

FISCAL YEAR ENDING SEPTEMBER 30, 2015

COMPREHENSIVE ANNUAL FINANCIAL REPORT



THE CITY OF HARKER HEIGHTS, TEXAS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

OF THE

CITY OF HARKER HEIGHTS

For the Fiscal Year Ended September 30, 2015

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, 2015

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Transmittal Letter	vi
GFOA Certificate of Achievement	ix
Organizational Chart	x
Principal Officials	xi
 FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	23
Statement of Net Position – Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	27
Statement of Cash Flows – Proprietary Funds	28

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
Basic Financial Statements (continued)	
Notes to the Financial Statements	30
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability and Related Ratios	70
Schedule of Contributions	71
Other Post-Employment Benefits – Analysis of Funding Progress	72
Combining and Individual Fund Statements and Schedules:	
Combining Financial Statements – Nonmajor Governmental Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	75
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	77
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Hotel/Motel Special Revenue Fund	78
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Restricted Court Special Revenue Fund	79
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Memorial Special Revenue Fund	80
Supplementary Individual Fund Financial Statements:	
Comparative Balance Sheets – General Fund	82
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – General Fund	83
Comparative Balance Sheets – Debt Service Fund	85
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Debt Service Fund	86
Comparative Balance Sheets – Capital Projects Fund	88

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
Combining and Individual Fund Statements and Schedules (continued)	
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Fund	89
Comparative Balance Sheets – Hotel/Motel Fund	91
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Hotel/Motel Fund	92
Comparative Balance Sheets – Restricted Court Fund	93
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Restricted Court Fund	94
Comparative Balance Sheets – Memorial Fund	95
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Memorial Fund	96
Comparative Statements of Net Position – Water and Sewer Fund	98
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position – Water and Sewer Fund	100
Comparative Statements of Cash Flows – Water and Sewer Fund	101
Comparative Statements of Net Position – Sanitation Fund	103
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position – Sanitation Fund	104
Comparative Statements of Cash Flows – Sanitation Fund	105
Comparative Statements of Net Position – Drainage Fund	107
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position – Drainage Fund	109
Comparative Statements of Cash Flows – Drainage Fund	110
Capital Assets Used in the Operation of Governmental Funds	
Comparative Schedules by Source	113
Schedule by Function and Activity	114
Schedule of Changes by Function and Activity	116

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

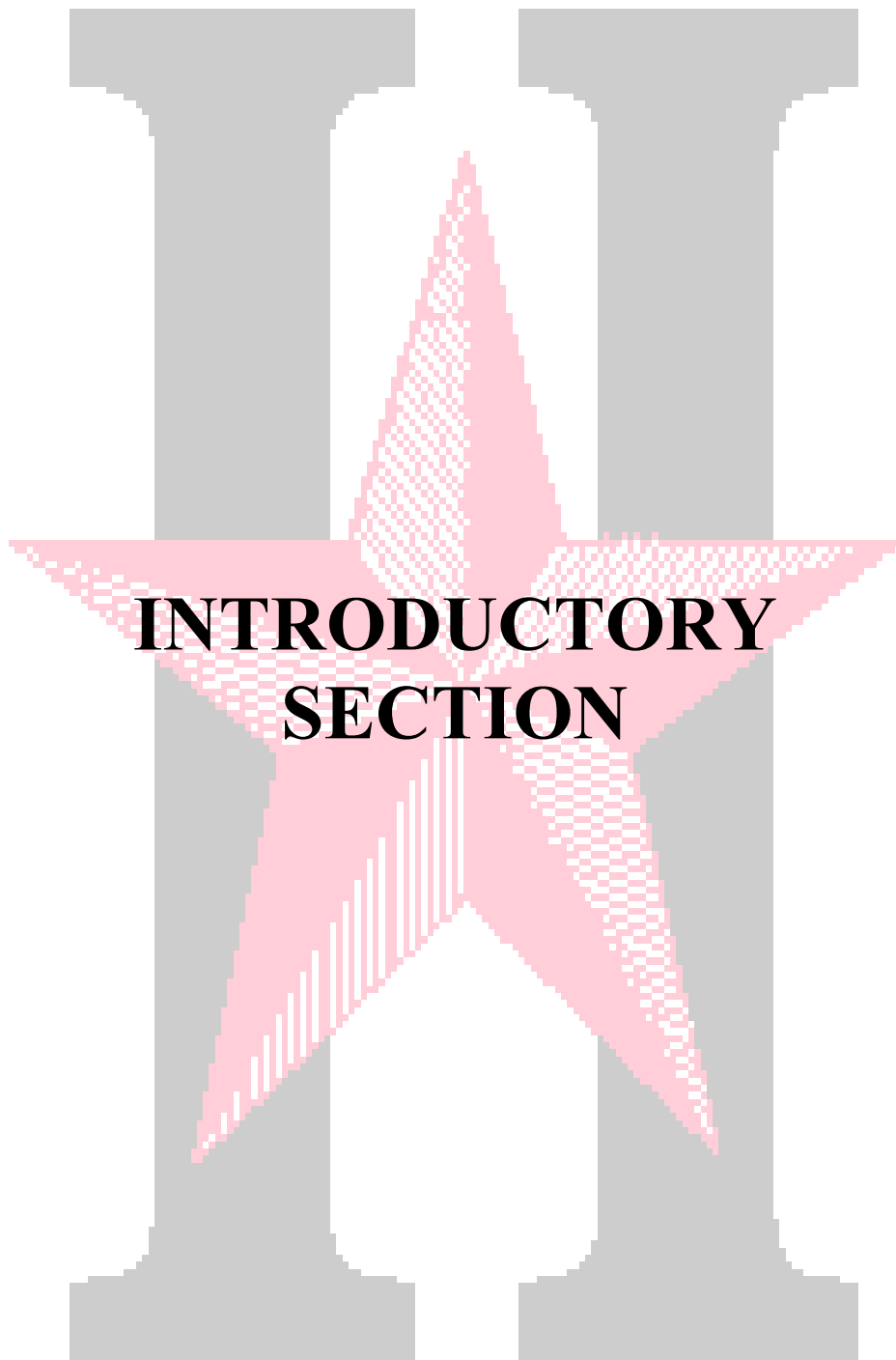
	<u>Page</u>
STATISTICAL SECTION (UNAUDITED)	
Financial Trends:	
Net Position by Component	118
Changes in Net Position	119
General Government Tax Revenues by Source	121
Fund Balances, Governmental Funds	122
Changes in Fund Balances, Governmental Funds	123
Revenue Capacity:	
Assessed and Estimated Actual Value of Property	124
Direct and Overlapping Property Tax Rates	125
Principal Taxpayers	126
Property Tax Levies & Collections	127
Own Source Revenues, Special Assessment Billings and Collections	128
Debt Capacity:	
Ratios of Outstanding Debt by Type	129
Ratios of General Bonded Debt Outstanding	130
Computation of Direct and Overlapping Bonded Debt	131
Legal Debt Margin Information	132
Pledged - Revenue Coverage	133
Demographic and Economic Information:	
Demographic and Economic Statistics	134
Principal Employers	135
Property Value, Construction and Bank Deposits	136

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
STATISTICAL SECTION (UNAUDITED) (continued)	
Operating Information:	
Full-Time Equivalent City Employees by Function/Program	137
Operating Indicators by Function/Program	138
Capital Assets by Function/Program	139





**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
Pat Christ

City Council
Hal Schiffman
Steve Carpenter
John Reider
Jody Nicholas

March 8, 2016

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, 2015.

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, 2015, 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, 2015, 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 29,545. 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 76.

Local Economy

In 2015, the average unemployment rate for Harker Heights was 4.7%, a decrease from a rate of 5.6% in 2014. This is the same as the average rate for Bell County and higher than the state average of 4.4%.

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

	Fiscal Year 2015	Fiscal Year 2014	Difference
Fence	\$704,936	\$879,401	(\$174,465)
Home Improvement/Other	12,535,418	33,453,949	(20,918,531)
New Commercial	20,715,000	15,887,017	4,827,983
New Residence	45,064,177	46,069,899	(1,005,722)
Plumbing	50,332	28,360	21,972
Total:	<u>\$79,069,863</u>	<u>\$96,318,626</u>	<u>(\$17,248,763)</u>

Building permits are up significantly from the prior year in the new commercial category due to the addition of a YMCA Building, CVS Pharmacy, A Plus Credit Union, Taco Bell and Popeye's. The home improvement/other category reflects such a large decrease due to last year's influx of permits when the hail storm hit the Central Texas area and residents reroofed their homes.

Long-Term Financial Planning

In 2015, the City issued the Series 2015 General Obligation Refunding Bonds as an advance refund for the Series 2006 Combination Tax and Utility System Revenue Certificates of Obligation.

Capital improvements are budgeted at over \$13.2 million which include various water and sewer improvements, street projects, building expansion/renovation, and various park improvements.

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 2014-15, the general fund had just under a six month fund balance or 48% of operating expenditures. The Utility Fund had a six month fund balance or 51% 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, 2014. This was the twentieth 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, 2014. 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**

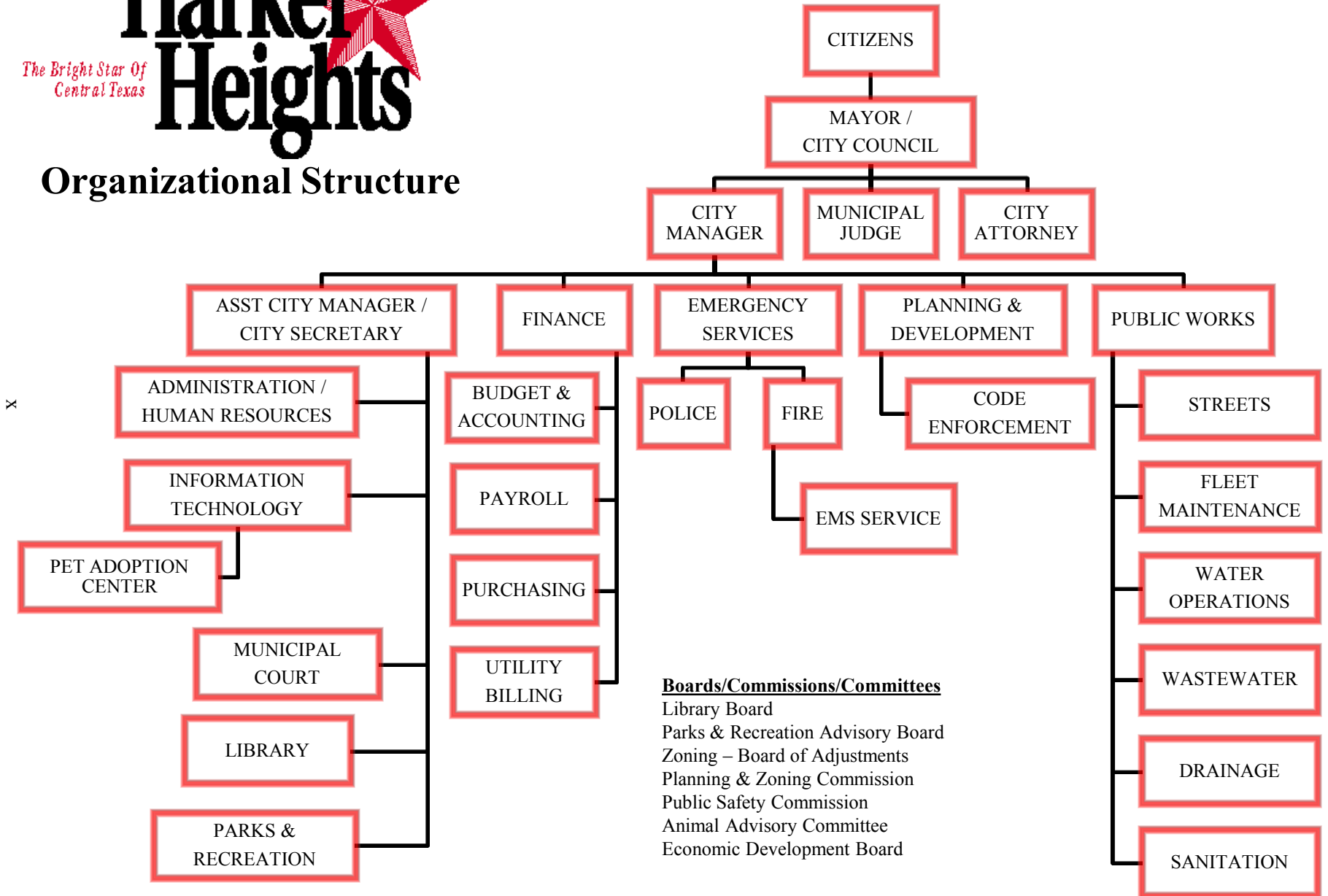
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2014

Executive Director/CEO



Organizational Structure



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

CITY COUNCIL

Rob RobinsonMayor
Pat Christ.....Mayor Protempore
Hal Schiffman Council Member
Steve Carpenter..... Council Member
John Reider Council Member
Jody Nicholas..... 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 S. 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 Development & Planning Director



**FINANCIAL
SECTION**



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

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

KILLEEN • COPPERAS COVE • TEMPLE

Member of
American Institute & Texas Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Harker Heights, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension and other post-employment benefits schedules on pages 70 - 72, 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 14, 2016, 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 14, 2016

City of Harker Heights, Texas
Management's Discussion and Analysis
September 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars and include a comparative analysis of government-wide data.

Financial Highlights

- The assets and deferred outflows of the City of Harker Heights exceeded its liabilities and deferred inflows at the close of the fiscal year ending September 30, 2015 by \$63.3 million (*net position*). Of this amount, \$8.3 million is restricted for capital projects and \$4.0 is for capital projects from non-bond revenues.
- The City's total net position decreased by over \$3 million for the year ended September 30, 2015. The majority of the decrease in net position can be attributed to the recording and implementation of net pension liability related to GASB 68.
- As of the September 30, 2015, the City of Harker Heights' governmental funds reported combined ending fund balances of \$22.9 million, a decrease of \$2.6 million in comparison with the prior year. The majority of the decrease is due to capital outlay expenditures and grants. Of the governmental funds reported combined fund balances, \$10.0 million or 43.6 percent is available for spending within the City's guidelines (*unassigned fund balance*).
- At fiscal year end, the general fund unassigned fund balance was \$10.0 million, or 50.2 percent of total general fund expenditures. An increase in property tax and sales tax revenues along with maintaining expenditures during the year is the result of this increase.
- Residential growth overall has seen a slight decrease. Single family permits decreased by 11 permits with a decreased value of \$922. Two family residential permits decreased by 1 but had an increased value of \$469. New commercial permits decreased by 2 permits but increased in values by \$4.8 million.
- The Dog Ridge water lines and fire hydrants were installed in the amount of \$0.6 during the year. Also, the City completed a small wastewater project.
- During this fiscal year, the City completed the Pecan Drive Street improvement in the amount of \$0.5 million, the Highland Oaks turn lane, and various other small street improvements totaling over \$156,000.
- Various park improvement projects were completed during the year.

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, 2015**

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, 2015**

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 30-68 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 69-73 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 74-116 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Harker Heights, assets and deferred outflows exceeded liabilities and deferred inflows by \$63.3 million at the close of the most recent fiscal year.

A portion of the City of Harker Heights' net position (14 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$26,217	\$27,869	\$3,405	\$4,331	\$29,622	\$32,200
Capital assets	49,215	46,041	46,173	45,031	95,388	91,072
Total assets	75,432	73,910	49,578	49,362	125,010	123,272
Deferred outflows of resources	2,000		423		2,423	
Long-term liabilities outstanding	27,984	29,523	20,315	21,301	48,299	50,824
Net pension liability	7,611		580		8,191	
Other liabilities	5,919	4,507	1,709	1,654	7,628	6,161
Total liabilities	41,514	34,030	22,604	22,955	64,118	56,985
Deferred inflows resources	35		3		38	
Net position:						
Invested in capital assets, net of related debt	26,705	24,342	27,658	25,969	54,363	50,311
Restricted	8,942	12,001	57	54	8,999	12,055
Assigned	3,952	179			3,952	179
Unrestricted	(3,716)	3,358	(321)	384	(4,037)	3,742
Total net position	\$35,883	\$39,880	\$27,394	\$26,407	\$63,277	\$66,287

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2015**

An additional portion of the City of Harker Heights' net position (86 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Harker Heights uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Harker Heights' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total net position for the City of Harker Heights reflects a \$4.0 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	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$2,372	\$2,749	\$11,435	\$11,189	\$13,807	\$13,938
Operating grants and contributions	792	66			792	66
Capital grants and contributions						
General revenues:						
Property taxes	10,419	10,051			10,419	10,051
Sales taxes	6,594	6,186			6,594	6,186
Other taxes	280	294			280	294
Franchise fees	1,342	1,312	125	140	1,467	1,452
Investment earnings	48	132	10	10	58	142
Gain on sale of capital assets		12				12
Total revenues	<u>21,847</u>	<u>20,802</u>	<u>11,570</u>	<u>11,339</u>	<u>33,417</u>	<u>32,141</u>
Expenses:						
General government	3,967	2,862			3,967	2,862
Public safety	10,478	11,137			10,478	11,137
Highways/streets	1,768	1,828			1,768	1,828
Culture and recreation	3,051	3,077			3,051	3,077
Economic development	447	538			447	538
Interest on long-term debt	988	1,214			988	1,214
Water and sewer			6,662	6,397	6,662	6,397
Sanitation			1,649	1,577	1,649	1,577
Drainage			364	304	364	304
Total expenses	<u>20,699</u>	<u>20,656</u>	<u>8,675</u>	<u>8,278</u>	<u>29,374</u>	<u>28,934</u>
Increase (decrease) in net position						
before transfers	1,148	146	2,895	3,061	4,043	3,207
Transfers	1,480	3,483	(1,480)	(3,483)		
Increase (decrease) in net position	<u>2,628</u>	<u>3,629</u>	<u>1,415</u>	<u>(422)</u>	<u>4,043</u>	<u>3,207</u>
Net position (beginning of year as restated see Note I.P. on page 73)	33,255	36,034	25,979	26,768	59,234	62,802
Net position (end of year)	<u>\$35,883</u>	<u>\$39,880</u>	<u>\$27,394</u>	<u>\$26,407</u>	<u>\$63,277</u>	<u>\$66,287</u>

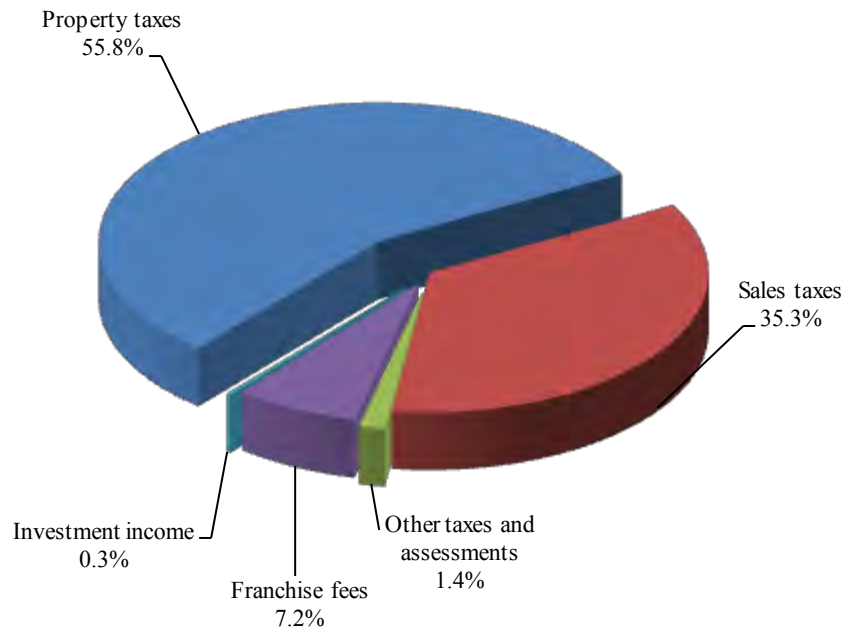
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2015**

Governmental activities. The City's general revenues increased when compared to the prior year by 3.8 percent or \$696. The major increase was due to a \$408 increase in sales tax revenues and a \$368 increase in property tax revenues. Franchise fees had a slight increase of \$30.

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

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)
Governmental activities			
Property taxes	\$10,419	\$10,051	\$368
Sales taxes	6,594	6,186	408
Other taxes and assessments	280	294	(14)
Franchise fees	1,342	1,312	30
Investment income	48	132	(84)
Gain on sale of capital assets	0	12	(12)
Total governmental activities	\$18,683	\$17,987	\$696

**General Revenues for the Year Ended
September 30, 2015**



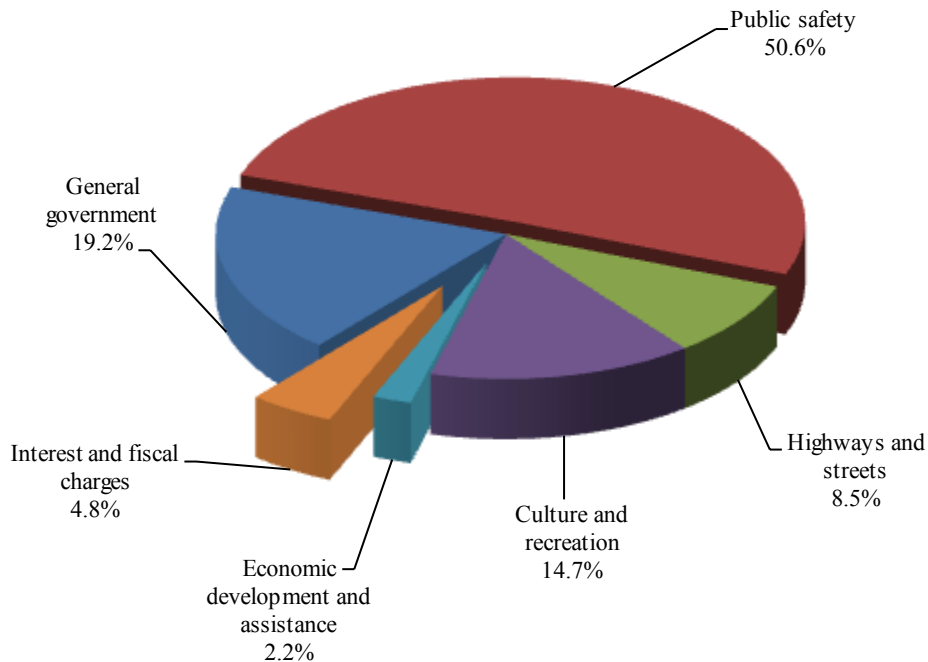
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2015**

The most significant governmental expenditure for the City was in providing for public safety, which incurred expenses of \$10.5 million. These expenditures were offset by revenues collected from a variety of sources, with the largest consisting of court fines of \$1.0 million, property taxes which are \$10.4 million and sales tax revenues of \$6.6 million for the fiscal year ending September 30, 2015. The major components of public safety are Police, Fire and Emergency Medical Services (EMS). Police accounted for \$5.4 million in public safety expense of which \$4.4 million was incurred for salary and benefits. Fire and EMS accounted for \$4.4 million in public safety expense, of which \$3.5 million was incurred for salary and benefits.

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

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)
Governmental activities			
General government	\$3,967	\$2,862	\$1,105
Public safety	10,478	11,137	(659)
Highways and streets	1,768	1,828	(60)
Culture and recreation	3,051	3,077	(26)
Economic development and assistance	447	538	(91)
Interest and fiscal charges	988	1,214	(226)
Total governmental activities	\$20,699	\$20,656	\$43

**Governmental Expenditures for the Year Ended
September 30, 2015**



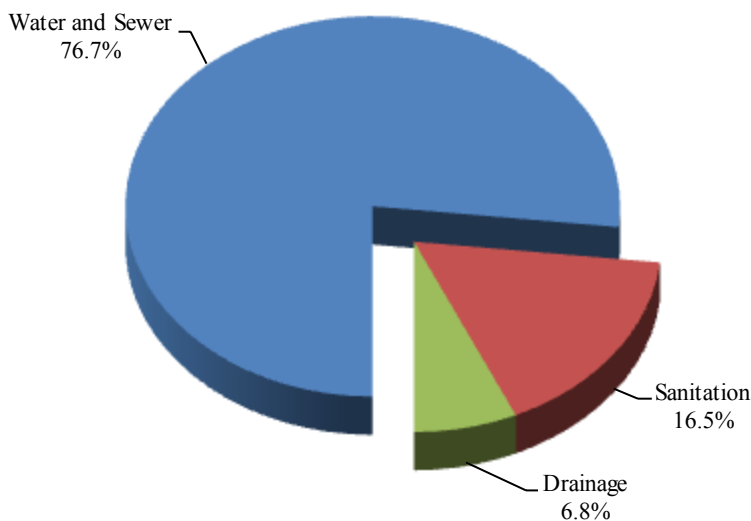
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2015**

Business-type activities. Business-type activities increased the City of Harker Heights' net position by \$1,415. Revenues of the City's business-type activities were \$11.4 million for the fiscal year ending September 30, 2015.

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

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)
Water and Sewer	\$8,776	\$8,588	\$188
Sanitation	1,888	1,826	62
Drainage	771	775	(4)
	<u>\$11,435</u>	<u>\$11,189</u>	<u>\$246</u>

**Business Type Revenues for the Year Ended
September 30, 2015**



Water and Sewer rates did not increase for FY 2014-15 and the City saw growth but that was offset with heavy rainfall during the year. Sanitation revenues remained constant. Drainage income saw a slight decrease of \$(4).

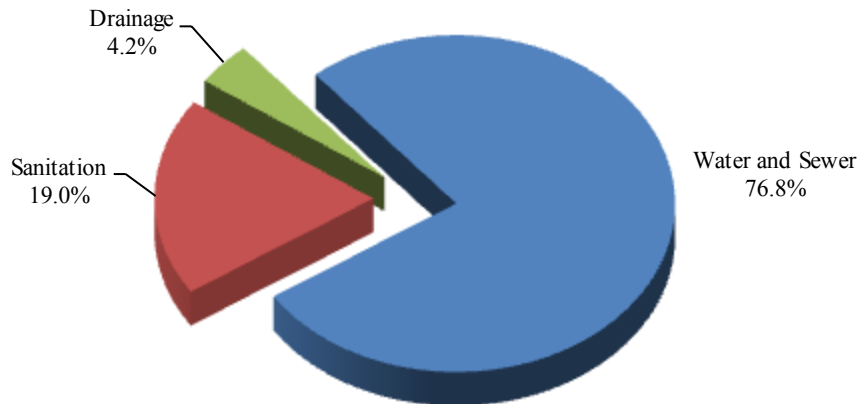
Expenses for the City's business-type activities were \$8.7 million for the year, resulting in net revenues of \$2.8 million and a change in net position of \$1,415. The changes in net position are the result of several factors, including the following:

- The City recorded charges for services of \$8.7 million from the water and sewer system. The most significant expenses were \$2.6 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 \$1.9 million; the major expense for sanitation is \$1.6 million in contractual services.
- Drainage revenues totaled \$771 in charges for services. The major operating expenses include salaries and benefits of \$127.

Table 6
Business Type Expenses by Activity
 (in thousands)

	Fiscal Year 2015	Fiscal Year 2014	Increase (Decrease)
Water and Sewer	\$6,662	\$6,397	\$265
Sanitation	1,649	1,577	72
Drainage	364	304	60
	<u>\$8,675</u>	<u>\$8,278</u>	<u>\$397</u>

**Business Type Expenses for the Year Ended
 September 30, 2015**



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 \$22.8 million, a decrease of \$2.7 million in comparison with the prior year. Approximately 33 percent or \$10.0 million constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is not available for new spending because it has already been restricted for 1) debt service (\$108), 2) capital assets (\$8.3 million) related to the bond issue, 3) federal or state grant restrictions (\$276), 4) cemetery (\$18), and assigned to 5) capital assets (\$4.0 million), and 6) other (\$220).

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2015**

The general fund is the chief operating fund of the City of Harker Heights. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10.0 million, while total fund balance reached \$10.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 50 percent of total general fund expenditures, while total fund balance represents 51 percent of that same amount. The fund balance of the City of Harker Heights' general fund has increased by \$518 during the current fiscal year. Key factors for this increase are more sales tax revenues, more property tax revenue, and maintaining expenditures.

The debt service fund has a total fund balance of \$108, all of which is restricted for the payment of debt service.

The capital projects fund balance is \$12.3 million of which \$8.3 million is restricted for capital improvement projects financed by bonded debt and \$4.0 is assigned for capital improvement projects that are funded from non-bond revenue. This fund had a \$3.0 million decrease 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 \$27.4 million, an increase of \$1.0 million or 4 percent over the prior year. Unrestricted net position totals \$(324). A total of \$27.7 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 \$(461) while total net position was \$23.2 million. Total net position for the water and sewer fund has increased by \$878 during the current fiscal year.

The sanitation fund has total net position of \$155, a decrease of \$70 from the prior year. The majority of this decrease is due to an increase in due to other funds and net pension liability.

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

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$20.0 million compared to the budget amount of \$19.4 million. The \$452 overage is mainly due to grant expenditures and the fire truck purchase.

For FY 2014-15, actual revenues were \$19.3 million as compared to the budget amount of \$18.1 million. The majority of the \$1.1 million positive variance was due to an increase of \$447 in sales tax receipts and \$744 of grant revenues.

The City of Harker Heights has an actual General Fund balance of \$10.2 million as of the fiscal year end, compared to the budgeted fund balance of \$7.6 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, 2015, amounts to \$95,388 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and lift stations, machinery and equipment, park facilities, vehicles, furniture and fixtures, streets, and infrastructure. The total increases in the City's investment in capital assets for the current fiscal year was 5.0 percent (4.0 percent increase for governmental activities and a 1.0 percent increase for business-type activities) and is attributed to the following:

- Capital assets increased in several categories, however, the construction in progress increase of \$3.1 million is the majority of the difference.

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2015**

- Infrastructure in business-type activities increased by \$195 bringing the previous year total of \$40.0 million to \$40.2 million. As stated above, the construction in progress in business-type activities increased by \$936 from the previous year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land	\$15,576	\$15,513	\$285	\$279	\$15,861	\$15,792
Buildings and lift stations	7,256	7,821	1,645	1,691	8,901	9,512
Improvements other than buildings	77	95	6	8	83	103
Furniture and fixtures	136	191			136	191
Machinery and equipment	1,195	1,068	387	308	1,582	1,376
Vehicles	1,283	952	127	153	1,410	1,105
Infrastructure	19,884	19,697	40,172	39,977	60,056	59,674
Construction in progress	3,808	704	3,551	2,615	7,359	3,319
Total	\$49,215	\$46,041	\$46,173	\$45,031	\$95,388	\$91,072

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

Debt. In February 2012, the City was assigned a long-term rating of "AA" by Standard & Poor's Rating Service. This rating was raised from the "AA-" rating received in 2009. In 2015, Standard & Poor's considers the City's economy to be adequate with strong city management. The rating reflects that the City's budgetary flexibility remains very strong and the budgetary performance has been strong overall. In their opinion, the City has very strong liquidity providing very strong cash levels to cover debt service and expenditures as well as good management with good financial policies. The City maintains an "A2" rating from Moody's Investors Service for tax supported debt. The City also has several outstanding issues which are rated "Aaa" by Moody's and "AAA" by Standard and Poor's by virtue of insurance policies issued by various commercial insurance companies.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$9,110	\$3,541	\$5,970	\$3,490	\$15,080	\$7,031
Certificates of obligation	19,476	25,971	15,543	18,924	35,019	44,895
Capital leases payable	571	185			571	185
Note payable	69	138			69	138
Compensated absences	708	703	40	38	748	741
Net pension liability	7,612	707	579	54	8,191	761
Net other postemployment benefit obligation	483	399	53	44	536	443
Total	\$38,029	\$31,644	\$22,185	\$22,550	\$60,214	\$54,194

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 \$111.9 million which is \$84.2 million more than the City's outstanding indebtedness of \$27.7 million.

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2015**

Additional information on the City of Harker Heights' long-term debt can be found in note IV.6 on pages 47-58 of this report.

Economic Factors and Next Year's Budgets and Rates

The annual unemployment rate for Harker Heights in 2014 was 5.6% which is a decrease of 18% from a rate of 6.9% in 2013. This is lower than Bell County's annual unemployment rate of 5.8% and the national average rate of 6.2%; it is higher than the state average of 5.1%.

All of these factors were considered in preparing the fiscal year 2015-2016 budget for the City of Harker Heights.

During the current fiscal year, the fund balance in the general fund is projected to increase to \$8.5 million. The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2015-16 is \$0.6770 per \$100 valuation. Of this tax rate 76.43 percent or \$0.5174 is utilized for General Fund activities. The remaining 23.57 percent or \$0.1596 is used for debt service. The General Fund's portion of property tax revenue for FY 2015-16 is estimated to be \$8.3 million. Sales tax revenue for FY 2015-16 is budgeted at \$6.8 million.

The largest revenue source for the water and sewer fund is water sales at \$5.5 million. The rate for FY 2015-16 is \$10.28 as a base rate and \$3.20 per 1,000 gallons used. The second largest revenue source for the water and sewer fund is sewer charges at \$3.4 million based on a FY 2015-16 base rate of \$18.53 plus \$3.10 per 1,000 gallons over 3,000 gallons and caps at 10,000 gallons. These rates are a three percent increase over the rates set for FY 2014-15.

Sanitation fees for residential garbage are \$18.33 per month which remained the same from FY 2014-15.

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, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 7,265,655	\$ 1,243,227	\$ 8,508,882
Investments	8,348,165	1,795,275	10,143,440
Receivables (net of allowance for uncollectibles)			
Taxes	101,735		101,735
Accounts	462,789	1,251,324	1,714,113
Special assessments	60		60
Internal Balances	1,470,528	(1,470,528)	
Due from other governments	3,832		3,832
Inventory of supplies, at first in, first out		100,855	100,855
Restricted Assets:			
Restricted cash	2,151,634	78,475	2,230,109
Restricted investments	6,412,073	406,590	6,818,663
Capital assets (net of accumulated depreciation):			
Land	15,575,872	284,683	15,860,555
Building and lift stations	7,255,482	1,645,327	8,900,809
Improvements other than buildings	77,431	5,793	83,224
Furniture and fixtures	135,835		135,835
Machinery and equipment	1,195,594	386,518	1,582,112
Vehicles	1,283,499	127,386	1,410,885
Infrastructure	19,883,860	40,172,125	60,055,985
Construction in progress	3,807,711	3,551,119	7,358,830
Total Assets	75,431,755	49,578,169	125,009,924
Deferred Outflows of Resources:			
Deferred amount on refunding of debt	594,254	315,557	909,811
Deferred outflows related to pensions	1,406,009	107,129	1,513,138
Total Deferred Outflows of Resources	2,000,263	422,686	2,422,949
LIABILITIES			
Accounts payable and accrued liabilities	2,849,340		2,849,340
Accrued interest payable	124,494	94,266	218,760
Refundable meter deposit		324,417	324,417
Unearned revenue	510,983		510,983
Noncurrent liabilities:			
Due within one year	2,432,890	1,290,968	3,723,858
Due in more than one year	27,984,320	20,314,742	48,299,062
Net pension liability (City's share)	7,611,507	579,955	8,191,462
Total Liabilities	41,513,534	22,604,348	64,117,882
Deferred inflows related to pensions	35,564	2,709	38,273
NET POSITION			
Net investment in capital assets	26,705,179	27,658,416	54,363,595
Restricted for:			
Economic development	106,399		106,399
Public safety	169,913		169,913
Debt service	107,771	57,118	164,889
Capital projects	8,321,135		8,321,135
Cemetery	17,611		17,611
Culture and recreation	219,547		219,547
Capital projects	3,951,738		3,951,738
Unrestricted	(3,716,373)	(321,736)	(4,038,109)
Total Net Position	\$ 35,882,920	\$ 27,393,798	\$ 63,276,718

CITY OF HARKER HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<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	\$ 3,966,953	\$ 111,333	\$ 763,299	
Public safety	10,478,187	1,672,499	8,444	
Highways and streets	1,767,985			
Culture and recreation	3,051,363	292,708	19,742	
Economic development and assistance	446,700	295,621		
Interest and fiscal charges	987,793			
Total governmental activities	20,698,981	2,372,161	791,485	
Business-type Activities:				
Water and Sewer	6,662,109	8,775,509		
Sanitation	1,648,726	1,887,969		
Drainage	363,817	771,502		
Total business-type activities	8,674,652	11,434,980		
Total primary government	\$ 29,373,633	\$ 13,807,141	\$ 791,485	

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 I.P. on page 37)

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (3,092,321)		\$ (3,092,321)
(8,797,244)		(8,797,244)
(1,767,985)		(1,767,985)
(2,738,913)		(2,738,913)
(151,079)		(151,079)
(987,793)		(987,793)
<u>(17,535,335)</u>		<u>(17,535,335)</u>
	2,113,400	2,113,400
	239,243	239,243
	407,685	407,685
	<u>2,760,328</u>	<u>2,760,328</u>
<u>\$ (17,535,335)</u>	<u>\$ 2,760,328</u>	<u>\$ (14,775,007)</u>
10,419,231		10,419,231
6,593,950		6,593,950
140,743		140,743
63,580		63,580
75,371		75,371
1,342,069	124,567	1,466,636
48,316	9,987	58,303
5		5
1,479,832	(1,479,832)	
<u>20,163,097</u>	<u>(1,345,278)</u>	<u>18,817,819</u>
2,627,762	1,415,050	4,042,812
<u>33,255,158</u>	<u>25,978,748</u>	<u>59,233,906</u>
<u>\$ 35,882,920</u>	<u>\$ 27,393,798</u>	<u>\$ 63,276,718</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 I.P. on page 37)

Net position - ending

CITY OF HARKER HEIGHTS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
ASSETS			
Cash	\$ 4,107,642	\$ 25,113	\$ 2,962,749
Investments	6,039,768	79,152	2,153,724
Receivables (net of allowance for uncollectibles):			
Taxes	49,228	52,507	
Accounts	451,458		
Special Assessments	60		
Due from other funds	5,694,100		
Due from other governments	2,658	1,174	
Restricted assets:			
Cash	225,483		1,926,151
Investments	17,089		6,394,984
	<u>\$ 16,587,486</u>	<u>\$ 157,946</u>	<u>\$ 13,437,608</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,660,001		\$ 189,339
Due to other funds	3,263,953	898	975,396
Unearned revenue	422,887		
	<u>6,346,841</u>	<u>898</u>	<u>1,164,735</u>
 DEFERRED INFLOWS OF RESOURCES			
Property tax not yet available	38,819	49,277	
	<u>38,819</u>	<u>49,277</u>	
 Fund Balances:			
Nonspendable			
Restricted for:			
Economic development			
Public safety	2,633		
Debt service		107,771	
Capital projects			8,321,135
Cemetery	17,611		
Committed			
Assigned to:			
Culture and recreation	219,547		
Capital projects			3,951,738
Unassigned	9,962,035		
	<u>10,201,826</u>	<u>107,771</u>	<u>12,272,873</u>
 Total Liabilities and Fund Balances	<u>\$ 16,587,486</u>	<u>\$ 157,946</u>	<u>\$ 13,437,608</u>

Other Governmental Funds	Total Governmental Funds
\$ 170,151	\$ 7,265,655
75,521	8,348,165
	101,735
11,331	462,789
	60
17,676	5,711,776
	3,832
	2,151,634
	6,412,073
\$ 274,679	\$ 30,457,719
1,000	\$ 2,849,340
	4,241,247
	422,887
1,000	7,513,474
	88,096
	88,096
106,399	106,399
167,280	169,913
	107,771
	8,321,135
	17,611
	219,547
	3,951,738
	9,962,035
273,679	22,856,149
\$ 274,679	\$ 30,457,719

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
 Capital projects
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, 2015

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

Total fund balance per balance sheet	\$ 22,856,149
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	49,215,284
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(141,215)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(36,047,298)</u>
Net position of governmental activities	<u><u>\$ 35,882,920</u></u>

CITY OF HARKER HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
REVENUES			
Taxes and special assessments:			
Property	\$ 8,023,825	\$ 2,488,624	
Other taxes and special assessments	7,967,402		
Licenses and permits	330,275		
Fines	1,079,329		
Charges for services	794,838		
Intergovernmental	932,019		
Investment earnings	34,678	688	12,364
Contributions and donations	32,409		
Miscellaneous	106,736		
	<u>19,301,511</u>	<u>2,489,312</u>	<u>12,364</u>
EXPENDITURES			
Current:			
General government	4,101,711		
Public safety	11,224,650		
Highways and streets	1,287,553		
Culture and recreation	2,836,809		
Economic development and assistance	315,071		
Debt service:			
Principal	91,743	1,458,164	
Interest and fiscal charges	3,482	1,055,318	
Tax collection fees		28,452	
Bond Issuance Cost		64,454	
Capital outlay			3,849,094
	<u>19,861,019</u>	<u>2,606,388</u>	<u>3,849,094</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(559,508)</u>	<u>(117,076)</u>	<u>(3,836,730)</u>
OTHER FINANCING SOURCES (USES)			
Capital Leases	477,840		
Proceeds from sale of refunding bonds		6,569,597	
Payment to refunded bond escrow agent		(6,550,775)	
Transfers in	1,500,000	100,000	2,550,000
Transfers out	(900,000)		(1,770,168)
	<u>1,077,840</u>	<u>118,822</u>	<u>779,832</u>
Net Change in Fund Balances	518,332	1,746	(3,056,898)
Fund Balances -Beginning	<u>9,683,494</u>	<u>106,025</u>	<u>15,329,771</u>
Fund Balances - Ending	<u>\$ 10,201,826</u>	<u>\$ 107,771</u>	<u>\$ 12,272,873</u>

Other Governmental Funds	Total Governmental Fund
	\$ 10,512,449
75,371	8,042,773
	330,275
65,842	1,145,171
	794,838
	932,019
613	48,343
	32,409
	106,736
<u>141,826</u>	<u>21,945,013</u>
115,300	4,101,711
	11,339,950
	1,287,553
	2,836,809
158,803	473,874
	1,549,907
	1,058,800
	28,452
	64,454
	3,849,094
<u>274,103</u>	<u>26,590,604</u>
<u>(132,277)</u>	<u>(4,645,591)</u>
	477,840
	6,569,597
	(6,550,775)
	4,150,000
	(2,670,168)
	<u>1,976,494</u>
(132,277)	(2,669,097)
<u>405,956</u>	<u>25,525,246</u>
<u>\$ 273,679</u>	<u>\$ 22,856,149</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

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, 2015

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

Net change in fund balances – total governmental funds	\$ (2,669,097)
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.	5,026,834
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.	(1,847,192)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, transfers, disposals, and donations) is to increase net position.	30,990
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(98,102)
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.	(5,000)
Net pension obligation is accrued on the government-wide statement of net position, but does not require the use of current financial resources. The current period change in net pension obligation is reported in the government-wide statement of activities and changes in net position. This is an increase to net position of governmental funds.	1,091,400
The net decrease in the other postemployment benefit obligation (OPEB) is not reported in the funds.	(83,301)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,267,500
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.	(71,190)
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.	(15,080)
Change in net position of governmental activities	<u>\$ 2,627,762</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, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Positive (Negative)
REVENUES				
Taxes and special assessments:				
Property	\$ 7,941,200	\$ 7,941,200	\$ 8,023,825	\$ 82,625
Other taxes and special assessments	7,515,000	7,515,000	7,967,402	452,402
Licenses and permits	300,000	300,000	330,275	30,275
Fines	1,390,000	1,390,000	1,079,329	(310,671)
Charges for services	803,000	803,000	794,838	(8,162)
Intergovernmental	188,200	188,200	932,019	743,819
Investment earnings	25,000	25,000	34,678	9,678
Contributions and donations			32,409	32,409
Miscellaneous	20,000	20,000	106,736	86,736
	18,182,400	18,182,400	19,301,511	1,119,111
EXPENDITURES				
Current:				
General government:				
Council	207,200	207,200	196,552	10,648
Administration	2,477,200	2,258,200	2,988,175	(729,975)
Finance	605,400	605,400	615,521	(10,121)
Pet Adoption Center		285,500	301,463	(15,963)
Public safety:				
Police	5,545,500	5,476,800	5,360,936	115,864
Courts	1,115,600	1,115,600	863,645	251,955
Code enforcement	563,700	563,700	532,479	31,221
Fire/EMS	4,039,100	4,039,100	4,467,590	(428,490)
Highways and streets:				
Streets	1,161,500	1,161,500	1,026,637	134,863
Maintenance	267,200	267,200	260,916	6,284
Culture and recreation:				
Library	665,300	667,000	637,902	29,098
Parks and recreation	2,256,300	2,256,800	2,198,907	57,893
Economic development and assistance	409,300	409,300	315,071	94,229
Debt Service:				
Principal	91,700	91,700	91,743	(43)
Interest and fiscal charges	3,600	3,600	3,482	118
	19,408,600	19,408,600	19,861,019	(452,419)
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (1,226,200)	\$ (1,226,200)	\$ (559,508)	\$ 666,692

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, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Capital Leases			477,840	477,840
Sale of capital assets proceeds				
Transfers in	815,000	815,000	1,500,000	685,000
Transfers out	(400,000)	(400,000)	(900,000)	(500,000)
Total Other Financing Sources (Uses)	415,000	415,000	1,077,840	662,840
Net Change in Fund Balances	(811,200)	(811,200)	518,332	1,329,532
Fund Balances – Beginning	8,363,341	8,363,341	9,683,494	
Fund Balances – Ending	<u>\$ 7,552,141</u>	<u>\$ 7,552,141</u>	<u>\$ 10,201,826</u>	<u>\$ 1,329,532</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, 2015

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash	\$ 1,091,920	\$ 91,063	\$ 60,244	\$ 1,243,227
Investments	1,752,307	37,730	5,238	1,795,275
Receivables (net of allowance for uncollectibles):				
Accounts	989,134	191,327	70,863	1,251,324
Due from other funds	3,225,666	1,831		3,227,497
Inventory of supplies, at first-in, first-out cost	100,855			100,855
Restricted cash	75,019		3,456	78,475
Restricted investments	403,443		3,147	406,590
Total Current Assets	7,638,344	321,951	142,948	8,103,243
Capital Assets:				
Land and improvements	159,523		125,160	284,683
Buildings and lift stations	3,128,004			3,128,004
Improvements other than buildings	1,144	23,728		24,872
Furniture and fixtures	12,375			12,375
Machinery and equipment	1,176,949	19,326	232,662	1,428,937
Vehicles	611,571		92,354	703,925
Water, sewer, and drainage systems	43,939,296		5,818,263	49,757,559
Construction in progress	3,548,619		2,500	3,551,119
Less accumulated depreciation	(12,024,913)	(32,966)	(660,644)	(12,718,523)
Total Capital Assets (Net of Depreciation)	40,552,568	10,088	5,610,295	46,172,951
Total Noncurrent Assets	40,552,568	10,088	5,610,295	46,172,951
Total Assets	\$ 48,190,912	\$ 332,039	\$ 5,753,243	\$ 54,276,194
Deferred Outflows of Resources:				
Deferred amount on refunding of debt	315,557			315,557
Deferred outflows related to pensions	89,275	2,269	15,585	107,129
Total Deferred Outflows of Resources	\$ 404,832	\$ 2,269	\$ 15,585	\$ 422,686

CITY OF HARKER HEIGHTS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2015

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
LIABILITIES				
Current Liabilities:				
Due to other funds	\$ 4,486,121	\$ 163,178	\$ 48,726	\$ 4,698,025
Accrued compensated absences	22,500	1,000	8,000	31,500
Refundable meter deposits	324,417			324,417
Accrued interest payable	86,531		7,735	94,266
Capital leases payable - current				
General obligation bonds - current	216,596		37,872	254,468
Certificates of obligation - current	940,000		65,000	1,005,000
Total Current Liabilities	6,076,165	164,178	167,333	6,407,676
Noncurrent Liabilities:				
Accrued compensated absences	4,500		4,000	8,500
Net pension liability	483,296	12,287	84,372	579,955
Net other postemployment benefit obligation	45,574	2,624	4,766	52,964
Capital leases payable				
General obligation bonds payable	5,243,636		471,822	5,715,458
Certificates of obligation	13,468,542		1,069,278	14,537,820
Total Noncurrent Liabilities	19,245,548	14,911	1,634,238	20,894,697
Total Liabilities	\$ 25,321,713	\$ 179,089	\$ 1,801,571	\$ 27,302,373
Deferred inflows related to pensions	\$ 2,258	\$ 57	\$ 394	\$ 2,709
NET POSITION				
Net investment in capital assets	23,682,005	12,357	3,966,323	27,660,685
Restricted for debt service	50,515		6,603	57,118
Unrestricted	(460,747)	142,805	(6,063)	(324,005)
Total Net Position	\$ 23,271,773	\$ 155,162	\$ 3,966,863	\$ 27,393,798

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, 2015

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 8,744,036	\$ 1,886,755	\$ 771,502	\$ 11,402,293
Franchise fees		124,567		124,567
Other	31,473	1,214		32,687
Total Operating Revenues	<u>8,775,509</u>	<u>2,012,536</u>	<u>771,502</u>	<u>11,559,547</u>
OPERATING EXPENSES				
Water purchases	2,569,006			2,569,006
Contractual services	322,431	1,575,344	3,691	1,901,466
Personal services	1,137,202	54,386	127,095	1,318,683
Utilities and telephone	492,882	1,115		493,997
Repairs and maintenance	440,024	2,148	36,391	478,563
Supplies	127,378	892	9,679	137,949
Uncollectible accounts	56,259	9,306	2,858	68,423
Professional fees	53,825			53,825
Depreciation	888,343	5,535	125,473	1,019,351
Other	1,843		299	2,142
Total Operating Expenses	<u>6,089,193</u>	<u>1,648,726</u>	<u>305,486</u>	<u>8,043,405</u>
Operating Income	<u>2,686,316</u>	<u>363,810</u>	<u>466,016</u>	<u>3,516,142</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	9,406	352	229	9,987
Taxes & assessments				
Interest expense	(546,060)		(58,331)	(604,391)
Bond issuance costs	(26,856)			(26,856)
Total Nonoperating Revenues (Expenses)	<u>(563,510)</u>	<u>352</u>	<u>(58,102)</u>	<u>(621,260)</u>
Income Before Transfers	2,122,806	364,162	407,914	2,894,882
Transfers In	1,537,598		232,570	1,770,168
Transfers Out	(2,425,000)	(425,000)	(400,000)	(3,250,000)
Change in Net Position	1,235,404	(60,838)	240,484	1,415,050
Total Net Position - Beginning (as Restated see Note I.P on page 37)	22,036,369	216,000	3,726,379	25,978,748
Total Net Position – Ending	<u>\$ 23,271,773</u>	<u>\$ 155,162</u>	<u>\$ 3,966,863</u>	<u>\$ 27,393,798</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, 2015

Business-type Activities - Enterprise Funds

	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Drainage Utility Fund</u>	<u>Total Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 8,844,489	\$ 1,874,486	\$ 768,924	\$ 11,487,899
Cash payments to suppliers	(1,209,305)	(1,550,399)	(8,539)	(2,768,243)
Cash payments to employees	(778,290)	(54,308)	(125,288)	(957,886)
Franchise fees		124,567		124,567
Other operating cash receipts (payments)	<u>(3,194,193)</u>	<u>(546)</u>		<u>(3,194,739)</u>
Net Cash Provided By Operating Activities	<u>3,662,701</u>	<u>393,800</u>	<u>635,097</u>	<u>4,691,598</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	1,537,598		232,570	1,770,168
Transfers out	<u>(2,425,000)</u>	<u>(425,000)</u>	<u>(400,000)</u>	<u>(3,250,000)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(887,402)</u>	<u>(425,000)</u>	<u>(167,430)</u>	<u>(1,479,832)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(1,891,271)		(250,317)	(2,141,588)
Proceeds from issuance of debt	2,298,329			2,298,329
Principal repayments	(3,809,491)		(102,346)	(3,911,837)
Interest paid on long-term debt	<u>(553,967)</u>		<u>(64,682)</u>	<u>(618,649)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(3,956,400)</u>		<u>(417,345)</u>	<u>(4,373,745)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales and maturities of investments	2,875,565			2,875,565
Purchase of investments	(1,905,220)	14,974	(5)	(1,890,251)
Interest & penalties received	<u>9,406</u>	<u>352</u>	<u>229</u>	<u>9,987</u>
Net Cash Provided (Used) By Investing Activities	<u>979,751</u>	<u>15,326</u>	<u>224</u>	<u>995,301</u>
Net Increase (Decrease) in Cash For The Year	(201,350)	(15,874)	50,546	(166,678)
Cash - Beginning	<u>1,368,289</u>	<u>106,937</u>	<u>13,154</u>	<u>1,488,380</u>
Cash - Ending	<u>\$ 1,166,939</u>	<u>\$ 91,063</u>	<u>\$ 63,700</u>	<u>\$ 1,321,702</u>
Reconciliation of cash:				
Cash	\$ 1,091,920	\$ 91,063	\$ 60,244	\$ 1,243,227
Restricted Cash	<u>75,019</u>		<u>3,456</u>	<u>78,475</u>
Total Cash	<u>\$ 1,166,939</u>	<u>\$ 91,063</u>	<u>\$ 63,700</u>	<u>\$ 1,321,702</u>

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

CITY OF HARKER HEIGHTS
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	<u>Business-type Activities - Enterprise Funds</u>			Total Enterprise Funds
	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Drainage Utility Fund</u>	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	<u>\$ 2,686,316</u>	<u>\$ 363,810</u>	<u>\$ 466,016</u>	<u>\$ 3,516,142</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	888,343	5,535	125,473	1,019,351
Change in Assets and Liabilities:				
(Increase) Decrease in accounts receivable	79,155	(2,963)	(2,279)	73,913
(Increase) Decrease in deferred outflow in net pension obligation	(89,275)	(2,269)	(15,585)	(107,129)
Increase in allowance for doubtful accounts				
(Increase) Decrease in due from other funds	(3,225,666)	(1,760)		(3,227,426)
(Increase) Decrease in inventory	107			107
Increase (Decrease) in accounts payable and accrued liabilities				
Increase (Decrease) in refundable meter deposits	21,298			21,298
Increase (Decrease) in due to other funds	2,854,236	29,099	44,080	2,927,415
Increase (Decrease) in compensated absences	2,000	(2,000)	2,000	2,000
(Increase) Decrease in deferred inflow in net pension obligation	2,258			2,258
Increase (Decrease) in net pension obligation	438,370	2,123	14,574	455,067
Increase (Decrease) in net other postemployment benefit obligation	<u>5,559</u>	<u>2,225</u>	<u>818</u>	<u>8,602</u>
Total Adjustments	<u>976,385</u>	<u>29,990</u>	<u>169,081</u>	<u>1,175,456</u>
Net cash Provided By Operating Activities:	<u><u>\$ 3,662,701</u></u>	<u><u>\$ 393,800</u></u>	<u><u>\$ 635,097</u></u>	<u><u>\$ 4,691,598</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Amortization of deferred amount on advanced refunding of certificates of obligation	\$ 42,176			\$ 42,176
Amortization of bond discount	2,670			2,670
Amortization of bond issuance costs				
Total Noncash Investing, Capital and Financing Activities	<u><u>\$ 44,846</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 44,846</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, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the City. For the most part, the effect of 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.

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

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund, the sanitation enterprise fund, and the drainage utility enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The following major funds are used by the City:

1. Governmental Funds

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

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

2. Proprietary Funds

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

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

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments (continued)

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.

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.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2015, 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, 2015, the City had restricted funds for economic development, public safety, debt service, capital projects, culture and recreation 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, 2015, 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, 2015, 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.

O. New Accounting Pronouncements

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

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. New Accounting Pronouncements (continued)

1. Statement No. 67, "Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25," which replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable for pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.
2. Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts and equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.
3. Statement No. 69, "Government Combinations and Disposals of Government Operations." The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application of the Statement is encouraged.
4. Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.
5. Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date; an amendment of GASB Statement No. 68." The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

P. Pensions

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

Q. Prior Period Adjustment

In the year of implementation of GASB 68, as amended by GASB 71, a restatement to beginning net position will be required for the recording of the beginning net pension liability and for the recording of deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and beginning of the reporting entity's fiscal year.

Beginning net position as of 12/31/13 has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Prior Period Adjustment (continued)

Prior Period Adjustment – Implementation of GASB 68:	
Governmental Fund	
Net Position as of September 30, 2014	\$ 39,880,201
Less Outflow-Contribution as of measurement date 12/31/13	(1,000,160)
Add Net Pension Obligation as of September 30, 2014	707,419
Less Pension Liability as of measurement date 12/31/13	<u>(6,332,302)</u>
Net Position as of September 30, 2014, restated	<u>\$ 33,255,158</u>
Water and Sewer Fund:	
Net Position as of September 30, 2014	\$ 22,393,516
Less Net Pension Liability	<u>(357,147)</u>
Net Position as of September 30, 2014, restated	<u>\$ 22,036,369</u>
Sanitation Fund:	
Net Position as of September 30, 2014	\$ 225,109
Less Net Pension Liability	<u>(9,109)</u>
Net Position as of September 30, 2014, restated	<u>\$ 216,000</u>
Drainage Fund:	
Net Position as of September 30, 2014	\$ 3,788,722
Less Net Pension Liability	<u>(62,343)</u>
Net Position as of September 30, 2014, restated	<u>\$ 3,726,379</u>

R. Deferred Outflows of Resources

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

S. Deferred Inflows of Resources

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

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

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 \$36,047,298 difference are as follows:

Certificates of obligation	\$18,695,000
Less: Issuance discount (to be amortized as interest expense)	(42,384)
General obligation refunding	9,110,077
Plus: Premium on current year issuance	682,155
Less: Deferred charges for advanced refunding costs (to be amortized as interest expense)	(594,254)
Accrued interest payable	124,494
Capital leases payable	571,309
Note payable	69,272
Compensated absences	708,000
Net pension liability	7,611,507
Deferred outflows related to pension	(1,406,009)
Deferred inflows related to pension	35,564
Net postemployments benefit obligation	482,567
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	\$36,047,298

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, 2015

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 \$1,267,500 difference are as follows:

Current Year Issuance:	
Certificates of obligation (Net of Discount)	\$ (6,505,143)
Capital Leases	(477,840)
	(6,982,983)
Principal repayments:	
Certificates of obligation refunding in current year net of premium	\$ 6,632,001
Certificates of obligation	980,000
General obligation refunding	478,163
Capital leases	91,902
Note payable	68,417
	8,250,483
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$ 1,267,500

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 \$(71,190) difference are as follows:

Amortization of bond discounts	(5,750)
Amortization of advanced refunding costs	(65,440)
	(71,190)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$(71,190)

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 9, 2014.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

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, 2015

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 \$9,697,092 at September 30, 2015. 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, \$9,878,457 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, 2015.

At September 30, 2015, the carrying amount of the City's deposits was \$10,737,531, and the respective bank balances totaled \$10,741,762. Of the bank balances, \$750,000 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 \$9,185,299 and a letter of credit valued at \$2,500,000 at September 30, 2015.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

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, 2015.

	Fair Value/Carrying Value			Cost	Weighted Average Days to Maturity (1)
	Governmental Activities	Business- type Activities	Total		
Investments:					
Certificates of deposit	\$ 14,257,169	\$ 1,904,931	\$16,162,100	\$16,162,100	240
Local government investment pools					
TexSTAR	386,544	209,799	596,343	596,343	1
Texas Class	106,729	3,628	110,357	110,357	1
Lone Star Investment Pool	9,796	83,507	93,303	93,303	1
Total local government investment pools	<u>503,069</u>	<u>296,934</u>	<u>800,003</u>	<u>800,003</u>	
Total Investments	<u>\$ 14,760,238</u>	<u>\$ 2,201,865</u>	<u>\$16,962,103</u>	<u>\$16,962,103</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, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

As of September 30, 2015, 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	10,737,531
Carrying amount of investments	16,962,103
Total Cash and Investments	\$ 27,701,094
Cash	\$ 8,508,882
Cash – restricted	2,230,109
Investments	
Short-Term	10,143,440
Investments – restricted	
Short-Term	6,818,663
Total Cash and Investments	\$ 27,701,094

2. Receivables

Receivables at September 30, 2015, 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	\$ 169,228	\$ 52,507					\$ 221,735
Accounts	1,754,055		11,331	1,020,134	196,327	71,863	3,053,710
Special							
assessments	10,860			13,991			24,851
Intergovernmental	2,658	1,174					3,832
Gross receivables	1,936,801	53,681	11,331	1,034,125	196,327	71,863	3,304,128
Less:							
Allowance for uncollectibles	1,433,397	37,000		44,991	5,000	1,000	1,521,388
Net total receivables	\$ 503,404	\$ 16,681	\$ 11,331	\$ 989,134	\$ 191,327	\$ 70,863	\$ 1,782,740

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS

3. Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

	Balance 10/01/2014	Increases	Transfers and Decreases	Balance 09/30/2015
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 15,512,984	62,888		15,575,872
Construction in progress	703,824	3,849,095	(745,208)	3,807,711
Total capital assets, not being depreciated	16,216,808	3,911,983	(745,208)	19,383,583
Capital assets, being depreciated:				
Buildings	13,403,751	69,918		13,473,669
Improvements other than buildings	129,693			129,693
Machinery and equipment	5,153,853	465,460	(9,212)	5,610,101
Vehicles	3,853,243	646,883	(159,030)	4,341,096
Furniture and fixtures	890,465		(5,800)	884,665
Street and drainage improvements	24,526,277	677,798		25,204,075
Total capital assets, being depreciated	47,957,282	1,860,059	(174,042)	49,643,299
Less accumulated depreciation for:				
Buildings	(5,582,375)	(635,812)		(6,218,187)
Improvements other than buildings	(34,962)	(17,301)		(52,263)
Machinery and equipment	(4,085,913)	(336,348)	7,754	(4,414,507)
Vehicles	(2,901,256)	(315,371)	159,030	(3,057,597)
Furniture and fixtures	(699,272)	(51,878)	2,320	(748,830)
Street and drainage improvements	(4,829,733)	(490,481)		(5,320,214)
Total accumulated depreciation	(18,133,511)	(1,847,191)	169,104	(19,811,598)
Total capital assets, being depreciated, net	29,823,771	12,868	(4,938)	29,831,701
Governmental activities capital assets, net	46,040,579	3,924,851	(750,146)	49,215,284
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	279,273	5,410		284,683
Construction in progress	2,614,623	1,943,776	(1,007,280)	3,551,119
Total capital assets, not being depreciated	2,893,896	1,949,186	(1,007,280)	3,835,802
Capital assets, being depreciated:				
Buildings and lift stations	3,110,967	17,037		3,128,004
Improvements other than buildings	24,872			24,872
Machinery and equipment	1,238,891	194,594	(4,548)	1,428,937
Vehicles	718,605		(14,680)	703,925
Furniture and fixtures	12,375			12,375
Water, sewer, and drainage systems	48,750,277	1,007,282		49,757,559
Total capital assets, being depreciated	53,855,987	1,218,913	(19,228)	55,055,672
Less accumulated depreciation for:				
Buildings and lift stations	(1,419,015)	(63,662)		(1,482,677)
Improvements other than buildings	(17,332)	(1,747)		(19,079)
Machinery and equipment	(931,199)	(115,768)	4,548	(1,042,419)
Vehicles	(565,013)	(26,206)	14,680	(576,539)
Furniture and fixtures	(12,375)			(12,375)
Water, sewer, and drainage systems	(8,773,465)	(811,969)		(9,585,434)
Total accumulated depreciation	(11,718,399)	(1,019,352)	19,228	(12,718,523)
Total capital assets, being depreciated, net	42,137,588	199,561		42,337,149
Business-type activities capital assets, net	\$ 45,031,484	\$ 2,148,747	(\$ 1,007,280)	\$ 46,172,951

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

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	\$ 183,882
Public safety	694,395
Highways and streets, including depreciation of infrastructure	548,210
Culture and recreation	417,203
Economic development and assistance	<u>3,501</u>
Total depreciation expense – governmental activities	<u><u>\$ 1,847,191</u></u>

Business-type Activities:

Water, sewer, drainage, and sanitation	<u>\$ 1,019,352</u>
Total depreciation expense – business-type activities	<u><u>\$ 1,019,352</u></u>

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

4. Interfund Transactions

A summary of interfund receivables and payables at September 30, 2015, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 1,260,451
	Drainage Utility Fund	48,731
	Sanitation Fund	161,347
	Capital Projects Fund	975,396
	Debt Service Fund	899
	Hotel/Motel Fund	1,000
Drainage Utility Fund	Water and Sewer Fund	4
Nonmajor Governmental Funds	General Fund	<u>17,676</u>
Total		<u><u>\$ 2,465,504</u></u>

The General Fund receivables represent outstanding amounts for direct costs for the operations of the payable funds but are paid through the General Fund. The Capital Project Fund receivables represent an investment maturity on September 30, 2015 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.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

4. Interfund Transactions (Continued)

Transfers between funds during the year ended September 30, 2015, were as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 925,000
	Sanitation Fund	425,000
	Drainage Utility Fund	150,000
	Restricted Courts	115,300
Capital Projects Fund	General Fund	800,000
	Water and Sewer Fund	1,500,000
	Drainage Utility Fund	250,000
Water and Sewer Fund	Capital Projects Fund	1,537,598
Drainage Utility Fund	Capital Projects Fund	232,570
Debt Service Fund	General Fund	100,000
Total		<u>\$ 6,035,468</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, 2015 including equipment rentals not covered under noncancellable leases, were \$45,368.

Capital Leases

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

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Assets:		
Machinery and equipment	\$ 899,205	\$ 5,121
Vehicles	1,148,715	248,673
Less: Accumulated depreciation	(1,171,904)	(253,794)
Total	<u>\$ 876,016</u>	<u>\$ 0</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

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, 2015 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
2016	\$ 195,568		\$ 195,568
2017	100,501		100,501
2018	100,501		100,501
2019	100,501		100,501
2020	100,501		100,501
Total minimum lease payments	597,572		597,572
Less: amount representing interest	(26,263)		(26,263)
Present value of minimum lease payments	<u>\$ 571,309</u>		<u>\$ 571,309</u>

6. Long-term Debt

At September 30, 2015, 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 \$125,000 to \$180,000 through August 15, 2024.		1,375,000

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 \$50,000 to \$75,000 through February 15, 2025.	630,000	
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CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

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 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 4.25% per annum through August 15, 2020. Principal is payable in annual installments of \$130,000 to \$645,000 through August 15, 2020.</p>	2,570,000	
<p>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 4.25% per annum through August 15, 2020. Principal is payable in annual installments of \$60,000 to \$285,000 through August 15, 2020.</p>		1,125,000
<p>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 \$290,000 to \$475,000 through August 15, 2028.</p>	4,890,000	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

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 \$95,000 to \$155,000 through August 15, 2028.</p>		1,545,000
<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 \$65,000 to \$110,000 through August 15, 2028.</p>		1,105,000
<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 \$230,000 to \$430,000 through August 15, 2029.</p>		4,470,000
<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 \$110,000 to \$520,000 through August 15, 2031.</p>	4,605,000	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

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 \$110,000 to \$220,000 through August 15, 2031.

2,595,000

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, 2015

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 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 \$105,000 to \$215,000 through August 15, 2034.</p>		2,900,000
Total certificates of obligation	18,695,000	15,115,000
Plus: Net unamortized issuance premium (discount)	780,985	427,822
Total certificates of obligation, net	19,475,985	15,542,822
General Obligation Bonds Payable:		
<p>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 \$280,000 to \$305,000 through August 15, 2017.</p>	595,000	
<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 \$168,164 to \$350,538 through August 15, 2023.</p>	2,295,077	

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

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 \$149,491 to \$311,614 through August 15, 2023.</p>		2,040,230
<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 \$37,346 to \$77,848 through August 15, 2023.</p>		509,694
<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 \$55,000 through August 15, 2023.</p>	375,000	
<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 \$70,000 to \$125,000 through August 15, 2023.</p>		865,000
<p>General Refunding Bonds, Series 2015, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$8,400,000. The bonds bear interest between 3.00% and 4.00% payable in annual installments of \$530,000 to \$845,000 through August 15, 2027.</p>	5,845,000	
<p>General Refunding Bonds, Series 2015, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$8,400,000. The bonds bear interest between 3.00% and 4.00% payable in annual installments of \$230,000 to \$370,000,000 through August 15, 2027.</p>		2,555,000
<p>Total general obligation bonds payable</p>	9,110,077	5,969,924

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

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.	89,483	
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.	3,986	
Capital lease payable to a First National Bank Texas to finance the acquisition of a fire truck. The lease is secured by the equipment and is paid by the General Fund. The lease bears interest of 1.69%. The original principal balance was \$478,000. The lease is payable in annual payments of \$100,501 including interest through April 14, 2020.	477,840	
Total capital leases payable	571,309	

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.	69,272	
Total note payable	69,272	
Total debt before compensated absences, net	\$ 29,226,643	\$ 21,512,746
Compensated absences	708,000	40,000
Net pension liability	7,611,507	579,955
Net other postemployment benefit obligation	482,567	52,964
Total long-term debt	\$ 38,028,717	\$ 22,185,665

Reconciliation to Government-wide Statement of Net Position:

Noncurrent liabilities:		
Due within one year	\$ 2,432,890	\$ 1,290,968
Due in more than one year	35,595,827	20,894,697
Total long-term debt, net	\$ 38,028,717	\$ 22,185,665

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

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, 2015 is as follows:

	Balance 10/1/2014	Additions	Reductions	Balance 09/30/2015	Due Within One Year
Governmental Activities:					
Certificates of obligation	\$25,850,000		\$(7,155,000)	\$18,695,000	\$1,175,000
General obligation bonds	3,743,240	5,845,000	(478,163)	9,110,077	490,532
Premium on bonds	169,731	724,597	(70,959)	823,369	0
Discount on bonds	(48,133)		5,749	(42,384)	0
Net governmental bonds payable	<u>29,714,838</u>	<u>6,569,597</u>	<u>(7,698,373)</u>	<u>28,586,062</u>	<u>1,665,532</u>
Capital leases payable	185,211	478,000	(91,902)	571,309	185,891
Note payable	137,689		(68,417)	69,272	69,272
Compensated absences	703,000	568,495	(563,495)	708,000	512,195
Net pension liability	707,419	8,372,494	(1,468,406)	7,611,507	0
Net other post-employ benefit oblig.	399,266	83,301		482,567	0
Total governmental long-term Liabilities	<u>\$31,847,423</u>	<u>\$16,071,887</u>	<u>\$(9,890,593)</u>	<u>\$38,028,717</u>	<u>\$2,432,890</u>
Business-type Activities:					
Certificates of obligation	\$18,770,000		\$(3,655,000)	\$15,115,000	\$1,005,000
General obligation bonds	3,671,760	2,555,000	(256,836)	5,969,924	254,468
Premium on bonds	187,326	310,908	(49,679)	448,555	0
Discount on bonds	(33,745)		13,012	(20,733)	0
Net business-type bonds payable	<u>22,595,341</u>	<u>2,865,908</u>	<u>(3,948,503)</u>	<u>21,512,746</u>	<u>1,259,468</u>
Compensated absences	38,000	33,178	(31,178)	40,000	31,500
Net pension liability	53,887	646,816	(120,748)	579,955	0
Net other post-employ benefit oblig.	44,363	8,601		52,964	0
Total business-type long-term liabilities	<u>\$22,731,591</u>	<u>\$3,554,503</u>	<u>\$(4,100,429)</u>	<u>\$22,185,665</u>	<u>\$1,290,968</u>
Total Governmental Liabilities	<u>\$54,579,014</u>	<u>\$19,626,390</u>	<u>\$(13,991,022)</u>	<u>\$60,214,382</u>	<u>\$3,723,858</u>

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

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>	
2016	\$ 1,175,000	\$ 672,962	\$ 1,005,000	\$ 561,908	\$ 3,414,870
2017	1,270,000	629,535	1,035,000	526,971	3,461,506
2018	1,340,000	584,875	1,075,000	491,191	3,491,066
2019	1,400,000	537,085	1,120,000	453,425	3,510,510
2020	915,000	486,335	930,000	413,575	2,744,910
2021-2025	4,925,000	1,980,211	4,730,000	1,561,000	13,196,211
2026-2030	5,445,000	987,517	4,185,000	641,635	11,259,152
2031-2034	<u>2,225,000</u>	<u>182,325</u>	<u>1,035,000</u>	<u>85,900</u>	<u>3,528,225</u>
Total	<u>\$ 18,695,000</u>	<u>\$ 6,060,845</u>	<u>\$ 15,115,000</u>	<u>\$ 4,735,605</u>	<u>\$44,606,450</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>	
2016	\$ 490,532	\$ 311,026	\$ 254,468	\$ 184,028	\$ 1,240,054
2017	505,269	294,487	264,731	178,939	1,243,426
2018	350,800	275,553	449,201	171,696	1,247,250
2019	357,905	265,529	462,095	159,371	1,244,900
2020	904,748	255,292	705,252	146,708	2,012,000
2021-2025	4,840,823	808,514	3,109,177	407,636	9,166,150
2026-2027	<u>1,660,000</u>	<u>100,200</u>	<u>725,000</u>	<u>43,800</u>	<u>2,529,000</u>
Total	<u>\$ 9,110,077</u>	<u>\$ 2,310,601</u>	<u>\$ 5,969,924</u>	<u>\$ 1,292,178</u>	<u>\$18,682,780</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>	
2016	\$ 185,731	\$ 9,836			\$ 195,567
2017	93,985	6,516			100,501
2018	95,573	4,928			100,501
2019	97,189	3,313			100,502
2020	<u>98,831</u>	<u>1,670</u>			<u>100,501</u>
Total	<u>\$ 571,309</u>	<u>\$ 26,263</u>			<u>\$ 597,572</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>	
2016	\$ 69,272	\$ 866			\$ 70,138
Total	<u>\$ 69,272</u>	<u>\$ 866</u>			<u>\$ 70,138</u>

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Advance Refunding – 2015

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

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

The reacquisition price exceeded the net carrying amount of the old debt by \$457,001 for governmental activities and \$175,770 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2027 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2015 is \$430,233 for governmental activities and \$165,477 for the water and sewer fund.

Advance Refunding – 2013

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

Original maturity dates for the defeased debt remaining are August 15, 2004 to August 15, 2023. All maturities were redeemed prior to original maturity on August 15, 2014. There is no defeased debt remaining outstanding at September 30, 2015.

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, 2015 is \$18,893 for governmental activities and \$27,363 for the water and sewer fund.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

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. There is no defeased debt remaining outstanding at September 30, 2015.

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, 2015 is \$140,520 for governmental and \$122,715 for water and sewer fund.

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, 2015.

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, 2015, is \$4,608.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

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.

- 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, 2015, was \$0.6770 per \$100 valuation.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

8. Interest Expense

Interest expense paid during the year ended September 30, 2015, is as follows:

General Fund	\$ 5,203
Debt Service Fund	1,055,498
Proprietary Fund Type	
Water and Sewer Fund	726,496
Drainage	64,682
 Total interest paid	 \$ 1,851,879

Interest accrued in the Water and Sewer Fund at September 30, 2015, was \$86,531. Capitalized interest incurred during the construction phase of capital assets of \$173,609 was netted with interest earned on the invested proceeds over the same period of \$25,852, resulting in a net capitalized amount of \$147,757 for the year ended September 30, 2015. Amortization of deferred amount on advance refunding of certificates of obligation in the Water and Sewer Fund was \$42,176 for the year ended September 30, 2015. Amortization of bond discount in the Water and Sewer Fund was \$2,670 for the year ended September 30, 2015. Amortization of bond premium of refunding bonds in the Water and Sewer Fund was \$(43,767) for the year ended September 30, 2015.

Interest accrued in the Drainage Fund at September 30, 2015, was \$7,735. Amortization of bond premium of refunding bonds in the Drainage Fund was \$(5,913) for the year ended September 30, 2015. There was no capitalization of interest in the Drainage Fund for the year ended September 30, 2015.

Interest accrued in the governmental activities on the government-wide statement of net position at September 30, 2015, was \$124,494, and amortization of bond discount was \$5,750. Amortization of deferred amount on advance refunding costs was \$65,440.

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.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

V. OTHER INFORMATION

1. Risk Management

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

2. Employee Benefit Plans

Texas Municipal Retirement System Plan

Plan Description

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

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

Benefits Provided

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

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

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

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

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	53
Inactive employees entitled to but not yet receiving benefits	117
Active employees	203

Contributions

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

Employees for the City of Harker Heights were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Harker Heights were 14.40% and 15.09% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$1,639,697, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions

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

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

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

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

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2013	35,385,516	27,494,360	7,891,156
Changes for the year:			
Service cost	1,607,778		1,607,778
Interest	2,509,002		2,509,002
Change in benefit terms			
Difference between expected and actual experience	(48,522)		(48,522)
Changes of assumptions			
Contributions – employer		1,483,963	1,483,963
Contributions – employee		728,453	728,453
Net investment income		1,573,307	1,573,307
Benefit payments, including refunds of employee contributions	(693,040)	(693,040)	
Administrative expense		(16,421)	(16,421)
Other changes		(1,350)	(1,350)
Net changes	3,375,218	3,074,912	300,306
Balance at 12/31/2014	<u>38,760,734</u>	<u>30,569,272</u>	<u>8,191,462</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$14,785,572	\$8,191,462	\$2,899,998

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

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

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

For the year ended the September 30, 2015, the recognized pension expense of \$1,541,505.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		\$ 38,273
Changes in actuarial assumptions		
Difference between projected and actual investment earnings	\$ 281,038	
Contributions subsequent to the measurement date	1,232,100	
Total	\$ 1,513,138	\$ 38,273

\$155,734 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2016	60,012
2017	60,012
2018	62,728
2019	
2020	
Thereafter	

Additional schedule of funding progress for TMRS can be found in the required supplementary information on page 70.

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.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

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

Calendar Year	Annual Required Contribution Rate	Actual Contribution Made	Percentage of ARC Contributed
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%
2014	0.01%	0.01%	100.0%
2015	0.01%	0.01%	100.0%

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 \$1,202,350 at September 30, 2015.

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

Plan Description

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

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

Funding policy

Retirees will contribute to the health plan 100% of the total blended premium for active and retired participants. Retiree contributions rates for fiscal year 2015 were \$4,472 to \$13,520 per year depending on coverage levels selected.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions

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

Net OPEB Obligation:	
Annual required contribution	\$ 98,993
Interest on net OPEB obligation	14,069
Adjustment to annual required contribution	<u>(21,160)</u>
Annual OPEB cost	91,902
Contributions made	<u>(0)</u>
Increase in net OPEB obligation	91,902
Net OPEB obligation, beginning of year	<u>443,629</u>
Net OPEB obligation, end of the year	<u>\$ 535,531</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	178,848	0	0%	443,629
2015	91,902	0	0%	535,531

Additional schedule of funding progress for Other Postemployment Benefit can be found in the required supplementary information on page 71.

The schedule of actuarial liabilities and funding progress follows:

Actuarial Valuation Date		10/1/13
Actuarial Value of Assets	(A)	\$ 0
Actuarial Accrued Liability	(B)	\$ 627,795
Percentage Funded	(C) = (A) / (B)	0%
Unfunded (Overfunded)		
Actuarial Accrued Liability (UAAL)	(D) = (B) - (A)	\$ 627,795
Annual Covered Payroll	(E)	\$ 10,996,982
UAAL as a Percentage of Covered Payroll	(D) / (E)	5.71%

The actuarial accrued liability of \$627,795 includes \$627,795 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, 2015

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	10/1/13
Actuarial cost method	Unit Credit
Amortization method	Level Dollar of Payroll
Amortization period	26
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 \$3,180 for police vests. As of September 30, 2015, the City recognized \$3,078 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, 2015, the City recognized \$750,000 of grant proceeds and expenditures.

During the year ended September 30, 2011, the City was approved by the State of Texas Department of Transportation pass through funding in the amount of \$1,700,000 to construct an eastbound to westbound turn around bridge at US 190. The City will be reimbursed the \$1,700,000 within a 10 – 20 year time frame based on traffic counts. The City recognized \$170,000 of pass through funding proceeds with \$1,360,000 remaining as of September 30, 2015.

During the year ended September 30, 2015, the City was approved by the Texas State Library and Archives Commission for a grant in the amount of \$687 for the partial reimbursement of postage spent on Inter Library Loan materials. As of September 30, 2015, the City recognized \$687 grant proceeds and expenditures.

The City received \$3,803 and \$908 during the year ended September 30, 2014 from a Law Enforcement Officer Standards and Education grant for police and fire respectively. Of these amounts, \$1,896 was expended for police and \$908 was expended for fire. The police received \$3,752 and fire received \$912 during the year ended September 30, 2015. As of September 30, 2015, \$1,303 and \$912 were expended respectively.

During the year ended September 30, 2014, the City was approved by the U.S. Department of Justice for a grant in the amount of \$7,433 for police vests. As of September 30, 2015, the City recognized \$648 of grant proceeds and expenditures.

During the year ended September 30, 2015, the City was approved by the U.S. Department of Justice for a grant in the amount of \$7,069 for police vests. As of September 30, 2015, the City recognized no grant proceeds or expenditures.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

4. Grants (Continued)

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

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 \$26.85 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 \$70.50 per acre-foot of water.

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

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

The City has 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, 2015 is \$70,138.

The City has seven contracts with engineering firms for street reconstruction and improvements in the amount of \$348,600 with \$106,046 remaining at September 30, 2015; \$56,510 with \$34,866 remaining at September 30, 2015; \$34,725 with \$2,500 remaining at September 30, 2015; \$326,510 with \$25,311 remaining at September 30, 2015; \$87,500 with \$30,378 remaining at September 30, 2015; \$61,000 with \$27,900 remaining at September 30, 2015; and \$70,358 with \$33,384 remaining at September 30, 2015.

The City has a contract with a construction firm for the reconstruction of Amy Lane in the amount of \$2,341,633 with \$1,499,525 remaining at September 30, 2015. A contract has been signed with a construction firm for the reconstruction of Comanche Gap Road in the amount of \$2,669,214 with \$2,292,653 remaining at September 30, 2015. Also, a contract has been signed for the reconstruction of Memory Lane, Caroline Court and Miller's Crossing in the amount of \$431,864 and \$431,864 remaining at September 30, 2015.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2015

V. OTHER INFORMATION (CONTINUED)

5. Commitments (Continued)

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 \$58,827 remaining at September 30, 2015 and \$85,447 with \$40,494 remaining at September 30, 2015 respectively.

The City has three signed contracts with an engineering firm in the amount of \$115,875 with \$24,264 remaining at September 30, 2015 for the Cedar Knob pump station improvements, Verna Lee pump station improvements and the Cedar Oaks Tank mixing project. Also, the City has two signed contracts with engineering firms in the amount of \$178,300 with \$147,872 remaining at September 30, 2015 for utility relocation within the right-of-way on FM2410; and \$25,000 with \$13,000 remaining at September 30, 2015 for painting the exterior of the Verna Lee Pump Station. One construction contract has been signed for a water main oversizing project in the amount of \$13,950 with \$13,950 remaining at September 30, 2015.

Three contracts have been signed between the City and engineering firms for wastewater diversion project in the amount of \$240,000 with \$5,136 remaining at September 30, 2015; \$230,668 with \$30,687 remaining at September 30, 2015; and \$56,920 with \$52,796 remaining at September 30, 2015. The City has a signed contract with a construction firm for the wastewater diversion project in the amount of \$2,483,737 with \$177,229 remaining at September 30, 2015.

The City has three contracts with engineering firms for the Warrior's Path lift station improvements in the amount of \$38,625 with \$8,088 remaining at September 30, 2015; upgrades to the SCADA system in the amount of \$26,000 with \$15,775 remaining at September 30, 2015; and sewer line replacement project in the amount of \$106,552 with \$34,705 remaining.

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 \$2,135 of which none was outstanding at September 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARKER HEIGHTS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS (will ultimately be displayed)
SEPTEMBER 30, 2015
(UNAUDITED)

	<u>2014</u>
Total pension liability	
Service cost	\$ 1,607,778
Interest (on the Total Pension Liability)	2,509,002
Changes of benefit terms	0
Difference between expected and actual experience	(48,522)
Change of assumptions	0
Benefit payments, including refunds of employee contributions	(693,040)
Net Change in Total Pension Liability	<u>3,375,218</u>
Total Pension Liability – Beginning	<u>35,385,516</u>
Total Pension Liability – Ending (a)	<u>\$ 38,760,734</u>
Plan Fiduciary Net Position	
Contributions – Employer	\$ 1,483,963
Contributions – Employee	728,453
Net Investment Income	1,573,307
Benefit payments, including refunds of employee contributions	(693,040)
Administrative expense	(16,421)
Other	(1,350)
Net Change in Plan Fiduciary Net Position	<u>3,074,912</u>
Plan Fiduciary Net Position – Beginning	<u>27,494,360</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 30,569,272</u>
Net Pension Liability – Ending (a) – (b)	<u>\$ 8,191,462</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.87%
Covered Employee Payroll	\$ 10,406,469
Net Pension Liability as a Percentage of Covered Employee Payroll	78.72%

CITY OF HARKER HEIGHTS
SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2015
(UNAUDITED)

	Fiscal Year 2015
Actuarially determined contribution	\$1,639,697
Contribution in relation of the actuarially determined contribution	1,589,154
Contribution deficiency (excess)	\$50,543
Covered employee payroll	\$11,099,798
Contributions as a percentage of covered employee payroll	14.32%

Notes to Schedule:

Valuation Date:

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

Methods and Assumption Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year

CITY OF HARKER HEIGHTS
OTHER POSTEMPLOYMENT BENEFITS
ANALYSIS OF FUNDING PROGRESS
 SEPTEMBER 30, 2015
 (UNAUDITED)

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) – (1)
10/01/09	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	627,795	(627,795)
10/01/14	0	627,795	(627,795)

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%	8,745,958	17.78%
10/01/10	0%	9,108,379	5.97%
10/01/11	0%	9,410,363	6.27%
10/01/12	0%	9,912,468	5.95%
10/01/13	0%	10,193,960	6.16%
10/01/14	0%	10,996,982	5.71%

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, 2015

	Special Revenue			Total Nonmajor Governmental Funds
	Hotel/Motel Fund	Restricted Court Fund	Memorial Fund	
ASSETS				
Cash	\$ 93,412	\$ 76,739		\$ 170,151
Investments	2,656	72,865		75,521
Receivables (net of allowance for uncollectibles):				
Accounts	11,331			11,331
Due from other funds		17,676		17,676
Total Assets	<u>\$ 107,399</u>	<u>\$ 167,280</u>	<u>\$0</u>	<u>\$ 274,679</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 1,000			1,000
Total Liabilities	<u>1,000</u>		<u>\$0</u>	<u>1,000</u>
Fund Balances:				
Nonspendable				
Restricted for:				
Economic development	106,399			106,399
Public safety		167,280		167,280
Committed				
Assigned				
Unassigned				
Total Fund Balances	<u>106,399</u>	<u>167,280</u>	<u>\$0</u>	<u>273,679</u>
Total Liabilities and Fund Balances	<u>\$ 107,399</u>	<u>\$ 167,280</u>	<u>\$0</u>	<u>\$ 274,679</u>

CITY OF HARKER HEIGHTS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Special Revenue			Total Nonmajor Governmental Funds
	Hotel/Motel Fund	Restricted Court Fund	Memorial Fund	
REVENUES				
Taxes - other	\$ 75,371			\$ 75,371
Fines		65,842		65,842
Investment earnings	353	260		613
Total Revenues	<u>75,724</u>	<u>66,102</u>		<u>141,826</u>
EXPENDITURES				
Current:				
Public safety:				
Courts		115,300		115,300
Economic development and assistance	158,803			158,803
Total Expenditures	<u>158,803</u>	<u>115,300</u>		<u>274,103</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(83,079)	(49,198)		(132,277)
Fund Balances - Beginning	<u>189,478</u>	<u>216,478</u>		<u>405,956</u>
Fund Balances - Ending	<u><u>\$ 106,399</u></u>	<u><u>\$ 167,280</u></u>		<u><u>\$ 273,679</u></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, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,463,700	\$ 2,463,700	\$ 2,488,624	\$ 24,924
Investment earnings	1,000	1,000	688	(312)
Total Revenues	2,464,700	2,464,700	2,489,312	24,612
EXPENDITURES				
Debt service:				
Principal	1,458,200	1,458,200	1,458,164	36
Interest and fiscal charges	1,103,300	1,103,300	1,055,318	47,982
Tax collection fees	27,000	27,000	28,452	(1,452)
Bond Issuance Cost			64,454	(64,454)
Total Expenditures	2,588,500	2,588,500	2,606,388	(17,888)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(123,800)	(123,800)	(117,076)	6,724
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of refunding bonds			6,569,597	6,569,597
Payment to refunded bond escrow agent			(6,550,775)	(6,550,775)
Transfers in	100,000	100,000	100,000	
Total Other Financing Sources (Uses)	100,000	100,000	118,822	18,822
Net Change in Fund Balances	(23,800)	(23,800)	1,746	25,546
Fund Balances – Beginning	26,337	26,337	106,025	
Fund Balances – Ending	\$ 2,537	\$ 2,537	\$ 107,771	\$ 25,546

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, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Hotel/Motel tax	\$ 70,000	\$ 70,000	\$ 75,371	\$ 5,371
Investment earnings	100	100	353	253
Total Revenues	70,100	70,100	75,724	5,624
 EXPENDITURES				
Current:				
Economic development				
Advertising	12,500	12,500	12,450	50
Historical restoration & preservation	85,200	85,200	138,760	(53,560)
Events				
Softball tournament	5,000	5,000	5,043	(43)
Promotion of the arts	2,500	2,500	2,550	(50)
Total Expenditures	105,200	105,200	158,803	(53,603)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(35,100)	(35,100)	(83,079)	(47,979)
 Fund Balances – Beginning	163,930	163,930	189,478	
 Fund Balances – Ending	\$ 128,830	\$ 128,830	\$ 106,399	\$ (47,979)

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines	\$ 88,000	\$ 88,000	\$ 65,842	\$ (22,158)
Investment earnings	100	100	260	160
Total Revenues	<u>88,100</u>	<u>88,100</u>	<u>66,102</u>	<u>(21,998)</u>
EXPENDITURES				
Current:				
Public safety - courts			115,300	(115,300)
Total Expenditures			<u>115,300</u>	<u>(115,300)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>88,100</u>	<u>88,100</u>	<u>(49,198)</u>	<u>(137,298)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(119,300)</u>	<u>(119,300)</u>		119,300
Total Other Financing Sources (Uses)	<u>(119,300)</u>	<u>(119,300)</u>		<u>119,300</u>
Net Change in Fund Balances	(31,200)	(31,200)	(49,198)	(17,998)
Fund Balances – Beginning	<u>212,764</u>	<u>212,764</u>	<u>216,478</u>	
Fund Balances – Ending	<u><u>\$ 181,564</u></u>	<u><u>\$ 181,564</u></u>	<u><u>\$ 167,280</u></u>	<u><u>\$ (17,998)</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, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings				
Donations				
Total Revenues				
EXPENDITURES				
Monument payments				
Total Expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures				
Fund Balances – Beginning				
Fund Balances – Ending				



**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, 2015 AND 2014

	2015	2014
ASSETS		
Cash	\$ 4,107,642	\$ 5,430,347
Investments	6,039,768	3,987,621
Receivables (net of allowance for uncollectibles):		
Taxes	49,228	62,616
Accounts	451,458	439,049
Special assessments	60	922
Due from other funds	5,694,100	1,767,941
Due from other governments	2,658	3,641
Restricted assets:		
Cash	225,483	180,615
Investments	17,089	17,067
	<u>\$ 16,587,486</u>	<u>\$ 11,889,819</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,660,001	\$ 1,768,848
Due to other funds	3,263,953	20,843
Unearned revenue	422,887	366,440
	<u>6,346,841</u>	<u>2,156,131</u>
 DEFERRED INFLOWS OF RESOURCES		
Property tax not yet available	38,819	50,194
	<u>38,819</u>	<u>50,194</u>
 Fund Balances:		
Nonspendable		
Restricted for:		
Public safety	2,633	1,133
Cemetery	17,611	17,583
Committed		
Assigned to:		
Culture and recreation	219,547	178,966
Unassigned	9,962,035	9,485,812
	<u>10,201,826</u>	<u>9,683,494</u>
Total Fund Balances	<u>10,201,826</u>	<u>9,683,494</u>
	<u>\$ 16,587,486</u>	<u>\$ 11,889,819</u>

CITY OF HARKER HEIGHTS
GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
REVENUES		
Taxes and special assessments:		
Property	\$ 8,023,825	\$ 7,682,846
Other taxes and special assessments	7,967,402	7,518,896
Licenses and permits	330,275	591,518
Fines	1,079,329	1,449,318
Charges for services	794,838	787,569
Intergovernmental	932,019	198,343
Investment earnings	34,678	25,938
Contributions and donations	32,409	6,074
Miscellaneous	106,736	42,572
	19,301,511	18,303,074
EXPENDITURES		
Current:		
General government	4,101,711	2,734,420
Public safety	11,224,650	10,380,068
Highways and streets	1,287,553	1,320,544
Culture and recreation	2,836,809	2,725,815
Economic development and assistance	315,071	410,423
Debt Service:		
Principal	91,743	137,210
Interest and fiscal charges	3,482	6,514
	19,861,019	17,714,994
Excess (Deficiency) of Revenues Over (Under) Expenditures	(559,508)	588,080
OTHER FINANCING SOURCES (USES)		
Capital leases	477,840	
Transfers in	1,500,000	1,475,000
Transfers out	(900,000)	(800,000)
	1,077,840	675,000
Net Change in Fund Balances	518,332	1,263,080
Fund Balances – Beginning	9,683,494	8,420,414
Fund Balances – Ending	\$ 10,201,826	\$ 9,683,494



**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, 2015 AND 2014

	2015	2014
ASSETS		
Cash	\$ 25,113	\$ 62,799
Investments	79,152	38,770
Receivables (net of allowance for uncollectibles):		
Taxes	52,507	51,924
Due from other governments	1,174	13,876
Total Assets	\$ 157,946	\$ 167,369
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to other funds	\$ 898	\$ 13,436
Total Liabilities	898	13,436
 DEFERRED INFLOWS OF RESOURCES		
Property tax not yet available	49,277	47,908
Total deferred inflows of resources	49,277	47,908
 Fund Balances:		
Nonspendable		
Restricted for:		
Debt service	107,771	106,025
Committed		
Assigned		
Unassigned		
Total Fund Balances	107,771	106,025
Total Liabilities and Fund Balances	\$ 157,946	\$ 167,369

CITY OF HARKER HEIGHTS
DEBT SERVICE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
REVENUES		
Taxes and special assessments:		
Property	\$ 2,488,624	\$ 2,482,341
Investment earnings	688	535
	2,489,312	2,482,876
Total Revenues		
 EXPENDITURES		
Debt service:		
Principal	1,458,164	1,540,274
Interest and fiscal charges	1,055,318	1,070,551
Tax collection fees	28,452	27,523
Bond Issuance Cost	64,454	
	2,606,388	2,638,348
Total Expenditures		
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	(117,076)	(155,472)
 OTHER FINANCING SOURCES (USES)		
Proceeds from sale of refunding bonds	6,569,597	
Payment to refunded bond escrow agent	(6,550,775)	
Transfers in	100,000	200,000
	118,822	200,000
Total Other Financing Sources (Uses)		
Net Change in Fund Balances	1,746	44,528
Fund Balances – Beginning	106,025	61,497
Fund Balances – Ending	\$ 107,771	\$ 106,025



**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, 2015 AND 2014

	2015	2014
ASSETS		
Cash	\$ 2,962,749	\$ 2,556,235
Investments	2,153,724	1,398,222
Restricted assets:		
Cash	1,926,151	5,876,789
Investments	6,394,984	5,592,985
Total Assets	\$ 13,437,608	\$ 15,424,231
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 189,339	\$ 110,493
Due to other funds	975,396	(16,033)
Total Liabilities	1,164,735	94,460
Fund Balances:		
Nonspendable		
Restricted for:		
Capital projects	8,321,135	11,469,774
Committed		
Assigned		
Capital projects	3,951,738	
Unassigned		3,859,997
Total Fund Balances	12,272,873	15,329,771
Total Liabilities and Fund Balances	\$ 13,437,608	\$ 15,424,231

CITY OF HARKER HEIGHTS
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
REVENUES		
Investment earnings	\$ 12,364	\$ 5,076
Miscellaneous		100,000
	12,364	105,076
EXPENDITURES		
Debt Service:		
Bond issuance costs		6,003
Capital outlay	3,849,094	850,791
	3,849,094	856,794
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	(3,836,730)	(751,718)
OTHER FINANCING SOURCES (USES)		
Issuance of certificates of obligation		6,045,595
Transfers in	2,550,000	5,602,950
Transfers out	(1,770,168)	(2,994,720)
	779,832	8,653,825
Total Other Financing Sources (Uses)		
	(3,056,898)	7,902,107
Net Change in Fund Balances		
Fund Balances – Beginning	15,329,771	7,427,664
Fund Balances – Ending	\$ 12,272,873	\$ 15,329,771



**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, 2015 AND 2014

	2015	2014
ASSETS		
Cash	\$ 93,412	\$ 61,373
Investments	2,656	113,642
Receivables (net of allowance for uncollectibles):		
Accounts	11,331	14,463
Total Assets	\$ 107,399	\$ 189,478
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to other funds	1,000	
Total Liabilities	1,000	
 Fund Balances:		
Nonspendable		
Restricted for:		
Economic development	106,399	189,478
Committed		
Assigned		
Unassigned		
Total Fund Balances	106,399	189,478
Total Liabilities and Fund Balances	\$ 107,399	\$ 189,478

CITY OF HARKER HEIGHTS
HOTEL/MOTEL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
Taxes – other	\$ 75,371	\$ 99,634
Investment earnings	353	124
	<u>75,724</u>	<u>99,758</u>
Total Revenues		
EXPENDITURES		
Current:		
Economic development and assistance	<u>158,803</u>	<u>115,810</u>
	<u>158,803</u>	<u>115,810</u>
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	(83,079)	(16,052)
Fund Balances – Beginning	<u>189,478</u>	<u>205,530</u>
Fund Balances – Ending	<u><u>\$ 106,399</u></u>	<u><u>\$ 189,478</u></u>

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash	\$ 76,739	\$ 82,837
Investments	72,865	112,798
Due from other funds	17,676	20,843
Total Assets	\$ 167,280	\$ 216,478
 FUND BALANCES		
Nonspendable		
Restricted for:		
Public safety	167,280	216,478
Committed		
Assigned		
Unassigned		
Total Fund Balances	\$ 167,280	\$ 216,478

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
REVENUES		
Fines	\$ 65,842	\$ 91,671
Investment earnings	260	145
	66,102	91,816
Total Revenues		
 EXPENDITURES		
Current:		
Public safety:		
Courts	115,300	65,000
	115,300	65,000
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	(49,198)	26,816
Fund Balances – Beginning	216,478	189,662
Fund Balances – Ending	\$ 167,280	\$ 216,478

CITY OF HARKER HEIGHTS
MEMORIAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash		
Investments		
Total Assets		
 FUND BALANCES		
Nonspendable		
Restricted for:		
Public safety		
Committed		
Assigned		
Unassigned		
Total Fund Balances		

CITY OF HARKER HEIGHTS
MEMORIAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
REVENUES		
Investment earnings		\$ 11
Donations		34,818
Total Revenues		34,829
EXPENDITURES		
Monument payments		47,007
Total Expenditures		47,007
Excess (Deficiency) of Revenues Over (Under) Expenditures		(12,178)
Fund Balances – Beginning		12,178
Fund Balances – Ending		0



**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, 2015 AND 2014

	2015	2014
ASSETS		
Current Assets:		
Cash	\$ 1,091,920	\$ 1,276,567
Investments	1,752,307	2,763,141
Receivables (net of allowance for uncollectibles):		
Accounts	989,134	1,068,289
Due from other funds	3,225,666	
Inventory of supplies, at first-in, first-out cost	100,855	100,962
Restricted cash	75,019	91,722
Restricted investments	403,443	362,954
Total Current Assets	7,638,344	5,663,635
Capital Assets:		
Land and improvements	159,523	154,113
Buildings and lift stations	3,128,004	3,110,968
Furniture and fixtures	12,375	12,375
Machinery and equipment	1,176,949	1,004,650
Vehicles	611,571	626,250
Water and sewer system	43,939,296	43,360,390
Other improvements	1,144	1,144
Construction in progress	3,548,619	2,416,318
Less accumulated depreciation	(12,024,913)	(11,155,797)
Total Capital Assets (Net of Depreciation)	40,552,568	39,530,411
Total Noncurrent Assets	40,552,568	39,530,411
Total Assets	\$ 48,190,912	\$ 45,194,046
Deferred Outflows of Resources:		
Deferred amount on refunding of debt	315,557	
Deferred outflows related to pensions	89,275	
Total Deferred Outflows of Resources	\$ 404,832	

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2015 AND 2014

	2015	2014
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities		
Due to other funds	\$ 4,486,121	\$ 1,631,885
Accrued compensated absences	22,500	23,000
Refundable meter deposits	324,417	303,119
Accrued interest payable	86,531	94,438
Capital leases payable - current		
General obligation bonds - current	216,596	219,491
Certificates of obligation - current	940,000	895,000
	<u>6,076,165</u>	<u>3,166,933</u>
Total Current Liabilities		
Noncurrent Liabilities:		
Accrued compensated absences	4,500	2,000
Net pension liability	483,296	44,926
Net other postemployment benefit obligation	45,574	40,015
Capital leases payable		
General obligation bonds payable	5,243,636	2,723,269
Certificates of obligation (net of unamortized discounts)	13,468,542	16,823,390
	<u>19,245,548</u>	<u>19,633,600</u>
Total Noncurrent Liabilities		
	<u>19,245,548</u>	<u>19,633,600</u>
Total Liabilities	<u>\$ 25,321,713</u>	<u>\$ 22,800,533</u>
Deferred inflows related to pensions	<u>\$ 2,258</u>	<u></u>
NET POSITION		
Net investment in capital assets	23,682,005	22,219,633
Restricted for debt service	50,515	47,922
Unrestricted	(460,747)	125,961
	<u>23,271,773</u>	<u>22,393,516</u>
Total Net Position	<u>\$ 23,271,773</u>	<u>\$ 22,393,516</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, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Charges for services	\$ 8,744,036	\$ 8,573,314
Other	31,473	14,694
	8,775,509	8,588,008
OPERATING EXPENSES		
Water purchases	2,569,006	2,407,417
Contractual services	322,431	229,014
Personal services	1,137,202	1,088,569
Utilities and telephone	492,882	461,285
Repairs and maintenance	440,024	379,818
Supplies	127,378	229,451
Uncollectible accounts	56,259	65,077
Professional fees	53,825	48,800
Depreciation	888,343	857,687
Other	1,843	1,608
	6,089,193	5,768,726
Operating Income	2,686,316	2,819,282
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	9,406	9,607
Taxes and assessments		
Interest expense	(546,060)	(603,735)
Bond issuance costs	(26,856)	(25,026)
Gain on sale of capital assets		
Loss on sale of capital assets		
	(563,510)	(619,154)
Total Nonoperating Revenues (Expenses)	(563,510)	(619,154)
Income Before Transfers	2,122,806	2,200,128
Transfers in	1,537,598	2,543,099
Transfers out	(2,425,000)	(5,702,951)
	1,235,404	(959,724)
Change in Net Position	1,235,404	(959,724)
Total Net Position - Beginning (as Restated see Note I.P on page 37)	22,036,369	23,353,240
Total Net Position – Ending	\$ 23,271,773	\$ 22,393,516

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 8,844,489	\$ 8,557,113
Cash payments to suppliers	(1,209,305)	(2,795,883)
Cash payments to employees	(778,290)	(1,072,014)
Other operating cash receipts (payments)	(3,194,193)	14,694
	<u>3,662,701</u>	<u>4,703,910</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	1,537,598	2,543,099
Transfers out	(2,425,000)	(5,702,951)
	<u>(887,402)</u>	<u>(3,159,852)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,891,271)	(2,795,784)
Proceeds from issuance of debt	2,298,329	2,949,948
Principal repayments	(3,809,491)	(889,967)
Interest paid on long-term debt	(553,967)	(576,343)
	<u>(3,956,400)</u>	<u>(1,312,146)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	2,875,565	1,248,690
Purchase of investments	(1,905,220)	(753,000)
Interest & penalties received	9,406	9,607
	<u>979,751</u>	<u>505,297</u>
Net Cash Provided (Used) By Investing Activities	<u>979,751</u>	<u>505,297</u>
Net Increase (Decrease) in Cash For The Year	(201,350)	737,209
Cash - Beginning	<u>1,368,289</u>	<u>631,080</u>
Cash - Ending	<u>\$ 1,166,939</u>	<u>\$ 1,368,289</u>
Reconciliation of cash:		
Cash	1,091,920	1,276,567
Restricted Cash	<u>75,019</u>	<u>91,722</u>
Total Cash	<u>\$ 1,166,939</u>	<u>\$ 1,368,289</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 2,686,316	\$ 2,819,282
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	888,343	857,687
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	79,155	(38,198)
(Increase) Decrease in deferred outflow in net pension obligation	(89,275)	
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds	(3,225,666)	
(Increase) Decrease in inventory	107	25,802
Increase (Decrease) in accounts payable and accrued liabilities		
Increase (Decrease) in refundable meter deposits	21,298	21,997
Increase (Decrease) in due to other funds	2,854,236	1,000,785
Increase (Decrease) in compensated absences	2,000	(3,000)
(Increase) Decrease in deferred inflow in net pension obligation	2,258	
Increase (Decrease) in net pension obligation	438,370	3,609
Increase (Decrease) in net other postemployment benefit obligation	5,559	15,946
Total Adjustments	<u>976,385</u>	<u>1,884,628</u>
Net cash Provided By Operating Activities:	<u><u>3,662,701</u></u>	<u><u>4,703,910</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	\$ 42,176	\$ 34,366
Amortization of bond discount	<u>2,670</u>	<u>2,692</u>
Total Noncash Investing, Capital and Financing Activities	<u><u>\$ 44,846</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
SANITATION FUND
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2015 AND 2014

	2015	2014
ASSETS		
Current Assets:		
Cash	\$ 91,063	\$ 106,937
Investments	37,730	52,704
Receivables (net of allowance for uncollectibles):		
Accounts	191,327	188,366
Due from other funds	1,831	71
Total Current Assets	321,951	348,078
Capital Assets:		
Machinery & equipment	19,326	19,325
Improvements other than buildings	23,728	23,728
Less accumulated depreciation	(32,966)	(27,431)
Total Capital Assets (Net of Depreciation)	10,088	15,622
Total Noncurrent Assets	10,088	15,622
Total Assets	\$ 332,039	\$ 363,700
Deferred Outflows of Resources:		
Deferred outflow related to pensions	2,269	
Total Deferred Outflows of Resources	\$ 2,269	
LIABILITIES		
Current Liabilities:		
Due to other funds	\$ 163,178	\$ 134,079
Accrued compensated absences	1,000	2,000
Total Current Liabilities	164,178	136,079
Noncurrent Liabilities:		
Accrued compensated absences		1,000
Net pension liability	12,287	1,113
Net other postemployment benefit obligation	2,624	399
Total Noncurrent Liabilities	14,911	2,512
Total Liabilities	\$ 179,089	\$ 138,591
Deferred inflows related to pensions	\$ 57	
NET POSITION		
Net investment in capital assets	12,357	15,622
Unrestricted	142,805	209,487
Total Net Position	\$ 155,162	\$ 225,109

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Charges for services	\$ 1,886,755	\$ 1,825,101
Franchise fees	124,567	139,795
Other	1,214	1,078
	<u>2,012,536</u>	<u>1,965,974</u>
OPERATING EXPENSES		
Contractual services	1,575,344	1,505,406
Personal services	54,386	45,433
Utilities	1,115	290
Repairs and maintenance	2,148	2,560
Supplies	892	1,331
Uncollectible accounts	9,306	10,664
Depreciation	5,535	5,535
Professional fees		5,000
Other		405
	<u>1,648,726</u>	<u>1,576,624</u>
Total Operating Expenses		
	<u>363,810</u>	<u>389,350</u>
Operating Income		
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	352	263
	<u>352</u>	<u>263</u>
Total Nonoperating Revenues (Expenses)		
	<u>364,162</u>	<u>389,613</u>
Income Before Transfers		
Transfers in		
Transfers out	(425,000)	(400,000)
	<u>(425,000)</u>	<u>(400,000)</u>
Change in Net Position	(60,838)	(10,387)
Total Net Position - Beginning (as Restated see Note I.P on page 37)	<u>216,000</u>	<u>235,496</u>
Total Net Position – Ending	<u>\$ 155,162</u>	<u>\$ 225,109</u>

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,874,486	\$ 1,823,467
Cash payments to suppliers	(1,550,399)	(1,498,042)
Cash payments to employees	(54,308)	(44,029)
Franchise fees	124,567	139,795
Other operating cash receipts (payments)	(546)	1,243
	<u>393,800</u>	<u>422,434</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in		
Transfers out	(425,000)	(400,000)
	<u>(425,000)</u>	<u>(400,000)</u>
Net Cash Provided (Used) By Noncapital Financing Activities		
	<u>(425,000)</u>	<u>(400,000)</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	14,974	(18)
Interest received	352	263
	<u>15,326</u>	<u>245</u>
Net Cash Provided (Used) By Investing Activities		
	<u>15,326</u>	<u>245</u>
Net Increase (Decrease) in Cash For The Year	(15,874)	22,679
Cash - Beginning	106,937	84,258
	<u>106,937</u>	<u>84,258</u>
Cash - Ending	<u>\$ 91,063</u>	<u>\$ 106,937</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, 2015 AND 2014

	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 363,810	\$ 389,350
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	5,535	5,535
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(2,963)	9,030
(Increase) Decrease in deferred outflow in net pension obligation	(2,269)	
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds	(1,760)	165
Increase (Decrease) in due to other funds	29,099	16,950
Increase (Decrease) in compensated absences	(2,000)	1,000
Increase (Decrease) in net pension obligation	2,123	164
Increase (Decrease) in net other postemployment benefit obligation	2,225	240
Total Adjustments	29,990	33,084
Net cash Provided By Operating Activities:	\$ 393,800	\$ 422,434

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, 2015 AND 2014

	2015	2014
ASSETS		
Current Assets:		
Cash	\$ 60,244	\$ 9,709
Investments	5,238	5,235
Receivables (net of allowance for uncollectibles):		
Accounts	70,863	68,584
Due from other funds		
Restricted cash	3,456	3,445
Restricted investments	3,147	3,145
Total Current Assets	142,948	90,118
Capital Assets:		
Land and improvements	125,160	125,160
Machinery and equipment	232,662	214,916
Vehicles	92,354	92,354
Drainage system	5,818,263	5,389,888
Construction in progress	2,500	198,305
Less accumulated depreciation	(660,644)	(535,171)
Total Capital Assets (Net of Depreciation)	5,610,295	5,485,452
Total Noncurrent Assets	5,610,295	5,485,452
Total Assets	\$ 5,753,243	\$ 5,575,570
Deferred Outflows of Resources:		
Deferred outflow related to pensions	15,585	
Total Deferred Outflows of Resources	\$ 15,585	

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2015 AND 2014

	2015	2014
LIABILITIES		
Current Liabilities:		
Due to other funds	\$ 48,726	\$ 4,646
Accrued compensated absences	8,000	7,000
Accrued interest payable	7,735	8,174
General obligation bonds - current	37,872	37,346
Certificates of obligation - current	65,000	65,000
 Total Current Liabilities	 167,333	 122,166
Noncurrent Liabilities:		
Accrued compensated absences	4,000	3,000
Net pension liability	84,372	7,849
Net other postemployment benefit obligation	4,766	3,948
General obligation bonds (net of deferred amount on advanced refunding)	471,822	509,694
Certificates of obligation (net of unamortized discounts)	1,069,278	1,140,191
 Total Noncurrent Liabilities	 1,634,238	 1,664,682
 Total Liabilities	 \$ 1,801,571	 \$ 1,786,848
 Deferred inflows related to pensions	 \$ 394	
NET POSITION		
Net investment in capital assets	3,966,323	3,733,221
Restricted for debt service	6,603	6,590
Unrestricted	(6,063)	48,911
 Total Net Position	 \$ 3,966,863	 \$ 3,788,722



CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Charges for services	\$ 771,502	\$ 741,601
Other		33,158
	771,502	774,759
OPERATING EXPENSES		
Contractual services	3,691	3,537
Personal services	127,095	120,589
Repairs and maintenance	36,391	26,073
Supplies	9,679	15,138
Uncollectible accounts	2,858	2,796
Depreciation	125,473	110,135
Professional fees		14,587
Other	299	359
	305,486	293,214
Total Operating Expenses		293,214
Operating Income	466,016	481,545
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	229	139
Bond issuance costs		
Interest expense	(58,331)	(10,487)
	(58,102)	(10,348)
Total Nonoperating Revenues (Expenses)		(10,348)
Income Before Transfers	407,914	471,197
Transfers in	232,570	451,621
Transfers out	(400,000)	(375,000)
	240,484	547,818
Change in Net Position		547,818
Total Net Position - Beginning (as Restated see Note I.P on page 37)	3,726,379	3,240,904
Total Net Position – Ending	\$ 3,966,863	\$ 3,788,722

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 768,924	\$ 749,730
Cash payments to suppliers	(8,539)	(165,173)
Cash payments to employees	(125,288)	(116,596)
Other operating cash receipts (payments)		33,158
Net Cash Provided By Operating Activities	635,097	501,119
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	232,570	451,621
Transfers out	(400,000)	(375,000)
Net Cash Provided (Used) By Noncapital Financing Activities	(167,430)	76,621
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net proceeds from issuance of certificates of obligation		
Acquisition and construction of capital assets	(250,317)	(549,538)
Principal repayments	(102,346)	(128,906)
Interest paid on long-term debt	(64,682)	(17,375)
Net Cash Provided (Used) By Capital and Related Financing Activities	(417,345)	(695,819)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments		70,000
Purchase of investments	(5)	(2,000)
Interest received	229	139
Net Cash Provided (Used) By Investing Activities	224	68,139
Net Increase (Decrease) in Cash For The Year	50,546	(49,940)
Cash - Beginning	13,154	63,094
Cash - Ending	\$ 63,700	\$ 13,154
 Reconciliation of cash:		
Cash	60,244	9,709
Restricted Cash	3,456	3,445
Total Cash	\$ 63,700	\$ 13,154

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 466,016	\$ 481,545
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	125,473	110,135
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(2,279)	8,487
(Increase) Decrease in deferred outflow in net pension obligation	(15,585)	
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds		
Increase (Decrease) in due to other funds	44,080	(103,041)
Increase (Decrease) in compensated absences	2,000	2,000
Increase Decrease) in net pension obligation	14,574	640
Increase (Decrease) in net other post- employment benefit obligation	818	1,353
Total Adjustments	<u>169,081</u>	<u>19,574</u>
Net cash Provided By Operating Activities:	<u>\$ 635,097</u>	<u>\$ 501,119</u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Amortization of bond discount		
Amortization of bond issuance costs	<u> </u>	<u> </u>
Total Noncash Investing, Capital and Financing Activities	<u> </u>	<u> </u>

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



CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS



CITY OF HARKER HEIGHTS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
SEPTEMBER 30, 2015 AND 2014

	2015	2014
Governmental Funds Capital Assets:		
Land	\$ 15,575,872	\$ 15,512,984
Buildings	13,473,669	13,403,751
Improvements other than buildings	129,693	129,693
Machinery and equipment	5,610,101	5,153,853
Vehicles	4,341,096	3,853,243
Furniture and fixtures	884,665	890,465
Street and drainage improvements	25,204,075	24,526,277
Construction in progress	3,807,711	703,824
Total governmental funds capital assets	\$ 69,026,882	\$ 64,174,090
Investment in Governmental Funds Capital Assets by Source:		
General fund	\$ 9,138,377	\$ 8,154,451
Special revenue funds	892,580	892,580
Capital projects fund	52,721,259	48,872,164
Donations	1,592,666	1,572,895
Grants, revenue sharing	4,682,000	4,682,000
Total governmental funds capital assets	\$ 69,026,882	\$ 64,174,090

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, 2015

Function and Activity	Land	Buildings	Improvements other than Buildings	Machinery and Equipment
General government:				
Council				\$ 3,649
Administration	1,246,932	2,200,375		1,136,448
Finance				121,685
Total general government	<u>1,246,932</u>	<u>2,200,375</u>		<u>1,261,782</u>
Public Safety:				
Pet Adoption Center		1,601,459		3,944
Police	53,228	2,898,398	47,007	1,170,363
Fire and EMS	27,578	1,074,764		1,334,219
Code Enforcement		125		20,552
Courts				239,035
Total public safety	<u>80,806</u>	<u>5,574,746</u>	<u>47,007</u>	<u>2,768,113</u>
Highways and streets:				
Maintenance	110,811	203,225		551,013
Street and drainage system				
Total highways and streets	<u>110,811</u>	<u>203,225</u>		<u>551,013</u>
Culture and recreation:				
Parks and recreation	14,119,960	1,352,970	37,336	734,271
Library	17,363	4,142,353		165,299
Total culture and recreation	<u>14,137,323</u>	<u>5,495,323</u>	<u>37,336</u>	<u>899,570</u>
Economic development and assistance			45,350	129,623
Construction in progress				
Total governmental funds capital assets	<u>\$ 15,575,872</u>	<u>\$ 13,473,669</u>	<u>\$ 129,693</u>	<u>\$ 5,610,101</u>

Note:

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

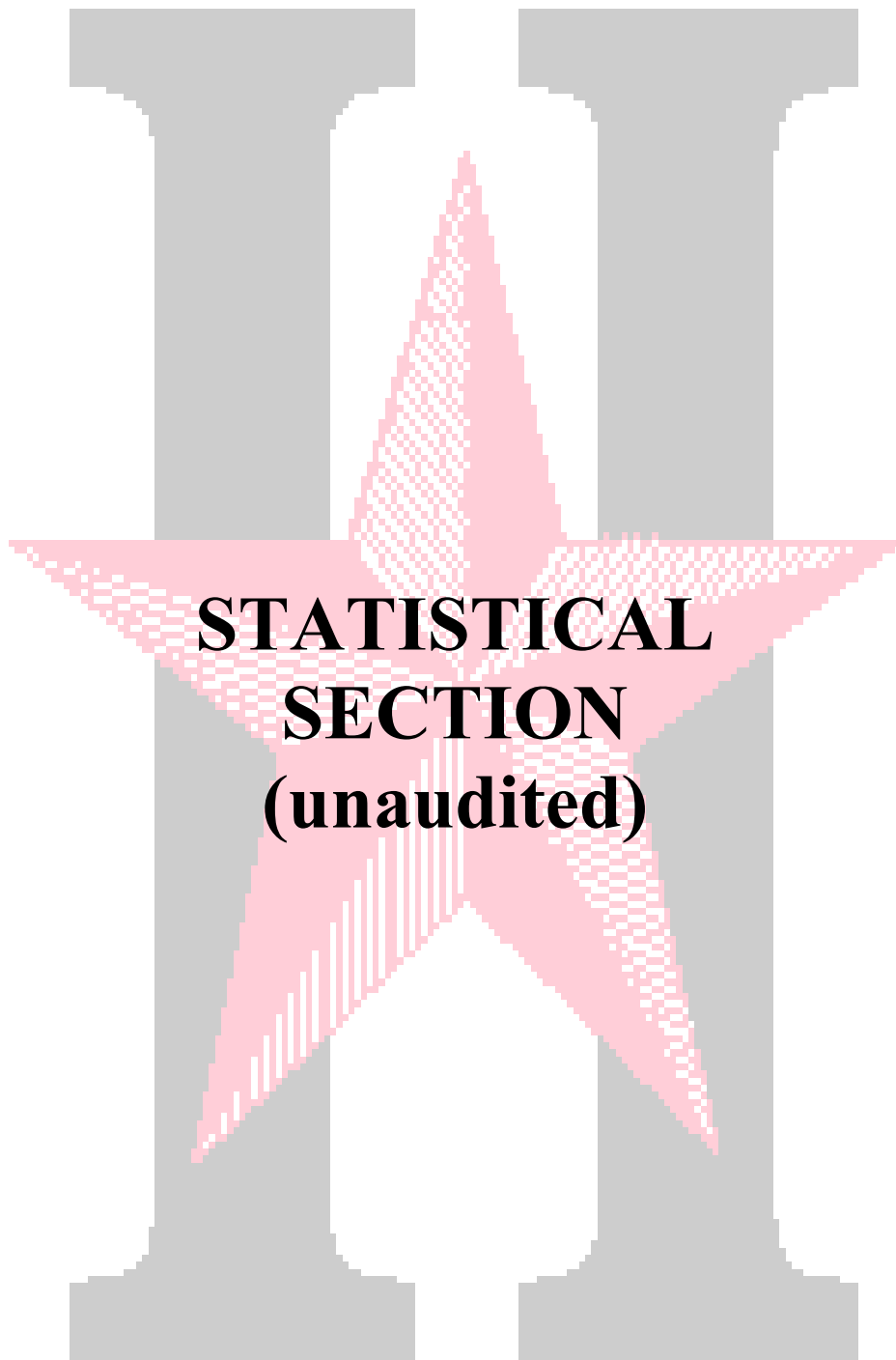
<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Streets and Drainage Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
	\$ 3,755			\$ 7,404
	140,853			4,724,608
	1,646			123,331
	<u>146,254</u>			<u>4,855,343</u>
60,771	11,717			1,677,891
1,191,922	212,829			5,573,747
2,158,869	13,449			4,608,879
46,821				67,498
66,605	7,209			312,849
<u>3,524,988</u>	<u>245,204</u>			<u>12,240,864</u>
443,048				1,308,097
		25,204,075		25,204,075
<u>443,048</u>		<u>25,204,075</u>		<u>26,512,172</u>
373,060	139,197			16,756,794
	351,300			4,676,315
<u>373,060</u>	<u>490,497</u>			<u>21,433,109</u>
	2,710			177,683
			3,807,711	3,807,711
<u>\$ 4,341,096</u>	<u>\$ 884,665</u>	<u>\$ 25,204,075</u>	<u>\$ 3,807,711</u>	<u>\$ 69,026,882</u>

CITY OF HARKER HEIGHTS
CAPTIAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2015

Function and Activity	Capital Assets October 1, 2014	Additions	Transfers and Deletions	Capital Assets September 30, 2015
General government:				
Council	\$ 7,404			\$ 7,404
Administration	4,504,602	222,501	2,495	4,724,608
Finance	125,427		2,096	123,331
Total general government	<u>4,637,433</u>	<u>222,501</u>	<u>4,591</u>	<u>4,855,343</u>
Public safety:				
Pet Adoption Center	1,601,459	76,432		1,677,891
Police	5,491,539	194,065	111,857	5,573,747
Fire and EMS	4,134,281	611,012	136,414	4,608,879
Code Enforcement	48,843	19,703	1,048	67,498
Courts	256,505	56,344		312,849
Total public safety	<u>11,532,627</u>	<u>957,556</u>	<u>249,319</u>	<u>12,240,864</u>
Highways and streets:				
Maintenance	1,299,398	8,699		1,308,097
Street and drainage system	24,526,277	677,798		25,204,075
Total highways and streets	<u>25,825,675</u>	<u>686,497</u>		<u>26,512,172</u>
Culture and recreation:				
Parks and recreation	16,643,928	112,866		16,756,794
Library	4,662,374	13,941		4,676,315
Total culture and recreation	<u>21,306,302</u>	<u>126,807</u>		<u>21,433,109</u>
Economic development and assistance	168,229	10,500	1,046	177,683
Construction in progress	703,824	3,849,094	745,207	3,807,711
Total governmental funds capital assets	<u>\$ 64,174,090</u>	<u>\$ 5,852,955</u>	<u>\$ 1,000,163</u>	<u>\$ 69,026,882</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.	118
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.	124
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.	129
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.	134
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.	137

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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental activities										
Net investment in capital assets	\$ 26,705	\$ 24,343	\$ 23,247	\$ 21,839	\$ 19,802	\$ 19,815	\$ 18,703	\$ 9,766	\$ 3,348	\$ 127
Restricted	12,894	12,000	4,921	8,773	15,953	11,605	18,516	12,667	18,392	20,739
Assigned		179	146	91						
Unrestricted	(3,716)	3,358	7,721	5,695	2,911	4,731	(691)	6,716	6,712	4,854
Total governmental activities net positior	<u>35,883</u>	<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>
Business-type activities										
Net investment in capital assets	27,659	25,968	25,078	22,756	21,717	20,960	19,893	14,305	11,682	8,854
Restricted	57	56	32	34			35	18	73	93
Unrestricted	(322)	384	1,657	1,310	(3,873)	(3,711)	(5,627)	2,820	1,487	1,820
Total business-type activities net positior	<u>27,394</u>	<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>
Primary Government										
Net investment in capital assets	54,364	50,311	48,325	44,595	41,519	40,775	38,596	24,071	15,030	8,981
Restricted	12,951	12,056	4,953	8,807	15,953	11,605	18,551	12,685	18,465	20,832
Assigned		179	146	91						
Unrestricted	(4,038)	3,742	9,378	7,005	(962)	1,020	(6,318)	9,536	8,199	6,674
Total primary government net positior	<u>\$ 63,277</u>	<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>

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

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Expenses										
Governmental Activities:										
General government	\$ 3,967	\$ 2,862	\$ 3,247	\$ 2,818	\$ 2,869	\$ 3,304	\$ 2,182	\$ 1,995	\$ 1,593	\$ 1,485
Public safety	10,478	11,137	10,553	10,383	10,216	9,597	9,079	8,171	6,798	6,229
Highways/streets	1,768	1,828	1,734	1,782	1,541	1,498	1,488	1,312	1,154	1,036
Economic development	447	538	483	468	362	503	357	335	290	284
Culture and recreation	3,051	3,077	2,932	2,928	2,732	2,575	2,003	1,631	1,617	1,356
Interest on long-term debt	988	1,214	1,094	1,237	1,225	1,154	1,169	964	944	524
Other										6
Total Governmental Activities	<u>20,699</u>	<u>20,656</u>	<u>20,043</u>	<u>19,616</u>	<u>18,945</u>	<u>18,631</u>	<u>16,278</u>	<u>14,408</u>	<u>12,396</u>	<u>10,920</u>
Business-type Activities:										
Water and sewer	6,662	6,397	6,088	5,862	6,593	5,559	5,228	4,905	4,023	3,744
Drainage	364	304	325	283	283	251	225	187	1,400	182
Sanitation	1,649	1,577	1,536	1,529	1,475	1,361	1,295	1,552	125	1,286
Total Business-type Activities	<u>8,675</u>	<u>8,278</u>	<u>7,949</u>	<u>7,674</u>	<u>8,351</u>	<u>7,171</u>	<u>6,748</u>	<u>6,644</u>	<u>5,548</u>	<u>5,212</u>
Total Expenses	<u>\$ 29,374</u>	<u>\$ 28,934</u>	<u>\$ 27,992</u>	<u>\$ 27,290</u>	<u>\$ 27,296</u>	<u>\$ 25,802</u>	<u>\$ 23,026</u>	<u>\$ 21,052</u>	<u>\$ 17,944</u>	<u>\$ 16,132</u>
Program Revenues										
Governmental Activities:										
Charges for services										
General government	\$ 111	\$ 61	\$ 56	\$ 87	\$ 67	\$ 93	\$ 83	\$ 102	\$ 111	\$ 100
Public safety	1,672	1,831	1,858	1,998	2,029	1,874	1,937	1,825	1,744	1,710
Culture and recreation	293	311	291	306	246	273	204	136	134	127
Other activities	296	546	249	164	157	202	199	346	290	319
Operating grants and contributions	792	66	477	598	246	210	185	121	506	36
Capital Grants and contributions					234	138		215	40	496
Total Governmental Activities	<u>3,164</u>	<u>2,815</u>	<u>2,931</u>	<u>3,153</u>	<u>2,979</u>	<u>2,790</u>	<u>2,608</u>	<u>2,745</u>	<u>2,825</u>	<u>2,788</u>
Business-type Activities:										
Charges for services	11,435	11,189	11,553	11,586	11,833	10,062	9,976	9,616	8,088	8,253
Total Business-type Activities	<u>11,435</u>	<u>11,189</u>	<u>11,553</u>	<u>11,586</u>	<u>11,833</u>	<u>10,062</u>	<u>9,976</u>	<u>9,616</u>	<u>8,088</u>	<u>8,253</u>
Total Program Revenues	<u>\$ 14,599</u>	<u>\$ 14,004</u>	<u>\$ 14,484</u>	<u>\$ 14,739</u>	<u>\$ 14,812</u>	<u>\$ 12,852</u>	<u>\$ 12,584</u>	<u>\$ 12,361</u>	<u>\$ 10,913</u>	<u>\$ 11,041</u>

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

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net (Expense)/Revenue										
Governmental Activities	\$ (17,535)	\$ (17,841)	\$ (17,112)	\$ (16,463)	\$ (15,966)	\$ (15,841)	\$ (13,670)	\$ (11,663)	\$ (9,571)	\$ (8,132)
Business-type Activities	2,760	2,911	3,604	3,912	3,482	2,891	3,228	2,972	2,540	3,041
Total Net Expense	<u>\$ (14,775)</u>	<u>\$ (14,930)</u>	<u>\$ (13,508)</u>	<u>\$ (12,551)</u>	<u>\$ (12,484)</u>	<u>\$ (12,950)</u>	<u>\$ (10,442)</u>	<u>\$ (8,691)</u>	<u>\$ (7,031)</u>	<u>\$ (5,091)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes										
Property taxes	\$ 10,419	\$ 10,051	\$ 9,189	\$ 9,167	\$ 8,965	\$ 8,839	\$ 8,344	\$ 7,510	\$ 6,436	\$ 5,238
Sales taxes	6,594	6,186	5,232	5,426	4,859	4,780	4,535	3,342	2,920	2,738
Mixed drink taxes	141	116	98	97	126	139	94	104	81	93
Bingo taxes	64	77	101	105	101	105	105	94	104	73
Hotel/Motel taxes	75	100	84	93	92	72	47	39	22	29
Special assessments										
Other taxes									1	
Franchise fees	1,342	1,312	1,265	1,436	1,271	1,247	1,197	1,126	1,357	1,017
Investment earnings	48	132	40	64	48	205	498	993	1,091	472
Gain on sale of capital assets		12	9	9			4	10	98	7
Transfers	1,480	3,483	928	(2,203)	3,019	77	6,225	(858)	193	1,732
Total Governmental Activities	<u>20,163</u>	<u>21,469</u>	<u>16,946</u>	<u>14,194</u>	<u>18,481</u>	<u>15,464</u>	<u>21,049</u>	<u>12,360</u>	<u>12,303</u>	<u>11,399</u>
Business-type activities										
Franchise fees	125	140	137	130	124	112	112	17		
Investment earnings	10	10	13	11	8	19	43	54	124	76
Miscellaneous										
Gain on sale of capital assets						3			4	
Transfers	(1,480)	(3,483)	(928)	2,203	(3,019)	(77)	(6,225)	858	(193)	(1,732)
Total Business-type Activities	<u>(1,345)</u>	<u>(3,333)</u>	<u>(778)</u>	<u>2,344</u>	<u>(2,887)</u>	<u>57</u>	<u>(6,070)</u>	<u>929</u>	<u>(65)</u>	<u>(1,656)</u>
Total General Revenues and Other Changes in Net Position	<u>\$ 18,818</u>	<u>\$ 18,136</u>	<u>\$ 16,168</u>	<u>\$ 16,538</u>	<u>\$ 15,594</u>	<u>\$ 15,521</u>	<u>\$ 14,979</u>	<u>\$ 13,289</u>	<u>\$ 12,238</u>	<u>\$ 9,743</u>
Change in Net Position										
Governmental Activities	\$ 2,628	\$ 3,628	\$ (166)	\$ (2,269)	\$ 2,515	\$ (377)	\$ 7,379	\$ 697	\$ 2,732	\$ 3,267
Business-type Activities	1,415	(422)	2,826	6,256	595	2,948	(2,842)	3,901	2,475	1,385
Total Change in Net Position	<u>\$ 4,043</u>	<u>\$ 3,206</u>	<u>\$ 2,660</u>	<u>\$ 3,987</u>	<u>\$ 3,110</u>	<u>\$ 2,571</u>	<u>\$ 4,537</u>	<u>\$ 4,598</u>	<u>\$ 5,207</u>	<u>\$ 4,652</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
2015	10,419	6,594	1,342	64	141	75		18,635
2014	10,051	6,186	1,312	78	116	100		17,843
2013	9,189	5,232	1,265	101	98	84		15,969
2012	9,167	5,426	1,436	105	97	93		16,324
2011	8,965	4,859	1,271	101	126	92		15,414
2010	8,839	4,780	1,247	105	139	72		15,182
2009	8,344	4,535	1,197	105	94	47		14,322
2008	7,510	3,342	1,126	94	104	39		12,215
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

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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Fund										
Reserved						\$ 36	\$ 71	\$ 30	\$ 29	\$ 10
Unreserved						6,607	5,737	4,863	4,616	3,497
Nonspendable										
Restricted for:										
Economic development					39					
Public safety	3	1	1	3	3					
Debt service										
Capital projects										
Cemetery	18	18	18							
Committed										
Assigned to:										
Culture and recreation	220	179	146	91						
Unassigned	9,962	9,486	8,256	8,342	7,339					
Total general fund	<u>\$ 10,203</u>	<u>\$ 9,684</u>	<u>\$ 8,421</u>	<u>\$ 8,436</u>	<u>\$ 7,381</u>	<u>\$ 6,643</u>	<u>\$ 5,808</u>	<u>\$ 4,893</u>	<u>\$ 4,645</u>	<u>\$ 3,507</u>
All Other Governmental Funds										
Reserved						\$ 11,568	\$ 18,445	\$ 12,637	\$ 18,363	\$ 20,730
Unreserved, reported in:										
Special revenue funds						169	214	211	183	158
Capital projects funds						2,327	2,241	878	2,039	1,288
Debt service funds										
Capital projects										
Nonspendable										
Restricted for:										
Economic development	106	189	206	222	233					
Public safety	167	216	202	191	194					
Debt service	108	106	61	48	106					
Capital projects	8,321	11,470	4,433	8,291	15,611					
Committed										
Assigned to:										
Culture and recreation										
Capital projects	3,952									
Unassigned		3,860	2,995	2,583	2,407					
Total all other governmental funds	<u>\$ 12,654</u>	<u>\$ 15,841</u>	<u>\$ 7,897</u>	<u>\$ 11,335</u>	<u>\$ 18,551</u>	<u>\$ 14,064</u>	<u>\$ 20,900</u>	<u>\$ 13,726</u>	<u>\$ 20,585</u>	<u>\$ 22,176</u>

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues										
Taxes	\$18,555	\$17,784	\$16,019	\$16,365	\$ 15,464	\$ 15,145	\$ 14,344	\$ 12,208	\$ 10,920	\$ 9,199
Licenses and permits	330	591	286	204	191	207	181	329	280	326
Fines	1,145	1,541	1,405	1,472	1,399	1,408	1,415	1,313	1,247	1,242
Charges for services	795	787	797	721	708	748	645	669	609	564
Intergovernmental	932	198	443	432	397	317	131	324	55	515
Investment earnings	48	32	39	41	48	204	498	993	1,091	472
Contributions and donations	32	41	39	171	26	31	54	12	491	17
Miscellaneous	107	143	144	74	54	74	87	108	112	105
Total revenues	<u>21,944</u>	<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>
Expenditures										
General government	4,102	2,734	3,072	2,659	3,023	2,750	2,213	1,889	1,735	1,369
Public safety	11,340	10,492	10,550	9,823	9,485	9,242	8,655	8,080	6,606	6,406
Highways and streets	1,288	1,321	1,302	1,558	1,172	1,130	1,104	1,058	933	866
Culture and recreation	2,837	2,726	2,727	2,541	2,348	2,166	1,974	1,569	1,846	1,316
Economic development and assistance	474	526	466	452	337	449	351	324	263	303
Debt service										
Principal	1,550	1,677	1,509	1,409	1,122	1,127	777	632	425	234
Interest	1,059	1,077	1,053	1,169	1,153	1,125	1,104	929	898	436
Tax collection fees	28	28	28	27	22	21	16	15	15	6
Bond issuance costs	64	6	19	36	42		44			186
Capital outlay	3,849	851	3,296	3,325	2,577	6,254	5,286	7,411	3,078	5,332
Total expenditures	<u>26,591</u>	<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>
Excess of revenues over (under) expenditures	<u>(4,647)</u>	<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>
Other Financing Sources (Uses)										
Proceeds from sale of bonds	6,569	6,046	455	3,200	5,000		6,000			12,000
Bond discount										
Payment to refunded bond escrow agent	(6,551)		(435)	(3,650)						
Capital leases	478		270		199		27	186	255	135
Sale of capital assets proceeds				10	1	52	6	11	107	7
Transfers in	4,150	7,278	3,436	3,034	5,925	2,400	11,071	2,750	3,650	7,850
Transfers out	(2,670)	(3,795)	(2,508)	(5,237)	(2,906)	(2,323)	(4,846)	(3,608)	(3,470)	(6,118)
Total other financing sources (uses)	<u>1,976</u>	<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>
Net change in fund balances	<u>(\$2,671)</u>	<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>
Debt service as a percentage of noncapital expenditures	12.10%	13.69%	13.00%	13.51%	12.57%	12.95%	12.13%	11.35%	11.30%	6.39%

**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
2015	1,644,815,946	123,164,489	172,716,271	1,595,264,164	90.23%	1,767,980,435	0.6770
2014	1,580,544,133	84,592,701	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

124

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	
2015	0.51670	0.16030	0.67700	1.12800	0.13660	0.42120	0.02990	0.00400	2.39670
2014	0.51160	0.16540	0.67700	1.12800	0.13700	0.42120	0.02990	0.00400	2.39710
2013	0.49880	0.17820	0.67700	1.13100	0.14000	0.42120	0.02990	0.00400	2.40310
2012	0.50240	0.17460	0.67700	1.14119	0.14090	0.40960	0.02990	0.00400	2.40259
2011	0.53110	0.14590	0.67700	1.14119	0.14090	0.38200	0.02990	0.00400	2.37499
2010	0.53430	0.14270	0.67700	1.14119	0.14090	0.37590	0.02950	0.00400	2.36849
2009	0.55680	0.12280	0.67960	1.14119	0.14100	0.37790	0.02950	0.00400	2.37319
2008	0.56750	0.11210	0.67960	1.14119	0.14200	0.37950	0.02950	0.00400	2.37579
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

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)**

Taxpayer	2015			2006		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
HH/Killeen Health System LLC	\$ 50,593	1	3.17%			
Cole MT Harker Heights TX LLC	28,718	2	1.80%			
HH/Killeen Health System LLC	27,500	3	1.72%			
Wal-Mart Real Estate Business Trust	17,631	4	1.11%	2,706	8	0.34%
Oncor Electric Delivery Co LLC	11,906	5	0.75%	7,101	1	0.90%
Sam's East Inc	10,597	6	0.66%			
HH/Killeen Health System LLC	9,094	7	0.57%			
HEB Grocery Company LP	6,630	8	0.42%			
Sam's Real Estate Business Trust	5,933	9	0.37%			
Target Corporation	5,256	10	0.33%			
Centex Homes				6,148	2	0.78%
Omni Lions Run				4,907	3	0.62%
Lookout Ridge LLC				3,105	4	0.39%
House, Charles etal				3,077	5	0.39%
Texas Cable Partners LP				2,780	6	0.35%
Butt, H.E. Grocery Co.				2,775	7	0.35%
Boose Properties LTD				2,592	9	0.33%
Texas State Bancshares Inc.				2,413	10	0.31%
	\$ 173,858		10.90%	\$ 37,604		4.76%

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			Total Collections to Date			Outstanding Delinquent Taxes	Ratio of Outstanding Delinquent Taxes to Total Tax Levy
		Amount Collected	Percentage of Levy	Less Refunds	Amount Disbursed	Percentage of Levy	Delinquent Taxes Collected		
2015	10,800	10,589	98.05%	76	10,513	97.34%	95	222	2.06%
2014	10,230	10,286	100.55%	112	10,174	99.45%	161	213	2.08%
2013	9,496	9,327	98.22%	98	9,229	97.19%	114	257	2.71%
2012	9,443	9,265	98.12%	59	9,206	97.49%	121	242	2.56%
2011	9,215	9,057	98.29%	41	9,016	97.84%	143	252	2.73%
2010	9,045	8,863	97.99%	62	8,801	97.30%	139	261	2.89%
2009	8,553	8,375	97.92%	23	8,352	97.65%	109	257	3.00%
2008	7,657	7,468	97.53%	n/a	7,468	97.53%	90	221	2.89%
2007	6,565	6,367	96.98%	n/a	6,367	96.98%	85	218	3.32%
2006	5,362	5,180	96.61%	n/a	5,180	96.61%	74	213	3.97%

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
2015	8,776	9.98 / 3.11	17.99 / 3.01	772	6.00	7.20 / 14.40	10,384	25	16
2014	8,588	9.98 / 3.11	17.99 / 3.01	775	6.00	7.20 / 14.40	10,006	36	5
2013	8,990	9.98 / 3.11	17.99 / 3.01	738	6.00	7.20 / 14.40	9,666	37	5
2012	9,099	9.98 / 3.11	17.99 / 3.01	729	6.00	7.20 / 14.40	9,740	49	5
2011	9,381	9.98 / 3.11	17.99 / 3.01	716	6.00	7.20 / 14.40	9,533	46	6
2010	7,635	9.50 / 2.96	17.13 / 2.87	706	6.00	7.20 / 14.40	9,474	46	1
2009	7,622	9.05 / 2.82	16.31 / 2.73	684	6.00	7.20 / 14.40	9,415	42	18
2008	7,072	8.62 / 2.69	15.53 / 2.60	557	5.00	6.00 / 12.00	9,043	61	2
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

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>				
2015	27,805	69	571	21,085		49,530	n/a	1,651.00
2014	29,593	138	185	22,442		52,358	0.32%	1,805.45
2013	25,134		322	20,406	54	45,916	0.28%	1,639.86
2012	26,572		107	21,548	106	48,333	0.30%	1,726.18
2011	28,315		243	22,310	156	51,024	0.32%	1,889.78
2010	24,240		241	20,395	204	45,080	0.30%	1,669.63
2009	25,065	81	462	21,420	251	47,279	0.32%	1,818.42
2008	19,580	131	647	13,850	5	34,213	0.24%	1,315.88
2007	19,955	173	675	14,585	6	35,394	0.27%	1,415.76
2006	20,175	214	585	15,235		36,209	0.30%	1,508.71

Source: Audited Financial Statements

¹See the Schedule of Demographic and Economic Statistics (page 134) 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
2015	48,890	165	48,725	2.76%	1,624.17
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

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 124) for property data

⁴See Schedule of Demographic and Economic Statistics (page 134) for population data

**CITY OF HARKER HEIGHTS
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
AS OF SEPTEMBER 30, 2015**

Government Subdivisions	Total G.O. Tax Debt¹	Estimated Percentage Applicable	City's Overlapping G.O. Tax Debt
Killeen Independent School District	\$ 69,295,000	23.21%	\$ 16,083,370
Bell County	136,375,000	10.39%	14,169,363
Subtotal, overlapping debt			30,252,733
City of Harker Heights Direct Debt			27,805,077
Total direct and overlapping net funded debt			\$ 58,057,810

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>
2015	1,595,264,164	90.23%	1,767,980,435
2014	1,511,051,500	90.75%	1,665,136,834
2013	1,402,628,754	90.81%	1,544,608,859
2012	1,394,871,959	91.36%	1,526,856,993
2011	1,361,199,939	91.46%	1,488,260,186
Total Five Year Valuation			<u>7,992,843,307</u>
Five Year Average Full Valuation of Taxable Real Property			<u>1,598,568,661</u>
Constitutional Debt Limit (7% of Average Full Valuation)			<u>111,899,806</u>
Outstanding Indebtness as of September 30, 2015			
Total Bonded Debt			48,890,001
Less: Revenue bonds			21,084,924
Less: Amount available for repayment of general obligation bonds			107,771
Net indebtness subject to debt limit			<u>27,697,306</u>
Net debt contracting margin			84,202,500
Percentage of net debt contracting margin available			75.25%
Percentage of net debt contracting power exhausted			24.75%

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>
2015	111,899,806	27,697,306	75.25%
2014	107,541,872	29,487,215	72.58%
2013	103,162,838	25,072,017	75.70%
2012	98,614,432	26,524,950	73.10%
2011	92,101,940	28,209,000	69.37%
2010	83,145,606	24,227,000	70.86%
2009	72,864,154	24,958,000	65.75%
2008	63,171,483	19,406,000	69.28%
2007	54,210,926	19,753,000	63.56%
2006	46,647,594	20,101,000	56.91%

**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 Expenses ¹	Net Revenue Available for Debt Service	Gross Revenues	Operating Expenses ¹	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
2015	8,776	5,201	3,575	772	180	592	1,216	791	2,007	2.08
2014	8,588	4,911	3,677	775	183	592	1,019	800	1,819	2.35
2013	8,988	4,925	4,063	738	204	534	1,171	814	1,985	2.32
2012	9,098	4,719	4,379	729	165	564	4,101	912	5,013	0.99
2011	9,381	4,875	4,506	716	189	527	1,133	405	1,538	3.27
2010	7,635	4,497	3,138	706	192	514	1,073	934	2,007	1.82
2009	7,622	4,415	3,207	684	181	503	932	718	1,650	2.25
2008	7,072	4,240	2,832	557	155	402	737	630	1,367	2.37
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

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		
2015	29,545		n/a	n/a			42,929	4.7%
2014	28,950		39,017	16,576,889			41,414	5.6%
2013	28,154		38,228	16,181,083			41,969	6.9%
2012	27,654		38,852	16,332,169			41,172	7.2%
2011	27,312		38,958	16,078,670			40,609	7.6%
2010	26,700	31.6	37,265	15,212,049	90.70%	27.50%	40,463	7.2%
2009	26,232		37,679	14,897,357			39,964	5.5%
2008	25,581		36,781	14,426,948			38,761	4.3%
2007	25,005		34,593	13,173,112			36,895	3.9%
2006	24,148		32,802	11,987,648			34,743	4.3%

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	2015			2006		
	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	6.34%	603.0	1	6.09%
Wal-Mart Supercenter	537.0	2	4.93%	420.0	2	4.24%
HEB Store	243.0	3	1.71%	236.0	3	2.38%
City of Harker Heights	235.0	4	2.23%	170.0	4	1.72%
Indian Oaks	186.0	5	2.16%	137.0	5	1.38%
Target	155.0	6	1.42%			
Cheddar's Restaurant	140.0	7	1.29%			
Cracker Barrel	101.0	8	0.93%			
Razzoo's Cajun Café	76.0	9	0.70%			
McDonald's Restaurant	58.0	10	0.53%	62.0	6	0.63%
Pizza Hut				50.0	7	0.50%
Cooper & Bright Plumbing				48.0	8	0.48%
Furniture Row				44.0	9	0.44%
The Learning Zone				30.0	10	0.30%
	2,421.0		22.24%	1,800.0		18.16%

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	
2015	338,112	1,367,445	169,171	1,536,386	8	20,715	209	45,616	1,251,135,124 ^(d)
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)

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,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
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	31.5	26.5	26.5	26.5	26.0	26.0	25.0	24.5	21.5	19.5
Planning and Building	9.0	9.0	9.0	8.0	8.0	8.0	8.0	7.0	7.0	7.0
Public Safety:										
Police	60.0	62.0	62.0	62.0	61.0	61.0	59.0	56.0	52.0	50.0
Fire	44.5	43.5	43.5	43.5	43.5	43.5	38.5	36.5	33.5	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	47.5	47.5	46.0	45.0	45.0	43.0	43.0	35.0	34.0	33.0
Library	10.5	10.5	10.5	10.5	10.5	10.5	10.5	6.5	6.5	6.5
Public Works	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.0
Water and Sewer	18.0	17.0	17.0	16.0	16.0	16.0	16.0	15.0	14.0	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	1.0	0.0	0.0	0.0
Total	245.0	240.0	238.5	235.5	234.0	232.0	224.0	203.5	191.5	180.5

Source: City of Harker Heights Finance Department

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

Function/Program	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Planning and Building										
Building Permits Issued	2,386	4,665	1,763	1,502	1,479	1,796	1,811	2,091	2,320	586
Value of Building Permits ¹	79,598	96,333	75,077	59,115	144,518	50,070	44,377	92,218	102,179	111,733
Police										
Physical Arrest	1,173	1,496	1,320	1,593	1,528	1,493	1,552	1,969	1,842	1,693
Parking Violations	42	27	58	139	30	0	3	19	23	76
Traffic Violations	3,916	8,800	8,800	8,776	7,989	7,282	7,626	8,727	8,530	8,697
Fire										
Calls Answered	4,049	3,547	3,627	3,643	3,405	3,137	2,818	2,763	2,409	3,965
Fire and Emergency Responses	3,931	3,469	3,558	3,582	3,300	3,042	2,964	2,715	3,571	3,671
Fires Extinguished	103	133	91	111	193	116	134	197	101	117
Inspections	600	800	933	540	561	514	552	678	216	251
Parks and Recreation										
Aquatic Center Usage	20,443	12,470	12,773	13,069	15,498	12,420	15,086	16,458	17,743	14,148
Program Participants	8,118	7,933	9,948	9,497	8,780	7,157	5,994	5,418	6,500	4,917
Library										
Annual Circulation	199,529	166,256	165,405	152,117	146,130	131,477	101,194	76,002	68,726	63,552
Water and Sewer										
Average daily water consumption in gallons ¹	4,000	3,954	4,325	4,534	4,940	3,770	4,390	4,093	3,309	3,820
Residential water rate										
Base	\$9.98	\$9.98	\$9.98	\$9.98	\$9.98	\$9.98	\$9.05	\$8.62	\$8.21	\$7.82
Per 1,000 gallons	\$3.11	\$3.11	\$3.11	\$3.11	\$3.11	\$3.11	\$2.82	\$2.69	\$2.56	\$2.44
Average daily sewage treatment in gallons ¹	1,940	1,790	1,880	1,760	1,900	1,800	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	\$17.99	\$16.31	\$15.53	\$14.79	\$14.09
Per 1,000 gallons (3,000 - 10,000 gallons)	\$3.01	\$3.01	\$3.01	\$3.01	\$3.01	\$3.01	\$2.73	\$2.60	\$2.48	\$2.36

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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Area (square miles)	15.4	15.4	15.4	15.4	15.4	15.24	15.23	14.2	14.2	14.2
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Cars	20	20	17	17	33	38	38	38	36	33
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Fire Trucks	5	5	5	5	5	5	5	3	3	4
Ambulances	3	3	3	3	3	3	3	3	3	4
Command Van	1	1	1	1	1	1	1	1	1	1
Street (miles)	145.64	140	140	166.49	164.65	175	170.26	132	130	120
Street lights	1,445	1,438	1,379	1,262	1,275	1,250	1,211	1,154	1,100	1,015
Parks and Recreation										
Recreation/community center	1	1	1	1	1	1	1	1	1	1
Parks	8	8	7	6	8	7	10	8	9	6
Acreage	194	194	194	177	194	230	230	230	227	103.665
Baseball/softball diamonds	9	9	9	8	9	8	6	3	3	4
Soccer/football fields ¹	6	6	6	6	6	6	6	3	11	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)	179.13	177.55	172.66	171.13	168.06	171.48	171.48	153	148	139
Service connections	10,384	10,006	9,666	9,740	9,533	9,445	9,415	9,043	8,825	8,407
Fire hydrants	1,102	1,101	1,090	1,080	1,060	1,050	980	885	881	832
Maximum daily capacity	13,500,000	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
Sewer										
Sanitary sewer (miles)	130.36	125.92	121.43	120.62	116.97	116.84	117.64	117	116	110
Service connections	8,959	8,842	8,586	8,580	8,314	8,286	8,257	8,199	7,570	7,093
Storm sewer (miles)	9.5	9.5	9.0	9.0	8.5	8.0	8.0	7.0	7.0	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.

¹2006-2007 numbers reflect small sized fields used; 2008-2009 reflect full size fields