)		
Issuance of certificates of obligation	6,045,595	
Sale of capital assets proceeds		
Transfers in	5,602,950	1,700,000
Transfers out	(2,994,720)	(2,197,619)
	8,653,825	(497,619)
Total Other Financing Sources (Uses)	8,653,825	(497,619)
Net Change in Fund Balances	7,902,107	(3,445,735)
Fund Balances – Beginning	7,427,664	10,873,399
Fund Balances – Ending	\$ 15,329,771	\$ 7,427,664



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

SPECIAL REVENUE FUNDS

**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, 2014 AND 2013

	2014	2013
ASSETS		
Cash	\$ 61,373	\$ 16,125
Investments	113,642	163,598
Receivables (net of allowance for uncollectibles):		
Accounts	14,463	25,807
Due from other funds		
	\$ 189,478	\$ 205,530
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to other funds		
 Fund Balances:		
Nonspendable		
Restricted for:		
Economic development	189,478	205,530
Committed		
Assigned		
Unassigned		
	189,478	205,530
Total Fund Balances		
	\$ 189,478	\$ 205,530
Total Liabilities and Fund Balances		
	\$ 189,478	\$ 205,530

CITY OF HARKER HEIGHTS
HOTEL/MOTEL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
Taxes – other	\$ 99,634	\$ 84,257
Charges for services		
Investment earnings	<u>124</u>	<u>198</u>
 Total Revenues	 <u>99,758</u>	 <u>84,455</u>
 EXPENDITURES		
Current:		
Economic development and assistance	<u>115,810</u>	<u>101,314</u>
 Total Expenditures	 <u>115,810</u>	 <u>101,314</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 (16,052)	 (16,859)
 Fund Balances – Beginning	 <u>205,530</u>	 <u>222,389</u>
 Fund Balances – Ending	 <u>\$ 189,478</u>	 <u>\$ 205,530</u>

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash	\$ 82,837	\$ 43,080
Investments	112,798	127,757
Due from other funds	20,843	18,825
	\$ 216,478	\$ 189,662
 FUND BALANCES		
Nonspendable		
Restricted for:		
Public safety	216,478	189,662
Committed		
Assigned		
Unassigned		
	\$ 216,478	\$ 189,662

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
REVENUES		
Fines	\$ 91,671	\$ 78,235
Investment earnings	145	152
	91,816	78,387
Total Revenues		
 EXPENDITURES		
Current:		
Public safety:		
Courts	65,000	68,002
Total Expenditures	65,000	68,002
Excess (Deficiency) of Revenues Over (Under) Expenditures	26,816	10,385
Fund Balances – Beginning	189,662	179,277
Fund Balances – Ending	\$ 216,478	\$ 189,662

CITY OF HARKER HEIGHTS
MEMORIAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash		\$ 358
Investments		11,820
		11,820
Total Assets		\$ 12,178
 FUND BALANCES		
Nonspendable		
Restricted for:		
Public safety		12,178
Committed		
Assigned		
Unassigned		
Total Fund Balances		\$ 12,178

CITY OF HARKER HEIGHTS
MEMORIAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
REVENUES		
Investment earnings	\$ 11	\$ 19
Donations	34,818	
Total Revenues	34,829	19
EXPENDITURES		
Monument payments	47,007	
Total Expenditures	47,007	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,178)	19
Fund Balances – Beginning	12,178	12,159
Fund Balances – Ending		\$ 12,178



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

PROPRIETARY FUNDS

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, 2014 AND 2013

	2014	2013
ASSETS		
Current Assets:		
Cash	\$ 1,276,567	\$ 569,774
Investments	2,763,141	3,272,177
Receivables (net of allowance for uncollectibles):		
Accounts	1,068,289	1,030,091
Due from other funds		
Inventory of supplies, at first-in, first-out cost	100,962	126,764
Restricted cash	91,722	61,306
Restricted investments	362,954	359,215
 Total Current Assets	 5,663,635	 5,419,327
Capital Assets:		
Land and improvements	154,113	154,113
Buildings and lift stations	3,110,968	3,026,857
Furniture and fixtures	12,375	12,375
Machinery and equipment	1,004,650	973,687
Vehicles	626,250	567,672
Water and sewer system	43,360,390	40,588,748
Other improvements	1,144	
Construction in progress	2,416,318	2,525,634
Less accumulated depreciation	(11,155,797)	(10,318,842)
 Total Capital Assets (Net of Depreciation)	 39,530,411	 37,530,244
 Total Noncurrent Assets	 39,530,411	 37,530,244
 Total Assets	 \$ 45,194,046	 \$ 42,949,571

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities		
Due to other funds	1,631,885	631,100
Accrued compensated absences	23,000	25,000
Refundable meter deposits	303,119	281,122
Accrued interest payable	94,438	89,151
Capital leases payable - current		54,147
General obligation bonds - current	219,491	340,821
Certificates of obligation - current	895,000	495,000
	<u>3,166,933</u>	<u>1,916,341</u>
Noncurrent Liabilities:		
Accrued compensated absences	2,000	3,000
Net pension obligation	44,926	41,317
Net other postemployment benefit obligation	40,015	24,069
Capital leases payable		
General obligation bonds payable, (net of deferred amount on advanced refundings)	2,723,269	2,908,392
Certificates of obligation (net of unamortized discounts)	16,823,390	14,765,284
	<u>19,633,600</u>	<u>17,742,062</u>
Total Noncurrent Liabilities	<u>19,633,600</u>	<u>17,742,062</u>
Total Liabilities	<u>22,800,533</u>	<u>19,658,403</u>
NET POSITION		
Net investment in capital assets	22,219,633	21,898,067
Restricted for debt service	47,922	29,911
Unrestricted	125,961	1,363,190
	<u>22,393,516</u>	<u>1,363,190</u>
Total Net Position	<u>\$ 22,393,516</u>	<u>\$ 23,291,168</u>



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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Charges for services	\$ 8,573,314	\$ 8,961,818
Other	14,694	25,960
	<u>8,588,008</u>	<u>8,987,778</u>
OPERATING EXPENSES		
Water purchases	2,407,417	2,441,942
Contractual services	229,014	211,948
Personal services	1,088,569	1,066,253
Utilities and telephone	461,285	454,347
Repairs and maintenance	379,818	382,277
Supplies	229,451	235,193
Uncollectible accounts	65,077	76,093
Professional fees	48,800	55,199
Depreciation	857,687	886,907
Other	1,608	1,745
	<u>5,768,726</u>	<u>5,811,904</u>
Operating Income	<u>2,819,282</u>	<u>3,175,874</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	9,607	12,917
Taxes and assessments		2,256
Interest expense	(603,735)	(256,311)
Bond issuance costs	(25,026)	(19,888)
Gain on sale of capital assets		
Loss on sale of capital assets		
	<u>(619,154)</u>	<u>(261,026)</u>
Total Nonoperating Revenues (Expenses)	<u>(619,154)</u>	<u>(261,026)</u>
Income Before Transfers	2,200,128	2,914,848
Transfers in	2,543,099	1,723,581
Transfers out	(5,702,951)	(2,600,569)
	<u>(959,724)</u>	<u>2,037,860</u>
Change in Net Position	<u>(959,724)</u>	<u>2,037,860</u>
Total Net Position – Beginning (as Restated see Note V.8 on page 70)	<u>23,353,240</u>	<u>21,253,308</u>
Total Net Position – Ending	<u><u>\$ 22,393,516</u></u>	<u><u>\$ 23,291,168</u></u>

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 8,557,113	\$ 8,948,236
Cash payments to suppliers	(2,795,883)	(3,488,352)
Cash payments to employees	(1,072,014)	(1,043,500)
Other operating cash receipts (payments)	14,694	25,971
	<u>4,703,910</u>	<u>4,442,355</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	2,543,099	1,723,581
Transfers out	(5,702,951)	(2,600,569)
	<u>(3,159,852)</u>	<u>(876,988)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(2,795,784)	(2,459,134)
Proceeds from issuance of debt	2,949,948	
Principal repayments	(889,967)	(923,702)
Interest paid on long-term debt	(576,343)	(251,017)
	<u>(1,312,146)</u>	<u>(3,633,853)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	1,248,690	2,613,820
Purchase of investments	(753,000)	(2,675,000)
Interest & penalties received	9,607	15,173
	<u>505,297</u>	<u>(46,007)</u>
Net Cash Provided (Used) By Investing Activities	<u>505,297</u>	<u>(46,007)</u>
Net Increase (Decrease) in Cash For The Year	737,209	(114,493)
Cash - Beginning	<u>631,080</u>	<u>745,573</u>
Cash - Ending	<u>\$ 1,368,289</u>	<u>\$ 631,080</u>
Reconciliation of cash:		
Cash	1,276,567	569,774
Restricted Cash	<u>91,722</u>	<u>61,306</u>
Total Cash	<u>\$ 1,368,289</u>	<u>\$ 631,080</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 2,819,282	\$ 3,175,874
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	857,687	886,907
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(38,198)	(21,339)
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds		
(Increase) Decrease in inventory	25,802	(3,293)
Increase (Decrease) in accounts payable and accrued liabilities		
Increase (Decrease) in refundable meter deposits	21,997	7,757
Increase (Decrease) in due to other funds	1,000,785	373,696
Increase (Decrease) in compensated absences	(3,000)	1,000
Increase (Decrease) in net pension obligation	3,609	5,075
Increase (Decrease) in net other postemployment benefit obligation	15,946	16,678
Total Adjustments	<u>1,884,628</u>	<u>1,266,481</u>
Net cash Provided By Operating Activities:	<u><u>4,703,910</u></u>	<u><u>4,442,355</u></u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Decrease in fair value of investments		
Gain on sale of capital assets		
Loss on sale of capital assets		
Amortization of deferred amount on advanced refunding of certificates of obligation	\$ 34,366	\$ 31,233
Amortization of bond discount	<u>2,692</u>	<u>1,809</u>
Total Noncash Investing, Capital and Financing Activities	<u><u>\$ 37,058</u></u>	<u><u>\$ 33,042</u></u>

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, 2014 AND 2013

	2014	2013
ASSETS		
Current Assets:		
Cash	\$ 106,937	\$ 84,258
Investments	52,704	52,686
Receivables (net of allowance for uncollectibles):		
Accounts	188,366	197,395
Due from other funds	71	236
Total Current Assets	348,078	334,575
Noncurrent Assets:		
Capital Assets:		
Machinery & equipment	19,325	19,325
Improvements other than buildings	23,728	23,728
Less accumulated depreciation	(27,431)	(21,896)
Total Capital Assets (Net of Depreciation)	15,622	21,157
Total Noncurrent Assets	15,622	21,157
Total Assets	\$ 363,700	\$ 355,732
LIABILITIES		
Current Liabilities:		
Due to other funds	\$ 134,079	\$ 117,128
Accrued compensated absences	2,000	2,000
Total Current Liabilities	136,079	119,128
Noncurrent Liabilities:		
Accrued compensated absences	1,000	
Net pension obligation	1,113	949
Net other postemployment benefit obligation	399	159
Total Noncurrent Liabilities	2,512	1,108
Total Liabilities	138,591	120,236
NET POSITION		
Net investment in capital assets	15,622	21,157
Unrestricted	209,487	214,339
Total Net Position	\$ 225,109	\$ 235,496

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Charges for services	\$ 1,825,101	\$ 1,823,388
Franchise fees	139,795	136,692
Other	1,078	1,134
	1,965,974	1,961,214
OPERATING EXPENSES		
Contractual services	1,505,406	1,469,441
Personal services	45,433	39,451
Utilities	290	238
Repairs and maintenance	2,560	4,003
Supplies	1,331	314
Uncollectible accounts	10,664	11,053
Depreciation	5,535	5,935
Professional fees	5,000	5,000
Other	405	0
	1,576,624	1,535,435
Operating Income	389,350	425,779
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	263	90
	263	90
Income Before Transfers	389,613	425,869
Transfers in		
Transfers out	(400,000)	(350,000)
	(10,387)	75,869
Change in Net Position	(10,387)	75,869
Total Net Position – Beginning	235,496	159,627
Total Net Position – Ending	\$ 225,109	\$ 235,496

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,823,467	\$ 1,798,956
Cash payments to suppliers	(1,498,042)	(1,482,199)
Cash payments to employees	(44,029)	(38,196)
Franchise fees	139,795	136,692
Other operating cash receipts (payments)	1,243	951
	<u>422,434</u>	<u>416,204</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in		
Transfers out	(400,000)	(350,000)
	<u>(400,000)</u>	<u>(350,000)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(400,000)</u>	<u>(350,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets		
	<u> </u>	<u> </u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments		
Purchase of investments	(18)	(50,003)
Interest received	263	90
	<u>245</u>	<u>(49,913)</u>
Net Cash Provided (Used) By Investing Activities	<u>245</u>	<u>(49,913)</u>
Net Increase (Decrease) in Cash For The Year	22,679	16,291
Cash - Beginning	84,258	67,967
Cash - Ending	<u>\$ 106,937</u>	<u>\$ 84,258</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, 2014 AND 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 389,350	\$ 425,779
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	5,535	5,935
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	9,030	(13,379)
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds	165	(183)
Increase (Decrease) in due to other funds	16,950	(3,203)
Increase in compensated absences	1,000	900
Increase in net pension obligation	164	228
Increase (Decrease) in net other postemployment benefit obligation	240	127
Total Adjustments	33,084	(9,575)
Net cash Provided By Operating Activities:	\$ 422,434	\$ 416,204

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash	\$ 9,709	\$ 61,657
Investments	5,235	75,214
Receivables (net of allowance for uncollectibles):		
Accounts	68,584	77,072
Due from other funds		
Restricted cash	3,445	1,437
Restricted investments	<u>3,145</u>	<u>1,145</u>
 Total Current Assets	 <u>90,118</u>	 <u>216,525</u>
Capital Assets:		
Land and improvements	125,160	125,000
Machinery and equipment	214,916	168,378
Vehicles	92,354	92,354
Drainage system	5,389,888	4,803,830
Construction in progress	198,305	281,522
Less accumulated depreciation	<u>(535,171)</u>	<u>(425,036)</u>
 Total Capital Assets (Net of Depreciation)	 <u>5,485,452</u>	 <u>5,046,048</u>
 Total Noncurrent Assets	 <u>5,485,452</u>	 <u>5,046,048</u>
 Total Assets	 <u><u>\$ 5,575,570</u></u>	 <u><u>\$ 5,262,573</u></u>

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2014 AND 2013

	2014	2013
LIABILITIES		
Current Liabilities:		
Due to other funds	\$ 4,646	\$ 107,687
Accrued compensated absences	7,000	5,500
Accrued interest payable	8,174	8,666
General obligation bonds - current	37,346	68,906
Certificates of obligation - current	65,000	60,000
 Total Current Liabilities	 122,166	 250,759
Noncurrent Liabilities:		
Accrued compensated absences	3,000	2,500
Net pension obligation	7,849	7,209
Net other postemployment benefit obligation	3,948	2,595
General obligation bonds (net of deferred amount on advanced refunding)	509,694	547,040
Certificates of obligation (net of unamortized discounts)	1,140,191	1,211,566
 Total Noncurrent Liabilities	 1,664,682	 1,770,910
 Total Liabilities	 1,786,848	 2,021,669
 NET POSITION		
Net investment in capital assets	3,733,221	3,158,536
Restricted for debt service	6,590	2,582
Unrestricted	48,911	79,786
 Total Net Position	 \$ 3,788,722	 \$ 3,240,904



CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Charges for services	\$ 741,601	\$ 737,344
Other	33,158	600
	<u>774,759</u>	<u>737,944</u>
OPERATING EXPENSES		
Contractual services	3,537	11,635
Personal services	120,589	109,950
Repairs and maintenance	26,073	61,139
Supplies	15,138	16,830
Uncollectible accounts	2,796	4,156
Depreciation	110,135	102,403
Professional fees	14,587	
Other	359	65
	<u>293,214</u>	<u>306,178</u>
Total Operating Expenses	<u>293,214</u>	<u>306,178</u>
Operating Income	<u>481,545</u>	<u>431,766</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	139	80
Bond issuance costs		(346)
Interest expense	(10,487)	(18,862)
	<u>(10,348)</u>	<u>(19,128)</u>
Total Nonoperating Revenues (Expenses)	<u>(10,348)</u>	<u>(19,128)</u>
Income Before Transfers	471,197	412,638
Transfers in	451,621	474,038
Transfers out	(375,000)	(175,000)
	<u>547,818</u>	<u>711,676</u>
Change in Net Position	<u>547,818</u>	<u>711,676</u>
Total Net Position	<u>3,240,904</u>	<u>2,529,228</u>
Total Net Position – Ending	<u><u>\$ 3,788,722</u></u>	<u><u>\$ 3,240,904</u></u>

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 749,730	\$ 730,035
Cash payments to suppliers	(165,173)	13,416
Cash payments to employees	(116,596)	(105,419)
Other operating cash receipts (payments)	33,158	600
	<u>501,119</u>	<u>638,632</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	451,621	474,038
Transfers out	(375,000)	(175,000)
	<u>76,621</u>	<u>299,038</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>76,621</u>	<u>299,038</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net proceeds from issuance of certificates of obligation		
Acquisition and construction of capital assets	(549,538)	(538,484)
Principal repayments	(128,906)	(299,190)
Interest paid on long-term debt	(17,375)	(26,851)
	<u>(695,819)</u>	<u>(864,525)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(695,819)</u>	<u>(864,525)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	70,000	152,000
Purchase of investments	(2,000)	(225,000)
Interest received	139	80
	<u>68,139</u>	<u>(72,920)</u>
Net Cash Provided (Used) By Investing Activities	<u>68,139</u>	<u>(72,920)</u>
Net Increase (Decrease) in Cash For The Year	(49,940)	225
Cash - Beginning	63,094	62,869
Cash - Ending	<u>\$ 13,154</u>	<u>\$ 63,094</u>
Reconciliation of cash:		
Cash	9,709	61,657
Restricted Cash	3,445	1,437
Total Cash	<u>\$ 13,154</u>	<u>\$ 63,094</u>

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, 2014 AND 2013

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 481,545	\$ 431,766
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	110,135	102,403
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	8,487	(7,244)
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds		
Increase (Decrease) in due to other funds	(103,041)	107,176
Increase in compensated absences	2,000	2,000
Increase in net pension obligation	640	848
Increase (Decrease) in net other postemployment benefit obligation	1,353	1,683
Total Adjustments	19,574	206,866
Net cash Provided By Operating Activities:	501,119	638,632
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Amortization of bond discount		\$ 183
Amortization of bond issuance costs		346
Total Noncash Investing, Capital and Financing Activities		\$ 529

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



CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS



CITY OF HARKER HEIGHTS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
SEPTEMBER 30, 2014 AND 2013

	2014	2013
Governmental Funds Capital Assets:		
Land	\$ 15,512,984	\$ 15,477,158
Buildings	13,403,751	13,398,571
Improvements other than buildings	129,693	82,687
Machinery and equipment	5,153,853	4,909,461
Vehicles	3,853,243	3,889,248
Furniture and fixtures	890,465	877,666
Street and drainage improvements	24,526,277	22,101,281
Construction in progress	703,824	2,349,906
Total governmental funds capital assets	\$ 64,174,090	\$ 63,085,978
Investment in Governmental Funds Capital Assets by Source:		
General fund	\$ 8,154,451	\$ 7,966,365
Special revenue funds	892,580	845,573
Capital projects fund	48,872,164	48,021,374
Donations	1,572,895	1,572,895
Grants, revenue sharing	4,682,000	4,679,771
Total governmental funds capital assets	\$ 64,174,090	\$ 63,085,978

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, 2014

Function and Activity	Land	Buildings	Improvements other than Buildings	Machinery and Equipment
General government:				
Council				\$ 3,649
Administration	1,245,247	2,200,375		918,127
Finance				123,781
Total general government	<u>1,245,247</u>	<u>2,200,375</u>		<u>1,045,557</u>
Public Safety:				
Animal Control		1,601,459		
Police	53,228	2,829,879	47,007	1,167,573
Fire and EMS	27,578	1,074,764		1,205,886
Code Enforcement		125		20,265
Courts				182,691
Total public safety	<u>80,806</u>	<u>5,506,227</u>	<u>47,007</u>	<u>2,576,415</u>
Highways and streets:				
Maintenance	109,395	203,225		543,730
Street and drainage system				
Total highways and streets	<u>109,395</u>	<u>203,225</u>		<u>543,730</u>
Culture and recreation:				
Parks and recreation	14,060,173	1,352,970	37,336	715,225
Library	17,363	4,140,954		152,757
Total culture and recreation	<u>14,077,536</u>	<u>5,493,924</u>	<u>37,336</u>	<u>867,982</u>
Economic development and assistance			45,350	120,169
Construction in progress				
Total governmental funds capital assets	<u>\$ 15,512,984</u>	<u>\$ 13,403,751</u>	<u>\$ 129,693</u>	<u>\$ 5,153,853</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			\$ 7,404
	140,853			4,504,602
	1,646			125,427
	<u>146,254</u>			<u>4,637,433</u>
				1,601,459
1,163,506	230,346			5,491,539
1,812,604	13,449			4,134,281
28,453				48,843
66,605	7,209			256,505
<u>3,071,168</u>	<u>251,004</u>			<u>11,532,627</u>
				1,299,398
443,048		24,526,277		24,526,277
<u>443,048</u>		<u>24,526,277</u>		<u>25,825,675</u>
				16,643,928
339,027	139,197			4,662,374
	<u>351,300</u>			
<u>339,027</u>	<u>490,497</u>			<u>21,306,302</u>
				168,229
	<u>2,710</u>			
				703,824
			<u>703,824</u>	<u>703,824</u>
<u>\$ 3,853,243</u>	<u>\$ 890,465</u>	<u>\$ 24,526,277</u>	<u>\$ 703,824</u>	<u>\$ 64,174,090</u>

CITY OF HARKER HEIGHTS
CAPTIAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2014

Function and Activity	Capital Assets October 1, 2013	Additions	Transfers and Deletions	Capital Assets September 30, 2014
General government:				
Council	\$ 7,404			\$ 7,404
Administration	4,404,292	106,629	6,319	4,504,602
Finance	126,821		1,394	125,427
Total general government	<u>4,538,517</u>	<u>106,629</u>	<u>7,713</u>	<u>4,637,433</u>
Public Safety:				
Animal Control	1,601,459			1,601,459
Police	5,331,968	245,628	86,057	5,491,539
Fire and EMS	4,246,585	1,420	113,724	4,134,281
Code Enforcement	48,843			48,843
Courts	244,166	47,606	35,267	256,505
Total public safety	<u>11,473,021</u>	<u>294,654</u>	<u>235,048</u>	<u>11,532,627</u>
Highways and streets:				
Maintenance	1,264,849	35,599	1,050	1,299,398
Street and drainage system	22,101,281	2,424,996		24,526,277
Total highways and streets	<u>23,366,130</u>	<u>2,460,595</u>	<u>1,050</u>	<u>25,825,675</u>
Culture and recreation:				
Parks and recreation	16,530,347	126,091	12,510	16,643,928
Library	4,659,828	11,816	9,270	4,662,374
Total culture and recreation	<u>21,190,175</u>	<u>137,907</u>	<u>21,780</u>	<u>21,306,302</u>
Economic development and assistance	<u>168,229</u>			<u>168,229</u>
Construction in progress	<u>2,349,906</u>	<u>850,790</u>	<u>2,496,872</u>	<u>703,824</u>
Total governmental funds capital assets	<u>\$ 63,085,978</u>	<u>\$ 3,850,575</u>	<u>\$ 2,762,463</u>	<u>\$ 64,174,090</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.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	120
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	126
Debt Capacity 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.	131
Demographic and Economic Information 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.	136
Operating Information 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.	139

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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities										
Net investment in capital assets	\$ 24,343	\$ 23,247	\$ 21,839	\$ 19,802	\$ 19,815	\$ 18,703	\$ 9,766	\$ 3,348	\$ 127	\$ 6,769
Restricted	12,000	4,921	8,773	15,953	11,605	18,516	12,667	18,392	20,739	11,056
Assigned	179	146	91							
Unrestricted	3,358	7,721	5,695	2,911	4,731	(691)	6,716	6,712	4,854	4,628
Total governmental activities net position	<u>39,880</u>	<u>36,035</u>	<u>36,398</u>	<u>38,666</u>	<u>36,151</u>	<u>36,528</u>	<u>29,149</u>	<u>28,452</u>	<u>25,720</u>	<u>22,453</u>
Business-type activities										
Net investment in capital assets	25,968	25,078	22,756	21,717	20,960	19,893	14,305	11,682	8,854	8,229
Restricted	56	32	34			35	18	73	93	178
Unrestricted	384	1,657	1,310	(3,873)	(3,711)	(5,627)	2,820	1,487	1,820	975
Total business-type activities net position	<u>26,408</u>	<u>26,767</u>	<u>24,100</u>	<u>17,844</u>	<u>17,249</u>	<u>14,301</u>	<u>17,143</u>	<u>13,242</u>	<u>10,767</u>	<u>9,382</u>
Primary Government										
Net investment in capital assets	50,311	48,325	44,595	41,519	40,775	38,596	24,071	15,030	8,981	14,998
Restricted	12,056	4,953	8,807	15,953	11,605	18,551	12,685	18,465	20,832	11,234
Assigned	179	146	91							
Unrestricted	3,742	9,378	7,005	(962)	1,020	(6,318)	9,536	8,199	6,674	5,603
Total primary government net position	<u>\$ 66,288</u>	<u>\$ 62,802</u>	<u>\$ 60,498</u>	<u>\$ 56,510</u>	<u>\$ 53,400</u>	<u>\$ 50,829</u>	<u>\$ 46,292</u>	<u>\$ 41,694</u>	<u>\$ 36,487</u>	<u>\$ 31,835</u>

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental Activities:										
General government	\$ 2,862	\$ 3,247	\$ 2,818	\$ 2,869	\$ 3,304	\$ 2,182	\$ 1,995	\$ 1,593	\$ 1,485	\$ 1,305
Public safety	11,137	10,553	10,383	10,216	9,597	9,079	8,171	6,798	6,229	5,789
Highways/streets	1,828	1,734	1,782	1,541	1,498	1,488	1,312	1,154	1,036	948
Economic development	538	483	468	362	503	357	335	290	284	258
Culture and recreation	3,077	2,932	2,928	2,732	2,575	2,003	1,631	1,617	1,356	1,222
Interest on long-term debt	1,214	1,094	1,237	1,225	1,154	1,169	964	944	524	386
Other									6	5
Total Governmental Activities	<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>	<u>12,396</u>	<u>10,920</u>	<u>9,913</u>
Business-type Activities:										
Water and sewer	6,397	6,088	5,862	6,593	5,559	5,228	4,905	4,023	3,744	3,423
Drainage	304	325	283	283	251	225	187	1,400	182	69
Sanitation	1,577	1,536	1,529	1,475	1,361	1,295	1,552	125	1,286	1,169
Total Business-type Activities	<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>	<u>5,548</u>	<u>5,212</u>	<u>4,661</u>
Total Expenses	<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>	<u>\$17,944</u>	<u>\$16,132</u>	<u>\$14,574</u>
Program Revenues										
Governmental Activities:										
Charges for services										
General government	\$ 61	\$ 56	\$ 87	\$ 67	\$ 93	\$ 83	\$ 102	\$ 111	\$ 100	\$ 114
Public safety	1,831	1,858	1,998	2,029	1,874	1,937	1,825	1,744	1,710	1,574
Culture and recreation	311	291	306	246	273	204	136	134	127	110
Other activities	546	249	164	157	202	199	346	290	319	348
Operating grants and contributions	66	477	598	246	210	185	121	506	36	84
Capital Grants and contributions				234	138		215	40	496	19
Total Governmental Activities	<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>	<u>2,825</u>	<u>2,788</u>	<u>2,249</u>
Business-type Activities:										
Charges for services	11,189	11,553	11,586	11,833	10,062	9,976	9,616	8,088	8,253	6,915
Total Business-type Activities	<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>	<u>8,088</u>	<u>8,253</u>	<u>6,915</u>
Total Program Revenues	<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>	<u>\$10,913</u>	<u>\$11,041</u>	<u>\$ 9,164</u>

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net (Expense)/Revenue										
Governmental Activities	\$ (17,841)	\$ (17,112)	\$ (16,463)	\$ (15,966)	\$ (15,841)	\$ (13,670)	\$ (11,663)	\$ (9,571)	\$ (8,132)	\$ (7,664)
Business-type Activities	2,911	3,604	3,912	3,482	2,891	3,228	2,972	2,540	3,041	2,254
Total Net Expense	<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>	<u>\$ (7,031)</u>	<u>\$ (5,091)</u>	<u>\$ (5,410)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes										
Property taxes	\$10,051	\$ 9,189	\$ 9,167	\$ 8,965	\$ 8,839	\$ 8,344	\$ 7,510	\$ 6,436	\$ 5,238	\$ 4,603
Sales taxes	6,186	5,232	5,426	4,859	4,780	4,535	3,342	2,920	2,738	2,043
Mixed drink taxes	116	98	97	126	139	94	104	81	93	87
Bingo taxes	77	101	105	101	105	105	94	104	73	51
Hotel/Motel taxes	100	84	93	92	72	47	39	22	29	29
Special assessments										
Other taxes								1		3
Franchise fees	1,312	1,265	1,436	1,271	1,247	1,197	1,126	1,357	1,017	816
Investment earnings	132	40	64	48	205	498	993	1,091	472	400
Gain on sale of capital assets	12	9	9			4	10	98	7	119
Transfers	3,483	928	(2,203)	3,019	77	6,225	(858)	193	1,732	3,499
Total Governmental Activities	<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>	<u>12,303</u>	<u>11,399</u>	<u>11,650</u>
Business-type activities										
Franchise fees	140	137	130	124	112	112	17			
Investment earnings	10	13	11	8	19	43	54	124	76	43
Miscellaneous										
Gain on sale of capital assets					3			4		
Transfers	(3,483)	(928)	2,203	(3,019)	(77)	(6,225)	858	(193)	(1,732)	(3,499)
Total Business-type Activities	<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>	<u>(65)</u>	<u>(1,656)</u>	<u>(3,456)</u>
Total General Revenues and Other Changes in Net Position	<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>	<u>\$12,238</u>	<u>\$ 9,743</u>	<u>\$ 8,194</u>
Change in Net Position										
Governmental Activities	\$ 3,628	\$ (166)	\$ (2,269)	\$ 2,515	\$ (377)	\$ 7,379	\$ 697	\$ 2,732	\$ 3,267	\$ 3,986
Business-type Activities	(422)	2,826	6,256	595	2,948	(2,842)	3,901	2,475	1,385	(1,202)
Total Change in Net Position	<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>	<u>\$ 5,207</u>	<u>\$ 4,652</u>	<u>\$ 2,784</u>

CITY OF HARKER HEIGHTS
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE¹
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Bingo Tax	Alcoholic Beverage Tax	Hotel/Motel Tax	Other Tax	Total
2014	10,051	6,186	1,452	78	116	100		17,983
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
2007	6,436	2,920	1,357	104	81	22	1	10,921
2006	5,238	2,738	1,017	73	93	29	1	9,189
2005	4,603	2,043	816	51	87	29	3	7,632

Source: Audited Financial Statements.

¹Includes 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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Fund										
Reserved					\$ 36	\$ 71	\$ 30	\$ 29	\$ 10	\$ 10
Unreserved					6,607	5,737	4,863	4,616	3,497	2,912
Nonspendable										
Restricted for:										
Economic development				39						
Public safety	1	1	3	3						
Debt service										
Capital projects										
Cemetery	18	18								
Committed										
Assigned to:										
Culture and recreation	179	146	91							
Unassigned	9,486	8,256	8,342	7,339						
Total general fund	<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>	<u>\$ 4,645</u>	<u>\$ 3,507</u>	<u>\$ 2,922</u>
All Other Governmental Funds										
Reserved					\$ 11,568	\$ 18,445	\$ 12,637	\$ 18,363	\$ 20,730	\$ 11,046
Unreserved, reported in:										
Special revenue funds					169	214	211	183	158	171
Capital projects funds					2,327	2,241	878	2,039	1,288	1,684
Debt service funds										
Capital projects										
Nonspendable										
Restricted for:										
Economic development	189	206	222	233						
Public safety	216	202	191	194						
Debt service	106	61	48	106						
Capital projects	11,470	4,433	8,291	15,611						
Committed										
Assigned to:										
Culture and recreation										
Unassigned	3,860	2,995	2,583	2,407						
Total all other governmental funds	<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>	<u>\$ 20,585</u>	<u>\$ 22,176</u>	<u>\$ 12,901</u>

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
Taxes	\$17,784	\$16,019	\$16,365	\$ 15,464	\$ 15,145	\$ 14,344	\$ 12,208	\$ 10,920	\$ 9,199	\$ 7,641
Licenses and permits	591	286	204	191	207	181	329	280	326	330
Fines	1,541	1,405	1,472	1,399	1,408	1,415	1,313	1,247	1,242	1,199
Charges for services	787	797	721	708	748	645	669	609	564	460
Intergovernmental	198	443	432	397	317	131	324	55	515	65
Investment earnings	32	39	41	48	204	498	993	1,091	472	400
Contributions and donations	41	39	171	26	31	54	12	491	17	38
Miscellaneous	143	144	74	54	74	87	108	112	105	111
Total revenues	<u>21,117</u>	<u>19,172</u>	<u>19,480</u>	<u>18,287</u>	<u>18,134</u>	<u>17,355</u>	<u>15,956</u>	<u>14,805</u>	<u>12,440</u>	<u>10,244</u>
Expenditures										
General government	2,734	3,072	2,659	3,023	2,750	2,213	1,889	1,735	1,369	1,343
Public safety	10,492	10,550	9,823	9,485	9,242	8,655	8,080	6,606	6,406	6,241
Highways and streets	1,321	1,302	1,558	1,172	1,130	1,104	1,058	933	866	750
Culture and recreation	2,726	2,727	2,541	2,348	2,166	1,974	1,569	1,846	1,316	1,151
Economic development and assistance	526	466	452	337	449	351	324	263	303	222
Debt service										
Principal	1,677	1,509	1,409	1,122	1,127	777	632	425	234	143
Interest	1,077	1,053	1,169	1,153	1,125	1,104	929	898	436	349
Tax collection fees	28	28	27	22	21	16	15	15	6	5
Bond issuance costs	6	19	36	42		44			186	54
Capital outlay	851	3,296	3,325	2,577	6,254	5,286	7,411	3,078	5,332	1,106
Total expenditures	<u>21,438</u>	<u>24,022</u>	<u>22,999</u>	<u>21,281</u>	<u>24,264</u>	<u>21,524</u>	<u>21,907</u>	<u>15,799</u>	<u>16,454</u>	<u>11,364</u>
Excess of revenues over (under) expenditures	<u>(321)</u>	<u>(4,850)</u>	<u>(3,519)</u>	<u>(2,994)</u>	<u>(6,130)</u>	<u>(4,169)</u>	<u>(5,951)</u>	<u>(994)</u>	<u>(4,014)</u>	<u>(1,120)</u>
Other Financing Sources (Uses)										
Proceeds from sale of bonds	6,046	455	3,200	5,000		6,000			12,000	3,370
Bond discount										
Payment to refunded bond escrow agent		(435)	(3,650)							(2,335)
Capital leases		270		199		27	186	255	135	536
Sale of capital assets proceeds			10	1	52	6	11	107	7	193
Transfers in	7,278	3,436	3,034	5,925	2,400	11,071	2,750	3,650	7,850	5,915
Transfers out	(3,795)	(2,508)	(5,237)	(2,906)	(2,323)	(4,846)	(3,608)	(3,470)	(6,118)	(2,416)
Total other financing sources (uses)	<u>9,529</u>	<u>1,218</u>	<u>(2,643)</u>	<u>8,219</u>	<u>129</u>	<u>12,258</u>	<u>(661)</u>	<u>542</u>	<u>13,874</u>	<u>5,263</u>
Net change in fund balances	<u>\$9,208</u>	<u>(\$3,632)</u>	<u>(\$6,162)</u>	<u>\$ 5,225</u>	<u>\$ (6,001)</u>	<u>\$ 8,089</u>	<u>\$ (6,612)</u>	<u>\$ (452)</u>	<u>\$ 9,860</u>	<u>\$ 4,143</u>
Debt service as a percentage of noncapital expenditures	13.69%	13.00%	13.51%	12.57%	12.95%	12.13%	11.35%	11.30%	6.39%	5.30%

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

Fiscal Year	Real Property	Personal Property	Less: Exemptions¹	Total Taxable Assessed Value	Taxable Assessed Value as a Percentage of Estimated Actual Value	Estimated Actual Taxable Value	Total Direct Rate
2014	1,580,544,133	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	141,980,105	1,402,628,754	90.81%	1,544,608,859	0.6770
2012	1,449,939,258	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	127,060,247	1,361,199,939	91.46%	1,488,260,186	0.6770
2010	1,375,764,616	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	93,844,827	1,258,503,832	93.06%	1,352,348,659	0.6796
2008	1,165,256,114	54,466,657	93,101,967	1,126,620,804	92.37%	1,219,722,771	0.6796
2007	1,010,485,000	51,194,000	79,239,000	982,440,000	92.54%	1,061,679,000	0.6796
2006	809,245,000	39,277,000	58,706,000	789,816,000	93.08%	848,522,000	0.6896
2005	685,029,000	37,281,000	44,402,000	677,908,000	93.85%	722,310,000	0.6996

Source: Bell County Appraisal District

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

¹Amount 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	
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
2007	0.55130	0.12830	0.67960	1.44890	0.14200	0.38150	0.02950	0.00400	2.68550
2006	0.62310	0.06650	0.68960	1.55830	0.14600	0.34650	0.02950	0.00440	2.77430
2005	0.63480	0.06480	0.69960	1.55830	0.14700	0.33150	0.02950	0.00480	2.77070

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)**

<u>Taxpayer</u>	<u>2014</u>			<u>2005</u>		
	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>
HH/Killeen Health System LLC	\$ 51,059	1	3.38%			
Market Heights LTD	28,736	2	1.90%			
Wal-Mart Real Estate Business Trust	18,296	3	1.21%			
Oncor Electric Delivery	10,945	4	0.72%	6,621	1	0.98%
HH/Killeen Health System LLC	9,094	5	0.60%			
HEB Grocery Company LP	6,796	6	0.45%	1,971	10	0.29%
Target Corporation	5,317	7	0.35%			
Omni Lion's Run LP	4,001	8	0.26%			
Boose Property Management LC	3,845	9	0.25%	2,281	7	0.34%
Target Stores Inc.	3,172	10	0.21%			
D&H Lion's Run Joint Venture				4,256	2	0.63%
Lookout Ridge LLC				3,996	3	0.59%
House, Charles Etal				3,077	4	0.45%
Butt, H E Grocery Co				2,957	5	0.44%
Time Warner Cable Texas LLC				2,629	6	0.39%
Texas State Bancshares Inc.				2,228	8	0.33%
Central Texas Shopping Center				2,147	9	0.32%
	<u>\$ 141,261</u>		<u>9.33%</u>	<u>\$ 32,163</u>		<u>4.76%</u>

Source: Bell County Appraisal District

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

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Less Refunds	Total Collections to Date		Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
		Amount Collected	Percentage of Levy			Amount Collected	Percentage of Levy		
2014	10,230	10,157	99.29%	128	112	10,173	99.44%	213	2.08%
2013	9,496	9,243	97.34%	84	98	9,229	97.19%	257	2.71%
2012	9,443	9,173	97.14%	92	59	9,206	97.49%	242	2.56%
2011	9,215	8,949	97.11%	108	41	9,016	97.84%	252	2.73%
2010	9,045	8,801	97.30%	107	n/a	8,801	97.30%	261	2.89%
2009	8,553	8,313	97.19%	80	n/a	8,351	97.64%	257	3.00%
2008	7,657	7,468	97.53%	90	n/a	7,500	97.95%	221	2.89%
2007	6,565	6,367	96.98%	85	n/a	6,425	97.87%	218	3.32%
2006	5,362	5,180	96.61%	74	n/a	5,238	97.69%	213	3.97%
2005	4,712	4,539	96.33%	67	n/a	4,607	97.77%	207	4.39%

Source: Bell County Appraisal District

NOTE: Fiscal Years 2005 to 2010 total collections already have the refund amount deducted.

CITY OF HARKER HEIGHTS
OWN SOURCE REVENUES¹, SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands except rates and meters)

Fiscal Year	Water & Sewer			Drainage			Number of Water Meters	Special Assessments ⁶	
	Program Revenues	Water Rate ²	Sewer Rate ³	Program Revenues	Residential Rate ⁴	Commercial Rate ⁵		Billings	Collected
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
2007	5,852	8.21 / 2.56	14.79 / 2.48	295	2.50	6.00 / 12.00	8,825	57	9
2006	6,175	7.82 / 2.44	14.09 / 2.36	280	2.50	6.00 / 12.00	8,407	105	17
2005	5,060	7.45 / 2.32	13.42 / 2.25	263	2.50	6.00 / 12.00	7,656	105	5

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

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

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

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

⁴Rate shown is for single family homes, fee is paid per billing cycle.

⁵Rates 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.

⁶The 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 ¹	Per Capita ¹
	<u>Governmental Activities</u>			<u>Business-type Activities</u>				
2014	29,593	138	185	22,442		52,358	n/a	1,805.45
2013	25,134		322	20,406	54	45,916	0.27%	1,639.86
2012	26,572		107	21,548	106	48,333	0.29%	1,726.18
2011	28,315		243	22,310	156	51,024	0.31%	1,889.78
2010	24,240		241	20,395	204	45,080	0.29%	1,669.63
2009	25,065	81	462	21,420	251	47,279	0.31%	1,818.42
2008	19,580	131	647	13,850	5	34,213	0.23%	1,315.88
2007	19,955	173	675	14,585	6	35,394	0.26%	1,415.76
2006	20,175	214	585	15,235		36,209	0.30%	1,508.71
2005	8,270	248	555	10,840		19,913	0.18%	865.78

Source: Audited Financial Statements

¹See the Schedule of Demographic and Economic Statistics (page 136) for population and personal income data.

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

Fiscal Year	Bonded Debt¹	Less: Amounts Available in Debt Service Fund²	Total	Percentage of Estimated Actual Taxable Value of Property³	Per Capita⁴
2014	52,035	161	51,874	3.12%	1,788.76
2013	45,540	94	45,446	2.94%	1,623.07
2012	48,120	81	48,039	3.15%	1,715.68
2011	50,625	107	50,518	3.39%	1,871.04
2010	44,635	14	44,621	3.06%	1,652.63
2009	46,485	142	46,343	3.43%	1,782.42
2008	33,430	192	33,238	2.73%	1,278.38
2007	34,540	275	34,265	3.23%	1,370.60
2006	35,410	167	35,243	4.15%	1,468.46
2005	19,110	229	18,881	2.61%	820.91

Source: Audited Financial Statements.

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

²This is the amount restricted for debt service.

³See Schedule of Assessed and Estimated Value of Property (page 126) for property data

⁴See Schedule of Demographic and Economic Statistics (page 136) for population data

**CITY OF HARKER HEIGHTS
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
AS OF SEPTEMBER 30, 2014**

Government Subdivisions	Total G.O. Tax Debt¹	Estimated Percentage Applicable	City's Overlapping G.O. Tax Debt
Killeen Independent School District	\$ 78,140,000	23.62%	\$ 18,456,668
Bell County	114,165,000	10.33%	11,793,245
Subtotal, overlapping debt			30,249,913
City of Harker Heights Direct Debt			29,593,240
Total direct and overlapping net funded debt			<u>\$ 59,843,153</u>

Source: Specialized Public Finance

¹Excludes self-supporting debt.

**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>
2014	1,511,051,500	90.75%	1,665,136,834
2013	1,402,628,754	90.81%	1,544,608,859
2012	1,394,871,959	91.36%	1,526,856,993
2011	1,361,199,939	91.46%	1,488,260,186
2010	1,335,987,086	91.71%	1,456,699,416
Total Five Year Valuation			<u><u>7,681,562,288</u></u>
Five Year Average Full Valuation of Taxable Real Property			<u><u>1,536,312,458</u></u>
Constitutional Debt Limit (7% of Average Full Valuation)			<u><u>107,541,872</u></u>
Outstanding Indebtness as of September 30, 2014			
Total Bonded Debt			52,035,000
Less: Revenue bonds			22,441,760
Less: Amount available for repayment of general obligation bonds			106,025
Net indebtness subject to debt limit			<u><u>29,487,215</u></u>
Net debt contracting margin			78,054,657
Percentage of net debt contracting margin available			72.58%
Percentage of net debt contracting power exhausted			27.42%

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>
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%
2007	54,210,926	19,753,000	63.56%
2006	46,647,594	20,101,000	56.91%
2005	41,741,448	8,218,000	80.31%

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

Fiscal Year	Water and Sewer Fund			Drainage Fund			Debt Service Requirements			
	Gross Revenues	Operating Expenses¹	Net Revenue Available for Debt Service	Gross Revenues	Operating Expenses¹	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
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
2007	5,852	3,418	2,434	295	98	197	652	655	1,307	2.01
2006	6,175	3,115	3,060	280	124	156	605	456	1,061	3.03
2005	5,060	2,534	2,526	263	24	239	580	456	1,036	2.67

Source: Audited Financial Statements.

¹Total operating expenses, exclusive of depreciation.

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

Fiscal Year	Population ¹	Median Age ²	Per Capita Income ³	Personal Income ³	Education Attainment, 25 Years and Over ²		Peak School Enrollment ⁴	Unemployment Rate ⁵
					High School Graduate or Higher	Four or More Years of College		
2014	28,950		n/a	n/a			41,414	5.5%
2013	28,154		39,520	16,727,204			41,969	6.7%
2012	27,654		39,973	16,809,925			41,172	6.9%
2011	27,312		39,971	16,500,090			40,609	7.4%
2010	26,700	31.6	38,260	15,620,330	90.70%	27.50%	40,463	6.9%
2009	26,232		38,871	15,368,741			39,964	5.5%
2008	25,581		37,968	14,892,321			38,761	4.4%
2007	25,005		35,526	13,528,300			36,895	3.9%
2006	24,148		33,501	12,243,180			34,743	4.3%
2005	23,437		31,093	11,116,727			33,518	4.2%

Sources: ¹ Population is estimated by the City of Harker Heights Planning Department with the exception of the 2010 data which is from Census 2010.
² Census 2010.
³ thousands.
⁴ Killeen Independent School District.
⁵ US Bureau of Labor Statistics.

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

Employer	2014			2005		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Killeen Independent School District ¹	690.0	1	5.90%	343.0	1	3.72%
Wal-Mart Supercenter	537.0	2	4.59%	325.0	2	3.53%
HEB Store	243.0	3	1.59%	230.0	3	2.50%
City of Harker Heights	235.0	4	2.08%	172.5	4	1.87%
Indian Oaks	186.0	5	2.01%	120.0	5	1.30%
Target	155.0	6	1.32%			
Cheddar's Restaurant	140.0	7	1.20%			
Cracker Barrel	101.0	8	0.86%			
Razzoo's Cajun Café	76.0	9	0.65%			
McDonald's Restaurant	58.0	10	0.50%			
Aspen Air				86.0	6	0.93%
Cooper & Bright Plumbing				48.0	7	0.52%
Pizza Hut				45.0	8	0.49%
Furniture Row				36.0	9	0.39%
The Learning Zone				30.0	10	0.33%
	2,421.0		20.70%	1,435.5		15.58%

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

¹Killeen Independent School District numbers only include campuses in Harker Heights.

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

Fiscal Year	Property Value ¹				Commercial Construction ²		Residential Construction ²		Bank Deposits ⁴
	Commercial	Residential	Exemptions	Total	Number of Units ³	Value	Number of Units ³	Value	
2014	288,694	1,313,510	149,488	1,452,716	10	15,887	221	46,070	1,190,961,291 ^(d)
2013	223,105	1,257,787	137,688	1,343,204	9	21,801	219	45,655	1,081,249,810 ^(d)
2012	213,902	1,250,016	127,787	1,336,131	41	12,329	184	41,389	1,045,296,830 ^(c)
2011	212,744	1,212,457	122,373	1,302,828	34	112,383	113	24,058	999,452,924 ^(c)
2010	209,511	1,181,173	116,507	1,274,177	27	8,638	188	35,936	842,872,885 ^(c)
2009	151,564	1,135,363	86,790	1,200,137	31	8,665	156	30,024	1,840,455 ^(b)
2008	135,163	1,021,406	83,360	1,073,209	62	29,854	270	52,979	1,686,403 ^(b)
2007	124,702	875,667	79,397	920,972	28	13,995	349	66,425	817,687 ^(a)
2006	95,052	712,132	58,843	748,341	11	7,331	449	86,413	52,590 ^(a)
2005	87,513	606,137	44,606	649,044	27	32,912	915	150,851	137,352 ^(a)

Sources: ¹Bell County Appraisal District

²Harker Heights Planning and Development Department

³Amounts are as shown

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

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

Function/Program	As of September 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Government:										
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	26.5	26.5	26.5	26.0	26.0	25.0	24.5	21.5	19.5	18.5
Planning and Building	9.0	9.0	8.0	8.0	8.0	8.0	7.0	7.0	7.0	7.0
Public Safety:										
Police	62.0	62.0	62.0	61.0	61.0	59.0	56.0	52.0	50.0	49.0
Fire	43.5	43.5	43.5	43.5	43.5	38.5	36.5	33.5	29.5	29.5
Streets	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Culture and Recreation:										
Parks and Recreation	46.5	46.0	45.0	45.0	43.0	43.0	35.0	34.0	33.0	27.0
Library	10.5	10.5	10.5	10.5	10.5	10.5	6.5	6.5	6.5	6.5
Public Works	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.0	5.0
Water and Sewer	17.0	17.0	16.0	16.0	16.0	16.0	15.0	14.0	13.0	13.0
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	0.0	0.0	0.0	0.0
Total	239.0	238.5	235.5	234.0	232.0	224.0	203.5	191.5	180.5	171.5

Source: City of Harker Heights Finance Department

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

Function/Program	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Planning and Building										
Building Permits Issued	4,665	1,763	1,502	1,479	1,796	1,811	2,091	2,320	586	942
Value of Building Permits ¹	96,333	75,077	59,115	144,518	50,070	44,377	92,218	102,179	111,733	183,763
Police										
Physical Arrest	1,496	1,320	1,593	1,528	1,493	1,552	1,969	1,842	1,693	1,367
Parking Violations	27	58	139	30	0	3	19	23	76	85
Traffic Violations	8,800	8,800	8,776	7,989	7,282	7,626	8,727	8,530	8,697	8,215
Fire										
Calls Answered	3,547	3,627	3,643	3,405	3,137	2,818	2,763	2,409	3,965	3,410
Fire and Emergency Responses	3,469	3,558	3,582	3,300	3,042	2,964	2,715	3,571	3,671	3,415
Fires Extinguished	133	91	111	193	116	134	197	101	117	50
Inspections	800	933	540	561	514	552	678	216	251	244
Parks and Recreation										
Aquatic Center Usage	12,470	12,773	13,069	15,498	12,420	15,086	16,458	17,743	14,148	15,486
Program Participants	7,933	9,948	9,497	8,780	7,157	5,994	5,418	6,500	4,917	4,827
Library										
Annual Circulation	166,256	165,405	152,117	146,130	131,477	101,194	76,002	68,726	63,552	60,520
Water and Sewer										
Average daily water consumption in gallons ¹	3,954	4,325	4,534	4,940	3,770	4,390	4,093	3,309	3,820	2,670
Residential water rate										
Base	\$9.98	\$9.98	\$9.98	\$9.98	\$9.98	\$9.05	\$8.62	\$8.21	\$7.82	\$7.45
Per 1,000 gallons	\$3.11	\$3.11	\$3.11	\$3.11	\$3.11	\$2.82	\$2.69	\$2.56	\$2.44	\$2.32
Average daily sewage treatment in gallons ¹	1,790	1,880	1,760	1,900	1,800	1,700	1,700	1,700	1,700	1,700
Residential sewer rates										
1,000 - 3,000 gallons	\$17.99	\$17.99	\$17.99	\$17.99	\$17.99	\$16.31	\$15.53	\$14.79	\$14.09	\$13.42
Per 1,000 gallons (3,000 - 10,000 gallons)	\$3.01	\$3.01	\$3.01	\$3.01	\$3.01	\$2.73	\$2.60	\$2.48	\$2.36	\$2.25

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

Source: Various City of Harker Heights departments.

¹amounts expressed in thousands

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

Function/Program	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Area (square miles)	15.4	15.4	15.4	15.4	15.24	15.23	14.2	14.2	14.2	14.2
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Cars	33	33	33	33	38	38	38	36	33	33
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Fire Trucks	5	5	5	5	5	5	3	3	4	6
Ambulances	3	3	3	3	3	3	3	3	4	3
Command Van	1	1	1	1	1	1	1	1	1	0
Street (miles)	140	140	166.49	164.65	175	170.26	132	130	120	106
Street lights	1,438	1,379	1,262	1,275	1,250	1,211	1,154	1,100	1,015	963
Parks and Recreation										
Recreation/community center	1	1	1	1	1	1	1	1	1	1
Parks	8	7	6	8	7	10	8	9	6	6
Acreage	194	194	177	194	230	230	230	227	103.665	103.665
Baseball/softball diamonds	9	9	8	9	8	6	3	3	4	4
Soccer/football fields ¹	6	6	6	6	6	6	3	11	13	13
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)	177.55	172.66	171.13	168.06	171.48	171.48	153	148	139	135
Service connections	10,006	9,666	9,740	9,533	9,445	9,415	9,043	8,825	8,407	7,656
Fire hydrants	1,101	1,090	1,080	1,060	1,050	980	885	881	832	803
Maximum daily capacity	13,500,000	13,500,000	13,500,000	10,000,000	13,500,000	13,500,000	13,500,000	13,500,000	9,000,000	9,000,000
Sewer										
Sanitary sewer (miles)	125.92	121.43	120.62	116.97	116.84	117.64	117	116	110	104
Service connections	8,842	8,586	8,580	8,314	8,286	8,257	8,199	7,570	7,093	6,556
Storm sewer (miles)	9.5	9.0	9.0	8.5	8.0	8.0	7.0	7.0	6.0	6.0
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.

¹2005-2007 numbers reflect small sized fields used; 2008-2009 reflect full size fields



**YELLOW BOOK
AUDIT**



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

To the Honorable Major and
Members of the City Council
City of Harker Height, 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 Standard* 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, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Harker Heights, Texas's basic financial statements, and have issued our report thereon dated January 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Harker Heights, Texas'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 City of Harker Heights, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Harker Heights, Texas'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.

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 STANDARD* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harker Heights, Texas'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.



Killeen, Texas
January 28, 2015