

City of Hempstead, Texas

Annual Financial Report
Year Ended September 30, 2016

TABLE OF CONTENTS

Page
Number

Introductory Section

Principal Officials.....	2
--------------------------	---

Financial Section

Independent Auditor's Report	4
------------------------------------	---

Management's Discussion and Analysis.....	7
---	---

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	19
---------------------------------	----

Statement of Activities	20
-------------------------------	----

Fund Financial Statements

Balance Sheet - Governmental Funds.....	22
---	----

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	23
---	----

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	24
--	----

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
---	----

Statement of Net Position - Proprietary Fund.....	26
---	----

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund.....	27
--	----

Statement of Cash Flows - Proprietary Fund	28
--	----

Notes to the Financial Statements	29
---	----

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	58
---	----

Schedule of Funding Progress – Other Post Employment Benefits - Retiree Health Plan.....	60
--	----

Schedule of Changes in Net Pension Liability and Related Ratios - Texas Municipal Retirement System	61
--	----

Schedule of City Contributions – Texas Municipal Retirement System.....	62
---	----

Notes to the Required Supplementary Information	63
---	----

TABLE OF CONTENTS

Page
Number

Supplementary Information

Schedule of Revenues and Expenses by Department - Enterprise Funds	68
Statement of Net Position - Component Unit	69
Statement of Revenues, Expenses, and Changes in Net Position – Component Unit	70

Overall Compliance and Internal Control Section

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	72
Schedule of Findings and Responses.....	75
Summary Schedule of Prior Audit Findings.....	76
Corrective Action Plan.....	77

Introductory Section

City of Hempstead, Texas

Principal Officials

September 30, 2016

Michael S. Wolfe, Sr. Mayor
Patricia Chernosky Mayor - Pro Tem, Position 1
Katherine Ragston Alderwoman, Position 2
Lonnie Garfield Alderman, Position 3
Charles R. Tompkins, Jr. Alderman, Position 4
Ben Tibbs Alderman, Position 5
Barbara Haffelfinger City Secretary

Financial Section

Independent Auditor's Report

The Honorable Mayor and Members of
the City Council and Management of the
City of Hempstead, Texas
1125 Austin Street
Hempstead, Texas 77445

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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.

The Honorable Mayor and Members of
the City Council and Management of the
City of Hempstead, Texas

Opinions

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

Emphasis of Matter

As discussed in Note 4. H. to the financial statements, the financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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 Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hempstead, Texas' basic financial statements. The Introductory Section and Supplementary Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates 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 Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Honorable Mayor and Members of
the City Council and Management of the
City of Hempstead, Texas

The Introductory Section has 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017 on our consideration of the City of Hempstead, 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 the City of Hempstead, Texas' internal control over financial reporting and compliance.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
March 20, 2017

Management's Discussion and Analysis

As management of the City of Hempstead, Texas (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements (which immediately follow this discussion).

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$15,206,814 (net position).
- The City's total net position (government-wide) decreased by \$974,689 from current activities. This is due to a decrease in governmental activities of \$427,828 and a decrease in business-type activities of \$546,861. Total net position increased by \$106,191 from prior period adjustments as discussed in Note 4. H.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$361,947, a decrease of \$334,284 from current operations and an increase of \$106,191 from a prior period adjustment.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$308,133 or 5%, of total General Fund expenditures.
- The City's total long-term liabilities increased by \$1,035,348 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's 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 supplementary information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, municipal court, fire department, police department, public works department, solid waste department, parks and cemetery department, inspection, community center, technology department, animal control, and interest and fees on debt. The business-type activities of the City include electric, water, natural gas, sewer, and administration. The City includes a discrete component unit in its report - Hempstead Economic Development Corporation.

The government-wide financial statements can be found as noted in the table of contents 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City are classified as governmental funds or proprietary funds.

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

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

The City maintains three governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds.

The City 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 as noted in the table of contents of this report.

Proprietary Funds. The City charges customers for the services it provides, whether to outside customers or to other departments 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, only in more detail. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses *enterprise* funds to account for its electric services, water services, natural gas services, sewer services, and administrative costs. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic proprietary fund financial statements can be found as noted in the table of contents 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 as noted in the table of contents of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees. The City also presents the budgetary comparison schedule in the section for required supplementary information.

The schedule of operating revenues and expenses by department – enterprise funds and the financial statements for the Hempstead Economic Development Corporation referred to earlier are presented in the section for supplementary information.

Government-Wide Financial Analysis

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business. 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 Hempstead, assets exceeded liabilities by \$15,206,814 at the close of the most recent fiscal year. This is a decrease of \$974,689 from current activities and an increase of \$106,191 from prior period adjustments as described in the notes to the financial statements.

The City's total assets of \$33,405,272 are largely comprised of capital assets, net of accumulated depreciation of \$30,843,392, or 92%. GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements.

Long-term liabilities of \$17,321,968 comprise the largest portion of the City's total liabilities of \$18,489,999 at 94%. Of total long-term liabilities, \$1,034,187 is due within one year, with the remaining \$16,287,781 being due over a period of time greater than one year. A more in-depth discussion of long-term debt can be found in the notes to the financial statements.

By far, the largest portion of the City's net position \$17,613,542 (116%) reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and improvements, equipment, infrastructure, and vehicles), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position \$222,810 (1%) represents resources that are subject to external restrictions on how they can be used.

The remaining balance of net position (\$2,629,538) (-17%) represents unrestricted deficit in financial resources to be funded by future operations.

City of Hempstead, Texas's Combined Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 792,138	\$ 1,357,664	\$ 1,769,742	\$ 2,116,380	\$ 2,561,880	\$ 3,474,044
Capital assets	10,717,990	10,474,355	20,125,402	20,300,456	30,843,392	30,774,811
Total assets	<u>11,510,128</u>	<u>11,832,019</u>	<u>21,895,144</u>	<u>22,416,836</u>	<u>33,405,272</u>	<u>34,248,855</u>
Total deferred outflows of resources	554,980	195,108	215,826	75,875	770,806	270,983
Long-term liabilities outstanding	14,076,380	13,492,778	3,245,588	2,793,842	17,321,968	16,286,620
Other liabilities	438,832	838,132	729,199	1,084,003	1,168,031	1,922,135
Total liabilities	<u>14,515,212</u>	<u>14,330,910</u>	<u>3,974,787</u>	<u>3,877,845</u>	<u>18,489,999</u>	<u>18,208,755</u>
Total deferred inflows of resources	345,071	169,755	134,194	66,016	479,265	235,771
Net position						
Net investment in capital assets	(360,682)	(416,917)	17,974,224	18,827,270	17,613,542	18,410,353
Restricted	166,318	143,397	56,492	37,593	222,810	180,990
Unrestricted	<u>(2,600,811)</u>	<u>(2,200,018)</u>	<u>(28,727)</u>	<u>(316,013)</u>	<u>(2,629,538)</u>	<u>(2,516,031)</u>
Total net position	<u>\$(2,795,175)</u>	<u>\$(2,473,538)</u>	<u>\$18,001,989</u>	<u>\$18,548,850</u>	<u>\$ 15,206,814</u>	<u>\$16,075,312</u>

At the end of the current fiscal year, the City reports a negative balance in unrestricted net position which is attributed to the losses in the City's governmental activities.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2016.

City of Hempstead, Texas's Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	\$ 1,313,764	\$ 1,288,179	\$ 8,591,396	\$ 8,127,061	\$ 9,905,160	\$ 9,415,240
Operating grants and contributions	118,175	117,378	-	-	118,175	117,378
Capital grants and contributions	-	125,275	-	136,638	-	261,913
General revenues						
Taxes	2,234,090	2,087,698	-	-	2,234,090	2,087,698
Other revenues	18,182	5,271	-	-	18,182	5,271
Investment earnings	2,546	9,709	3,295	6,282	5,841	15,991
Total revenues	3,686,757	3,633,510	8,594,691	8,269,981	12,281,448	11,903,491
Expenses						
General government	971,445	2,171,006	-	-	971,445	2,171,006
Municipal court	365,546	338,626	-	-	365,546	338,626
Fire department	78,452	37,890	-	-	78,452	37,890
Police department	2,243,375	2,105,139	-	-	2,243,375	2,105,139
Public works department	991,263	1,090,517	-	-	991,263	1,090,517
Solid waste department	746,759	731,668	-	-	746,759	731,668
Parks and cemetery department	418,254	460,360	-	-	418,254	460,360
Inspection	322,822	239,430	-	-	322,822	239,430
Community center	412,645	317,840	-	-	412,645	317,840
Techology department	165,493	-	-	-	165,493	-
Animal control	63,190	-	-	-	63,190	-
Interest and fees on debt	432,669	509,360	-	-	432,669	509,360
Utilities	-	-	6,044,224	6,846,279	6,044,224	6,846,279
Total expenses	7,211,913	8,001,836	6,044,224	6,846,279	13,256,137	14,848,115
Excess (deficiency) before transfers	(3,525,156)	(4,368,326)	2,550,467	1,423,702	(974,689)	(2,944,624)
Settlement from lawsuits	-	245,000	-	-	-	245,000
Transfers, net of governmental funds capital contributions	3,097,328	(487,862)	(3,097,328)	487,862	-	-
Change in net position	(427,828)	(4,611,188)	(546,861)	1,911,564	(974,689)	(2,699,624)
Net position - beginning	(2,473,538)	2,840,897	18,548,850	16,883,321	16,075,312	19,724,218
Prior period adjustment - implement GASB 68 and 71 for pensions	-	(703,247)	-	(246,035)	-	(949,282)
Prior period adjustments - sales tax	106,191	-	-	-	106,191	-
Net position - beginning, as restated	(2,367,347)	2,137,650	18,548,850	16,637,286	16,181,503	18,774,936
Net position - ending	\$ (2,795,175)	\$ (2,473,538)	\$ 18,001,989	\$18,548,850	\$ 15,206,814	\$16,075,312

Governmental Activities. The City's total revenues were \$3,686,757 from all governmental activities. A significant portion, \$2,234,090 or 61%, of the City's revenue comes from taxes. Charges for services revenue accounts for \$1,313,764, or 36%, of total revenue for governmental activities. The increase in governmental revenue is due primarily to the increase in property taxes and sales taxes.

The total cost of all governmental programs and services was \$7,211,913. The police department function accounts for \$2,243,375, or 31%. The public works department function accounts for \$991,263, or 14%. The general government function accounts for \$971,445, or 13%. The solid waste function accounts for \$746,759 or 10%. Expenses decreased \$789,923 in total, which resulted from a significant decrease in legal expenses in the general government function as a result of currently settled legal disputes related to a proposed land fill near the City.

The decrease in net position from current operations for governmental activities is due to total governmental expenses exceeds total operational revenues and the City transfers funds from business-type activities to minimize the effect. The Utility Fund cash position was unable to transfer funds sufficient to cover the deficit in government activities net position.

Business-Type Activities. Business-type activities are financed primarily in whole or part by fees charged to external users for goods or services (water, sewer, electricity and gas). They are reported in the enterprise funds. Business-type activities decreased the City's net position by \$546,861, from current operations. Revenue can be reported as program revenue or general revenue-all revenues are general unless they are required to be reported as program revenues. Program revenue includes revenues attributable to a specific program because they are a result of exchange-like transactions or other events, such as charges to customers. Charges for services of \$8,591,396 are utilized to provide funds for program expenses of \$6,044,224. The decrease in net position is due primarily to an increase in transfers to the governmental activities, despite the increase in charges for services which were derived mostly by the increase in electrical rates for charges for services.

Financial Analysis of the City's Funds

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

As the City completed the year, its governmental funds, as presented in the balance sheet, reported *combined* ending fund balances of \$361,947, which is a decrease of \$334,284 from current operations and \$106,191 to restate beginning sales tax receivable.

The General Fund is the operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$308,133, which represented 65% of total general fund balance. As a measure of the General Fund's liquidity, it may be useful to compare unassigned and total fund balance to total fund expenditures. Unassigned and total fund balance represents less than 5% and 7% of total General Fund expenditures, respectfully. The net increase in fund balance during the current year in the General Fund was \$168,826. The increase is a result of transfers in from the enterprise fund to fund budgeted expenditures. General Fund balance of \$166,318, or 35% of total fund balance, is restricted in use.

The debt service fund has a total fund balance of \$11,965 all of which is restricted for the payment of debt service. The net decrease in fund balance of \$98,392 results from increases in debt requirements.

The capital projects fund has a total deficit fund balance of \$124,469. The net decrease in fund balance during the current year in the capital projects fund was \$404,718. The decrease was due to expenditures for capital projects and transfers out made using excess funds of a completed water and sewer project to make payments for certificates of obligation related to capital projects in the Utility Fund for new debt obligations associated with an ongoing water and sewer project. Such deficit will be eliminated by transfers in the subsequent year from the Utility Fund.

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

A deficit in the unrestricted net position of the Utility Fund at the end of the current fiscal year amounted to \$28,787. The total decrease to net position from operations of the Utility Fund was \$546,861. The factors for such change have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The budget was not amended during the year.

Significant differences between the final budget and actual amounts can be briefly summarized as follows:

- Actual expenditures, when compared to the final budgeted amount, had an unfavorable variance of \$580,029. The difference in final to actual expenditures is across multiple departments and none are individually significant.

Capital Assets And Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016 amounts to \$30,843,392 (net of accumulated depreciation). This investment in capital assets includes land and improvements, construction in progress, buildings and improvements, equipment, vehicles, and infrastructure.

City of Hempstead, Texas's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land and improvements	\$ 185,474	\$ 185,474	\$ -	\$ -	\$ 185,474	\$ 185,474
Construction in progress	-	-	2,199,544	4,898,635	2,199,544	4,898,635
Buildings and improvements	1,755,977	1,757,215	-	-	1,755,977	1,757,215
Equipment	405,719	294,823	29,875	47,440	435,594	342,263
Vehicles	405,348	150,903	267,065	129,362	672,413	280,265
Infrastructure	7,965,472	8,085,940	17,628,918	15,225,019	25,594,390	23,310,959
Totals	<u>\$ 10,717,990</u>	<u>\$ 10,474,355</u>	<u>\$ 20,125,402</u>	<u>\$ 20,300,456</u>	<u>\$ 30,843,392</u>	<u>\$ 30,774,811</u>

Additional information regarding the City's capital assets is presented in the notes to the financial statements.

Major capital asset purchases during the year included the followings:

- \$60,080 Building improvements
- \$25,598 Water well improvements
- \$318,674 Street expansions
- \$709,098 Machinery, equipment, and vehicles

Construction Commitments. At the end of the current fiscal year, the City's commitments for construction totaled \$88,314.

Long-term Liabilities. At year-end, the City had the following long-term liabilities:

City of Hempstead, Texas's Long-term Liabilities Outstanding

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
	Certificates of obligation (net)	\$10,582,134	\$11,102,294	\$2,053,333	\$1,896,666	\$12,635,467
Notes payable	372,069	69,227	179,296	-	551,365	69,227
Compensated absences	187,737	115,024	65,621	68,651	253,358	183,675
Other post-employment benefits	2,110,242	1,526,834	654,902	592,039	2,765,144	2,118,873
Net pension liability	751,980	608,108	292,436	236,486	1,044,416	844,594
Closure cost of a transfer station	72,218	71,291	-	-	72,218	71,291
Total	<u>\$14,076,380</u>	<u>\$13,492,778</u>	<u>\$3,245,588</u>	<u>\$2,793,842</u>	<u>\$17,321,968</u>	<u>\$16,286,620</u>

The City's total long-term liabilities increased by \$1,035,348 during the current year. The most significant changes consisted of an increase of \$482,138 in notes payable resulting from procurement of equipment and vehicles and a \$646,271 increase in other post-employment benefits due to an increase in actuarial calculated liabilities.

In December 2009, the City received an "AAA" (negative outlook) "A" (unenhanced) rating from Standard and Poor's and an "Aa3" (negative outlook) "Baa1" (unenhanced) rating from Moody's for the series 2009, Combination Tax and Revenue Certificates of Obligation. Subsequent debt issues were not rated and the City has not obtained updates on the issues outstanding.

Additional information on the City's long-term liabilities is presented in the notes to the financial statements.

Discretely Presented Component Unit

The Hempstead Economic Development Corporation (HEDC) is legally separate from the City and is reported as a discretely presented component unit because the City appoints a majority of this organization's governing body and either is able to impose its will on them or a financial benefit/burden situation exists.

Individual statements for HEDC are included in supplementary information as noted in the table of contents. Additional disclosures for deposits, notes receivable and capital assets are included in the notes to the financial statements as noted in the table of contents.

Economic Factors And Next Year's Budget And Rates

- Total tax rate \$.4358 per \$100 valuation in fiscal year 2017 (\$.4343 for maintenance and operations and \$.0015 for interest and sinking).
- The unemployment rate for Waller County, according to Texas Workforce statistics, is 6.0%, which increased from last year's rate. The state unemployment rate, as recorded by Texas Workforce statistics, is 4.9%, an increase from last year's rate of 4.4%.
- The state sales tax revenues for the current fiscal year totaled \$1,221,666, an increase from the previous year of \$1,216,806.

All of these factors were considered in preparing the City of Hempstead's budget for 2017 fiscal year.

During the current fiscal year, unassigned fund balance in the General Fund increased to \$308,133. The City is anticipating revenues of \$3,514,090 and expenditures of \$5,614,201 in the 2017 fiscal year budget for the General Fund. The City plans to transfer funds from the Utility Fund to alleviate the shortfall in the General Fund with a budget amendment as needed during the year.

Request for Information

This financial report is designed to provide our citizens, customers, investors and creditors with a general overview of City of Hempstead's finances. If you have any questions about this report or need any additional financial information, please contact the Finance Department, City of Hempstead, Texas, 1125 Austin Street, Hempstead, Texas 77445 or call 979-826-2486.

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Basic Financial Statements

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City of Hempstead, Texas
Statement of Net Position
September 30, 2016

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Hempstead EDC
ASSETS				
Cash and cash equivalents	\$ 192,159	\$ 189,590	\$ 381,749	\$ 1,684,394
Receivables (net)				
Property taxes	109,770	-	109,770	-
Sales and other taxes	213,369	-	213,369	66,381
Accounts - utilities	-	1,319,065	1,319,065	-
Services - solid waste	110,522	-	110,522	-
Notes receivable	-	-	-	1,708
Other	-	-	-	500
Accrued Interest	-	-	-	3,066
Inventories	-	123,144	123,144	-
Restricted cash and cash equivalents:				
Hotel/motel tax	125,950	-	125,950	-
Court technology	17,693	-	17,693	-
Court building and security	4,252	-	4,252	-
Police department forfeitures	18,423	-	18,423	-
Construction - utilities	-	81,451	81,451	-
Reserve - utilities	-	56,492	56,492	-
Capital assets (not being depreciated)				
Land and improvements	185,474	-	185,474	98,185
Construction in progress	-	2,199,544	2,199,544	-
Capital assets				
Buildings and improvements	3,023,524	-	3,023,524	-
Equipment	1,074,479	259,675	1,334,154	-
Vehicles	1,439,464	963,886	2,403,350	-
Infrastructure	18,850,710	28,504,302	47,355,012	-
Accumulated depreciation	(13,855,661)	(11,802,005)	(25,657,666)	-
Total assets	<u>11,510,128</u>	<u>21,895,144</u>	<u>33,405,272</u>	<u>1,854,234</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows for pension activities	408,327	158,794	567,121	-
Deferred contributions after the measurement date	<u>146,653</u>	<u>57,032</u>	<u>203,685</u>	<u>-</u>
Total deferred outflows of resources	<u>554,980</u>	<u>215,826</u>	<u>770,806</u>	<u>-</u>
LIABILITIES				
Accounts payable	302,334	129,550	431,884	1,298
Accrued liabilities	18,087	8,175	26,262	879
Customer meter deposits	-	586,323	586,323	-
Accrued interest payable	118,411	5,151	123,562	-
Noncurrent liabilities				
Due within one year	847,027	187,160	1,034,187	-
Due in more than one year	12,477,373	2,765,992	15,243,365	-
Net pension liability - long term	<u>751,980</u>	<u>292,436</u>	<u>1,044,416</u>	<u>-</u>
Total liabilities	<u>14,515,212</u>	<u>3,974,787</u>	<u>18,489,999</u>	<u>2,177</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows for pensions	<u>345,071</u>	<u>134,194</u>	<u>479,265</u>	<u>-</u>
Total deferred inflows of resources	<u>345,071</u>	<u>134,194</u>	<u>479,265</u>	<u>-</u>
NET POSITION (DEFICIT)				
Net investment in capital assets	(360,682)	17,974,224	17,613,542	98,185
Restricted for				
Hotel/motel	125,950	-	125,950	-
Municipal court	21,945	-	21,945	-
Law enforcement	18,423	-	18,423	-
Debt services - reserve	-	56,492	56,492	-
Unrestricted	<u>(2,600,811)</u>	<u>(28,727)</u>	<u>(2,629,538)</u>	<u>1,753,872</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (2,795,175)</u>	<u>\$ 18,001,989</u>	<u>\$ 15,206,814</u>	<u>\$ 1,852,057</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Hempstead, Texas
Statement of Activities
Year Ended September 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
PRIMARY GOVERNMENT:			
Governmental activities			
General government	\$ 971,445	\$ 33,060	\$ -
Municipal court	365,546	-	-
Fire department	78,452	-	30,490
Police department	2,243,375	365,387	-
Public works department	991,263	350	-
Solid waste department	746,759	806,097	-
Parks and cemetery department	418,254	23,100	725
Inspection	322,822	50,264	-
Community center	412,645	35,506	-
Technology department	165,493	-	-
Animal control	63,190	-	-
Debt service			
Interest and fiscal charges	<u>432,669</u>	<u>-</u>	<u>86,960</u>
Total governmental activities	<u>7,211,913</u>	<u>1,313,764</u>	<u>118,175</u>
Business-type activities			
Electric	3,722,565	6,034,082	-
Water	758,994	1,217,742	-
Natural gas	373,684	464,867	-
Sewer	724,731	874,705	-
Administration	<u>464,250</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>6,044,224</u>	<u>8,591,396</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 13,256,137</u>	<u>\$ 9,905,160</u>	<u>\$ 118,175</u>
COMPONENT UNIT			
Hempstead Economic Development Corp.	<u>\$ 287,559</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues
Property taxes
Franchise taxes
Sales tax
Hotel/motel taxes
Other revenues
Investment earnings
Transfers, net of governmental funds capital contributions
 Total general revenues and transfers
Change in net position
Net position (Deficit) - beginning
Prior period adjustment
Net position (Deficit) - beginning, as restated

NET POSITION (DEFICIT) - ENDING

The Notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Hempstead EDC
\$ (938,385)	\$ -	\$ (938,385)	
(365,546)	-	(365,546)	
(47,962)	-	(47,962)	
(1,877,988)	-	(1,877,988)	
(990,913)	-	(990,913)	
59,338	-	59,338	
(394,429)	-	(394,429)	
(272,558)	-	(272,558)	
(377,139)	-	(377,139)	
(165,493)	-	(165,493)	
(63,190)	-	(63,190)	
<u>(345,709)</u>	<u>-</u>	<u>(345,709)</u>	
<u>(5,779,974)</u>	<u>-</u>	<u>(5,779,974)</u>	
-	2,311,517	2,311,517	
-	458,748	458,748	
-	91,183	91,183	
-	149,974	149,974	
-	<u>(464,250)</u>	<u>(464,250)</u>	
<u>-</u>	<u>2,547,172</u>	<u>2,547,172</u>	
<u>(5,779,974)</u>	<u>2,547,172</u>	<u>(3,232,802)</u>	
			<u>\$ (287,559)</u>
896,230	-	896,230	-
57,814	-	57,814	-
1,221,666	-	1,221,666	407,602
58,380	-	58,380	-
18,182	-	18,182	-
2,546	3,295	5,841	28,886
<u>3,097,328</u>	<u>(3,097,328)</u>	<u>-</u>	<u>-</u>
<u>5,352,146</u>	<u>(3,094,033)</u>	<u>2,258,113</u>	<u>436,488</u>
<u>(427,828)</u>	<u>(546,861)</u>	<u>(974,689)</u>	<u>148,929</u>
<u>(2,473,538)</u>	<u>18,548,850</u>	<u>16,075,312</u>	<u>1,667,731</u>
<u>106,191</u>	<u>-</u>	<u>106,191</u>	<u>35,397</u>
<u>(2,367,347)</u>	<u>18,548,850</u>	<u>16,181,503</u>	<u>1,703,128</u>
<u>\$ (2,795,175)</u>	<u>\$18,001,989</u>	<u>\$ 15,206,814</u>	<u>\$ 1,852,057</u>

City of Hempstead, Texas
 Balance Sheet - Governmental Funds
 September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 158,932	\$ 11,965	\$ 21,262	\$ 192,159
Receivables (net)				
Property taxes	109,231	539	-	109,770
Sales and other taxes	213,369	-	-	213,369
Services - solid waste	110,522	-	-	110,522
Restricted cash and cash equivalents				
Hotel/motel tax	125,950	-	-	125,950
Court technology	17,693	-	-	17,693
Court building and security	4,252	-	-	4,252
Police department forfeiture	18,423	-	-	18,423
TOTAL ASSETS	<u>\$ 758,372</u>	<u>\$ 12,504</u>	<u>\$ 21,262</u>	<u>\$ 792,138</u>
LIABILITIES				
Accounts payable	\$ 156,603	\$ -	\$ 145,731	\$ 302,334
Accrued liabilities	18,087	-	-	18,087
Total liabilities	<u>174,690</u>	<u>-</u>	<u>145,731</u>	<u>320,421</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	109,231	539	-	109,770
Total deferred inflows of resources	<u>109,231</u>	<u>539</u>	<u>-</u>	<u>109,770</u>
FUND BALANCES (DEFICIT)				
Restricted for debt	-	11,965	-	11,965
Restricted for construction	-	-	(124,469)	(124,469)
Restricted for hotel/motel	125,950	-	-	125,950
Restricted for municipal court	21,945	-	-	21,945
Restricted for law enforcement	18,423	-	-	18,423
Unassigned fund balance	308,133	-	-	308,133
Total fund balances (deficit)	<u>474,451</u>	<u>11,965</u>	<u>(124,469)</u>	<u>361,947</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICIT)	<u>\$ 758,372</u>	<u>\$ 12,504</u>	<u>\$ 21,262</u>	<u>\$ 792,138</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Hempstead, Texas

Reconciliation of The Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET **\$ 361,947**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 24,573,651	
Accumulated depreciation of governmental capital assets	<u>(13,855,661)</u>	10,717,990

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 109,770

Long-term liabilities, including certificates of obligation payable, notes payable, compensated absences, OPEB, net pension liability, and closure cost of a transfer station, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items, consist of:

Certificates of obligation	\$ (10,380,000)	
Notes payable	(372,069)	
Premium	(202,134)	
Accrued interest on debt	(118,411)	
Compensated absences	(187,737)	
Post-employment benefits (OPEB)	(2,110,242)	
Net pension liability	(751,980)	
Closure cost of transfer station	<u>(72,218)</u>	(14,194,791)

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. 554,980

Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until then. (345,071)

NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION **\$ (2,795,175)**

City of Hempstead, Texas
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
Year Ended September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes				
Property taxes	\$ 887,027	\$ 3,697	\$ -	\$ 890,724
Franchise taxes	57,814	-	-	57,814
Sales taxes	1,221,666	-	-	1,221,666
Hotel/motel taxes	58,380	-	-	58,380
Licenses and permits	50,264	-	-	50,264
Charges for services	152,539	-	-	152,539
Fines and forfeitures	304,864	-	-	304,864
Charges for solid waste services	806,097	-	-	806,097
Investment earnings	1,460	117	969	2,546
Contributions	31,215	-	-	31,215
Contribution from HEDC	-	86,960	-	86,960
Other revenue	18,182	-	-	18,182
Total revenues	<u>3,589,508</u>	<u>90,774</u>	<u>969</u>	<u>3,681,251</u>
EXPENDITURES				
Current				
General government	829,915	-	-	829,915
Municipal court	293,028	-	-	293,028
Fire department	78,452	-	-	78,452
Police department	1,678,389	-	-	1,678,389
Public works department	817,088	-	-	817,088
Solid waste department	745,832	-	-	745,832
Parks and cemetery department	333,694	-	-	333,694
Inspection	242,992	-	-	242,992
Community center	319,101	-	-	319,101
Technology department	127,719	-	-	127,719
Animal control	44,481	-	-	44,481
Debt service				
Principal	108,173	505,000	-	613,173
Interest and fees	17,009	487,181	-	504,190
Capital outlay				
Governmental activities	895,824	-	-	895,824
Utility fund	-	-	86,926	86,926
Total expenditures	<u>6,531,697</u>	<u>992,181</u>	<u>86,926</u>	<u>7,610,804</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,942,189)</u>	<u>(901,407)</u>	<u>(85,957)</u>	<u>(3,929,553)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	411,015	-	-	411,015
Transfer in (out)	2,700,000	803,015	(318,761)	3,184,254
Total other financing sources (uses)	<u>3,111,015</u>	<u>803,015</u>	<u>(318,761)</u>	<u>3,595,269</u>
Net change in fund balances	168,826	(98,392)	(404,718)	(334,284)
Fund balances, beginning of year	199,434	110,357	280,249	590,040
Prior period adjustment	106,191	-	-	106,191
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 474,451</u>	<u>\$ 11,965</u>	<u>\$ (124,469)</u>	<u>\$ 361,947</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Hempstead, Texas

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended September 30, 2016

**NET CHANGE IN FUND BALANCES - STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS** **\$ (334,284)**

Some property taxes will not be collected for several months after the City's fiscal year end and are not considered "available" revenues and, therefore, are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.

5,506

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.

Capital outlay	\$ 895,824	
Depreciation expense	<u>(652,189)</u>	243,635

Issuance of notes provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (411,015)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 505,000

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 108,173

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The decrease in interest expense reported in the statement of activities consist of the following:

Accrued interest on bonds payable <i>decreased</i>	\$ 55,622	
Accrued interest on notes payable <i>decreased</i>	739	
Amortization of bond premium	<u>15,160</u>	71,521

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 are as follows:

Compensated absences liability <i>increased</i>	(72,713)	
Payables for post employment benefits <i>increased</i>	(583,408)	
Closure cost of a transfer station <i>increased</i>	<u>(927)</u>	(657,048)

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows <i>increased</i>	359,872	
Deferred inflows <i>decreased</i>	(175,316)	
Net pension liability <i>decreased</i>	<u>(143,872)</u>	<u>40,684</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES **\$ (427,828)**

The Notes to the Financial Statements are an integral part of this statement.

City of Hempstead, Texas
Statement of Net Position
Proprietary Fund
September 30, 2016

	Business-type Activities
	Enterprise Fund
	Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 189,590
Restricted cash - construction	81,451
Restricted cash - reserve	56,492
Receivables (net)	
Accounts - utilities	1,319,065
Inventories	123,144
Total current assets	<u>1,769,742</u>
Noncurrent assets	
Capital assets	
Equipment	259,675
Vehicles	963,886
Infrastructure	28,504,302
Construction in progress	2,199,544
Accumulated depreciation	<u>(11,802,005)</u>
Total noncurrent assets	<u>20,125,402</u>
Total assets	<u>21,895,144</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pension activities	158,794
Deferred contribution after the measurement date	57,032
Total deferred outflows of resources	<u>215,826</u>
LIABILITIES	
Current liabilities	
Accounts payable	129,550
Accrued liabilities	8,175
Customer meter deposits	586,323
Accrued interest payable	5,151
Notes payable - current	38,206
Certificates of obligations - current	83,333
Accrued compensated absences - current	65,621
Total current liabilities	<u>916,359</u>
Noncurrent liabilities	
Notes payable - long term	141,090
Certificates of obligations - long term	1,970,000
Other post employment benefit - long term	654,902
Net pension liability - long term	292,436
Total noncurrent liabilities	<u>3,058,428</u>
Total liabilities	<u>3,974,787</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pensions	134,194
Total deferred inflows of resources	<u>134,194</u>
NET POSITION	
Net investment in capital assets	17,974,224
Restricted for	
Debt services - reserve	56,492
Unrestricted	<u>(28,727)</u>
TOTAL NET POSITION	<u>\$ 18,001,989</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Hempstead, Texas

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund Year Ended September 30, 2016

	Business-type Activities
	Enterprise Fund
	Utility Fund
OPERATING REVENUES	
Charges for services - utilities	\$ 8,360,608
Penalties and reconnect fees	197,453
Tap fees	17,531
Miscellaneous	15,804
	<hr/>
Total operating revenues	8,591,396
OPERATING EXPENSES	
Salaries	873,657
Employee benefits	357,871
Contracted services and other	4,552
Wholesale utility purchases	3,299,568
Maintenance	534,579
Supplies	68,848
Telephone and utilities	55,535
Insurance	32,207
Travel, fees and dues	48,851
Miscellaneous	2,955
Depreciation	719,262
	<hr/>
Total operating expenses	5,997,885
	<hr/>
Operating income	2,593,511
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	3,295
Interest and fees	(46,339)
	<hr/>
Total nonoperating revenues (expenses)	(43,044)
	<hr/>
Income before contributions and transfers	2,550,467
	<hr/>
Capital contribution - capital projects fund	86,926
Transfer in (out)	(3,184,254)
	<hr/>
Change in net position	(546,861)
	<hr/>
Net position - beginning of year	18,548,850
	<hr/>
NET POSITION - END OF YEAR	\$ 18,001,989
	<hr/> <hr/>

The Notes to the Financial Statements are an integral part of this statement.

City of Hempstead, Texas
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2016

	<u>Business-type Activities</u>
	<u>Enterprise Fund</u>
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for services - utilities	\$ 8,455,241
Cash payments to suppliers for goods and services	(4,389,815)
Cash payments to employees for salaries and benefits	(1,213,253)
Net cash provided by operating activities	<u>2,852,173</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from (to) other funds	<u>(3,184,254)</u>
Net cash used for noncapital financing activities	<u>(3,184,254)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from issuance of capital debt	438,063
Purchase of capital assets	(457,282)
Principal paid on capital debt	(102,100)
Interest and fees paid on capital debt	(47,513)
Net cash used for capital & related financing activities	<u>(168,832)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>3,295</u>
Net cash provided by for investing activities	<u>3,295</u>
Net increase (decrease) in cash and cash equivalents	(497,618)
Cash and cash equivalents, beginning of year, including restricted cash	825,151
CASH AND CASH EQUIVALENTS AT END OF YEAR, INCLUDING RESTRICTED CASH	<u>\$ 327,533</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income	\$ 2,593,511
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	719,262
(Increase) decrease in receivables	(149,975)
(Increase) decrease in inventories	(1,005)
(Increase) decrease in deferred outflows	(139,951)
Increase (decrease) in accounts payable	(341,715)
Increase (decrease) in accrued liabilities	(25,735)
Increase (decrease) in customer meter deposits	13,820
Increase (decrease) in accrued compensated absences	(3,030)
Increase (decrease) in other post-employment benefits	62,863
Increase (decrease) in net pension liability	55,950
Increase (decrease) in deferred inflows	68,178
Total adjustments	<u>258,662</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 2,852,173</u>
SCHEDULE OF NON-CASH CAPITAL ACTIVITIES	
Contributions of capital assets from governmental funds and HEDC	\$ 86,926

The Notes to the Financial Statements are an integral part of this statement.

City of Hempstead, Texas

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City and its component unit. All fiduciary activities are reported only in the fund financial statements. The City does not have fiduciary activities. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

B. Reporting Entity

The City of Hempstead, Texas (City) is a municipal corporation governed by an elected mayor and five-member governing council (council). The accompanying financial statements present the City and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Unit. Hempstead Economic Development Corporation (HEDC) - Established in 1992, HEDC is a nonprofit industrial development corporation specifically governed by Section 4A of the Development Corporation Act of 1979. The purpose of HEDC is to promote, assist, and enhance economic development in the Hempstead area. HEDC is governed by a board of directors appointed by the City Council. The economic development efforts of HEDC have the potential for financial benefit for the City. Complete financial statements of HEDC may be obtained from: Hempstead Economic Development Corporation, 733 12th Street, Hempstead, Texas 77445.

C. Basis of Presentation – Government-wide Financial Statements

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As discussed earlier, the City has a discretely presented component unit which is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses are not eliminated from the various functional categories. Interfund services that are provided and used are not eliminated in the process of consolidation.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

City of Hempstead, Texas

Notes to the Financial Statements

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the City's major capital facilities.

The government reports the following major enterprise fund:

The *utility fund* accounts for the provision of electricity, water and sewer, and gas services to the residents of the City. All activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, production, maintenance, financing and related debt service, and billings and collections.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

City of Hempstead, Texas

Notes to the Financial Statements

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Receivables for solid waste services, sales taxes 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, and cash on deposit (including restricted cash).

2. Investments

Investments for the City consist of certificates of deposit that are non-negotiable and reported at cost. Such investments are included in cash and cash equivalents.

3. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include land and improvements, construction in progress, building and improvements, equipment, vehicles, and infrastructure (e.g. roads, bridges, sidewalks, utility systems and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

As the City constructs or acquires additional capital assets each period, including infrastructure, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation.

City of Hempstead, Texas

Notes to the Financial Statements

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Land and improvements and construction in progress are not depreciated. The buildings and improvements, equipment, vehicles, and infrastructure of the primary government, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30-40
Equipment	5-15
Infrastructure	20-40
Vehicles	5-10

5. *Deferred Outflows/Inflows of Resources*

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- City contributions after the measurement date are recognized in the subsequent year.
- Property taxes are recognized in the period the amount becomes available.

6. *Net Position Flow Assumption*

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *Fund Balance Flow Assumptions*

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

City of Hempstead, Texas

Notes to the Financial Statements

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council (Council) is the highest level of decision-making authority for the City that can, by Council action or adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by Council action or the ordinance remains in place until a similar action is taken (Council action or the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. Council has by resolution authorized the mayor to assign fund balance. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property values are determined by the County Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the City sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Waller County bills and collects the property taxes for the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the year ended September 30, 2016 was \$0.3988 per \$100, allocated \$0.3972 for the General Fund and \$0.0016 for the Debt Service Fund.

3. Compensated Absences

The City and HEDC employees are paid for absences due to vacation or sickness according to a prescribed policy. Employees must take vacation leave before their anniversary date each year. Vacation leave may not be accumulated from year to year. The City will pay the employee for accrued vacation time upon termination. Employees are allowed to carry forward up to 160 hours of sick leave. The City will not pay an employee for unused sick leave time accumulated in the event of termination or retirement. Accordingly, these financial statements reflect the accrual of vacation and unused sick leave at September 30, 2016. Compensated absences is liquidated by the General Fund, proprietary funds and the component unit HEDC.

City of Hempstead, Texas

Notes to the Financial Statements

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

5. Use of Estimates

The presentation of financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets, liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2. Stewardship, Compliance and Accountability

A. Budgetary Information

The following procedures are utilized in establishing the budgetary data as reflected in the basic financial statements:

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. All budget appropriations lapse at year end.

B. Encumbrances

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. As of September 30, 2016, the City did not have any outstanding encumbrances.

City of Hempstead, Texas

Notes to the Financial Statements

Note 3. Detailed Notes on All Funds

A. Cash and Investments

Primary Government

At September 30, 2016, the carrying amount of the City's deposits (cash, certificates of deposit and interest-bearing savings accounts) was \$686,010 and the bank's balances totaled \$1,395,999. At September 30, 2016, all bank balances were covered by federal deposit insurance, or pledged collateral held by the City's agent in the City's name. The City's investments consisted of certificates of deposits at fiscal year end.

The City's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and City policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO.

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The City monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the City reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio and by holding securities to maturity.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For fiscal year 2016, the City is not exposed to credit risk due to all investments are certificates of deposit which are insured or collateralized.

Concentration of credit risk. The risk is the risk of loss attributed to the magnitude of a City's investment in a single issuer. The City's investment policy does not limit an investment in any one issuer.

Custodial credit risk - deposits. In case of deposits, this is risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2016, the City's deposits at the depository banks were insured and collateralized with securities held by the City's agent and in the City's name.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial risk due to the investments, certificates of deposit at bank depository, are insured or registered in the City's name or the investments are held by the City or its agent.

Component Unit - HEDC:

HEDC maintains deposits at various financial institutions. At September 30, 2016, the carrying amount of HEDC's deposits (cash, certificates of deposit and interest-bearing savings accounts) was \$1,684,394 and the bank balance was \$1,423,482.

City of Hempstead, Texas

Notes to the Financial Statements

At September 30, 2016, bank balances of \$930,425 held at First National Bank of Waller were covered by federal deposit insurance or pledged collateral held by the custodian in HEDC's name. Deposit balances of \$393,056 held at Prosperity Bank were covered by \$367,553 federal deposit insurance and \$25,503 was unsecured and uninsured. Deposit balance of \$100,000 at Trustmark National Bank was covered by federal deposit insurance.

B. Restricted Assets

The restricted assets consist of cash and cash equivalents, and are limited to the legislative restrictions as follows:

	General Fund	Utility Fund	Total
Hotel/motel tax	\$ 125,950	\$ -	\$ 125,950
Court technology	17,693	-	17,693
Court building and security	4,252	-	4,252
Police department forfeitures	18,423	-	18,423
Construction	-	81,451	81,451
Reserve - debt	-	56,492	56,492
Total restricted assets	<u>\$ 166,318</u>	<u>\$ 137,943</u>	<u>\$ 304,261</u>

C. Receivables

Primary Government

Property tax receivable of the general and debt service fund is reported net of estimated uncollectible amounts. Accounts receivable (solid waste) in the general fund is reported net of estimated uncollectible amounts. Accounts receivable of the utility fund is reported net of estimated uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to general fund property taxes	\$ 2,000
Change in uncollectibles related to debt service property taxes	15
Change in uncollectibles related to general fund solid waste services	(4,710)
Change in uncollectibles related to utilities	<u>(178,290)</u>
Total change in uncollectibles of the current fiscal year increased (decreased) revenues	<u>\$ (180,985)</u>

Allowances for uncollectibles at September 30, 2016 for the City's individual major governmental and proprietary funds are as follows:

	General Fund	Debt Service Fund	Utility Fund	Total
Property taxes	\$ (7,000)	\$ (35)	\$ -	\$ (7,035)
Accounts - utilities	-	-	(923,490)	(923,490)
Services - solid waste	(69,510)	-	-	(69,510)

Approximately 66% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

City of Hempstead, Texas

Notes to the Financial Statements

Component Unit - HEDC

HEDC's notes receivables were as follows at September 30, 2016:

Note receivable from The Learning Tree of \$25,000, issued in 2011, secured by loan value, interest at 5%, due in monthly installments of \$500 with remaining principal due upon maturity, matures December 15, 2016	<u>\$ 1,708</u>
Total notes receivable	<u><u>\$ 1,708</u></u>

D. Interfund Balances and Activity

Primary Government:

1. Interfund Receivables and Payables

There were no interfund receivables and payables of the various funds at September 30, 2016.

2. Transfers From and To Other Funds

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without a requirement for repayment." Transfers are use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the City's transfers for the year ended September 30, 2016.

	Transfers In			Total
	General Fund	Debt Service Fund	Utility Fund	
<u>Transfers out</u>				
Capital projects fund	\$ -	\$ -	\$ 318,761	\$ 318,761
Utility fund	<u>2,700,000</u>	<u>803,015</u>	<u>-</u>	<u>3,503,015</u>
Totals	<u><u>\$ 2,700,000</u></u>	<u><u>\$ 803,015</u></u>	<u><u>\$ 318,761</u></u>	<u><u>\$ 3,821,776</u></u>

Transfers out of capital projects fund were made using excess funds of a completed water and sewer project to make debt service payments for certificates of obligation serviced by the utility fund. Transfers from the utility fund were utilized to pay budgeted expenditures of the general fund and debt service fund.

City of Hempstead, Texas

Notes to the Financial Statements

E. Capital Assets

Primary Government:

Capital asset activity for the year ended September 30, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Adjustments and Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land and improvements	\$ 185,474	\$ -	\$ -	\$ -	\$ 185,474
Total capital assets not being depreciated	<u>185,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>185,474</u>
Depreciable assets					
Buildings and improvements	2,963,444	60,080	-	-	3,023,524
Equipment	893,931	180,548	-	-	1,074,479
Vehicles	1,127,379	336,522	(24,437)	-	1,439,464
Infrastructure	18,532,036	318,674	-	-	18,850,710
Total capital assets being depreciated	<u>23,516,790</u>	<u>895,824</u>	<u>(24,437)</u>	<u>-</u>	<u>24,388,177</u>
Less accumulated depreciation for					
Buildings and improvements	(1,206,229)	(61,318)	-	-	(1,267,547)
Equipment	(599,108)	(69,652)	-	-	(668,760)
Vehicles	(976,476)	(82,077)	24,437	-	(1,034,116)
Infrastructure	(10,446,096)	(439,142)	-	-	(10,885,238)
Total accumulated depreciation	<u>(13,227,909)</u>	<u>(652,189)</u>	<u>24,437</u>	<u>-</u>	<u>(13,855,661)</u>
Total capital assets being depreciated, net	<u>10,288,881</u>	<u>243,635</u>	<u>-</u>	<u>-</u>	<u>10,532,516</u>
Governmental activities capital assets, net	<u>\$10,474,355</u>	<u>\$ 243,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,717,990</u>

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

Governmental activities	
General government	\$ 76,828
Municipal court	31,566
Technology department	25,566
Police department	314,681
Public works department	80,937
Animal control	8,413
Parks and cemetery department	25,566
Inspection	42,066
Community center	46,566
Total governmental activities	<u>\$ 652,189</u>

City of Hempstead, Texas

Notes to the Financial Statements

Business-type activities Utility System Proprietary Fund	Beginning Balance	Increases	Decreases	Adjustments and Transfers	Ending Balance
Capital assets not being depreciated					
Construction in progress	\$ 4,898,635	\$ 326,582	\$ -	\$ (3,025,673)	\$ 2,199,544
Total capital assets not being depreciated	4,898,635	326,582	-	(3,025,673)	2,199,544
Capital assets, being depreciated					
Equipment					
Electrical system	17,176	-	-	-	17,176
Water system	82,992	-	-	-	82,992
Natural gas system	103,695	-	-	-	103,695
Sewer	55,812	-	-	-	55,812
Utility admin system	-	-	-	-	-
Total equipment	259,675	-	-	-	259,675
Vehicles					
Electrical system	483,905	122,028	-	-	605,933
Water system	153,334	40,000	-	-	193,334
Natural gas system	87,635	-	-	-	87,635
Sewer	46,984	30,000	-	-	76,984
Utility admin system	-	-	-	-	-
Total vehicles	771,858	192,028	-	-	963,886
Infrastructure					
Electrical system	6,251,986	-	-	2,299,512	8,551,498
Water system	5,335,629	25,598	-	544,621	5,905,848
Natural gas system	2,051,805	-	-	-	2,051,805
Sewer	11,766,659	-	-	181,540	11,948,199
Utility admin system	46,952	-	-	-	46,952
Total infrastructure	25,453,031	25,598	-	3,025,673	28,504,302
Total capital assets, being depreciated (net)	26,484,564	217,626	-	3,025,673	29,727,863
Less accumulated depreciation for					
Equipment	(212,235)	(17,565)	-	-	(229,800)
Vehicles	(642,496)	(54,325)	-	-	(696,821)
Infrastructure	(10,228,012)	(647,372)	-	-	(10,875,384)
Total accumulated depreciation	(11,082,743)	(719,262)	-	-	(11,802,005)
Business-type activities capital assets, net	\$20,300,456	\$ (175,054)	\$ -	\$ -	\$20,125,402

City of Hempstead, Texas

Notes to the Financial Statements

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

Business-type activities	
Electrical	\$ 185,687
Water	149,809
Gas	55,987
Sewer	326,438
Utility administration	<u>1,341</u>
Total business-type activities	<u>\$ 719,262</u>

Construction Commitments

The City had active construction projects as of September 30, 2016. The projects include the construction of the water and sewer system. At year end, the City's commitments are as follows:

	<u>Remaining Commitments</u>
Project	
USDA Water Well Improvement Project	\$ 66,874
Water Line Replacement	<u>21,440</u>
Totals	<u>\$ 88,314</u>

Discretely Presented Component Unit – HEDC

The Hempstead Economic Development Corporation balance of land and improvements was \$98,185 at September 30, 2016 and 2015.

F. Long-term Liabilities

Primary Government:

Long-term obligations include certificates of obligation, notes payable, compensated absences, other post-employment benefits, net pension liability, and closure cost of a transfer station. The requirements for the certificates of obligation principal and interest payments are accounted for in the Debt Service Fund and Utility Fund. The requirements for notes payable principal and interest payments are accounted for in the General Fund and Utility Fund. Compensated absences are generally liquidated by the General Fund and Utility Fund. Other Post-Employment Benefits are generally liquidated by the General Fund and Utility Fund. Net pension liability is generally liquidated by the General Fund and Utility Fund. Closure cost of a transfer station is liquidated by the General Fund.

City of Hempstead, Texas

Notes to the Financial Statements

Changes in Long-term Liabilities

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

	Beginning Balance	Additions (Adjustments)	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of obligation	\$10,885,000	\$ -	\$ (505,000)	\$10,380,000	\$ 580,000
Less deferred amounts					
For issuance premiums	217,294	-	(15,160)	202,134	-
Total certificates, net	11,102,294	-	(520,160)	10,582,134	580,000
Notes payable	69,227	411,015	(108,173)	372,069	79,290
Compensated absences	115,024	193,197	(120,484)	187,737	187,737
Other post-employment benefits	1,526,834	634,232	(50,824)	2,110,242	-
Net pension liability	608,108	1,054,505	(910,633)	751,980	-
Closure cost for transfer station	71,291	927	-	72,218	-
Total governmental activities					
Long-term liabilities	<u>\$13,492,778</u>	<u>\$ 2,293,876</u>	<u>\$ (1,710,274)</u>	<u>\$14,076,380</u>	<u>\$ 847,027</u>
	Beginning Balance	Additions (Adjustments)	Reductions	Ending Balance	Due Within One Year
Business-type activities					
Certificates of obligation*	\$ 1,896,666	\$ 240,000	\$ (83,333)	\$ 2,053,333	\$ 83,333
Notes payable	-	198,063	(18,767)	179,296	38,206
Compensated absences	68,651	51,168	(54,198)	65,621	65,621
Other post-employment benefits	592,039	78,636	(15,773)	654,902	-
Net pension liability	236,486	410,085	(354,135)	292,436	-
Total business-type activities					
Long-term liabilities	<u>\$ 2,793,842</u>	<u>\$ 977,952</u>	<u>\$ (526,206)</u>	<u>\$ 3,245,588</u>	<u>\$ 187,160</u>

*\$240,000 of current year certificates of obligation additions are a portion of an approved issuance of Combination Tax and Revenue Certificates of Obligation, Series 2014 in the aggregate principal amount not to exceed \$2,400,000.

City of Hempstead, Texas

Notes to the Financial Statements

Primary Government

Certificates of Obligation

Governmental activities

\$1,100,000 1998 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$35,000 to \$80,000 through June 1, 2018, interest ranging from 4.4% to 6.4% secured by ad valorem taxes and a subordinate pledge of surplus revenues of the City's combined utility system - the debt service fund receives an annual contribution from the HEDC for principal and interest payments. \$ 155,000

\$9,000,000 2009 Combination Tax and Revenue Certificate of Obligation due in annual installments of \$320,000 to \$660,000 through January 1, 2030, interest ranging from 2.0% to 5.0%, secured by ad valorem taxes and a subordinate pledge of surplus revenues of the City's combined utility system 6,965,000

\$3,325,000 2014B Combination Tax and Revenue Certificate of Obligation due in annual installments of \$65,000 to \$220,000 through January 1, 2035, interest 2.955%, secured by ad valorem taxes and a subordinate pledge of surplus revenues of the City's combined utility system 3,260,000

\$ 10,380,000

City of Hempstead, Texas

Notes to the Financial Statements

The principal and interest requirements for certificates of obligation are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 580,000	\$ 403,518	\$ 983,518
2018	605,000	380,872	985,872
2019	545,000	356,749	901,749
2020	565,000	336,038	901,038
2021	590,000	314,479	904,479
2022	610,000	292,047	902,047
2023	630,000	268,840	898,840
2024	655,000	244,786	899,786
2025	680,000	219,527	899,527
2026	710,000	190,520	900,520
2027	745,000	157,672	902,672
2028	775,000	123,302	898,302
2029	810,000	87,409	897,409
2030	850,000	53,915	903,915
2031	190,000	35,203	225,203
2032	200,000	27,861	227,861
2033	205,000	20,237	225,237
2034	215,000	12,331	227,331
2035	220,000	4,142	224,142
Totals	<u>\$10,380,000</u>	<u>\$ 3,529,448</u>	<u>\$13,909,448</u>

Business-type activities

\$650,000 2002 Certificates of Obligation due in annual installments of \$43,333 through January 1, 2017, interest ranging from 4.75% to 12.0%, secured by ad valorem taxes and a subordinate pledge of surplus revenues of the City's combined utility system

\$ 43,333

\$2,400,000 2014 Combination Tax and Revenue Certificate of Obligation due in annual installments of \$40,000 to \$90,000 through January 1, 2054, interest at 2.125%, secured by ad valorem taxes and a subordinate pledge of surplus revenues of the City's combined utility system. The outstanding \$1,810,000 has annual installments of \$40,000 to \$75,000 through January 1, 2047

2,010,000

\$ 2,053,333

City of Hempstead, Texas

Notes to the Financial Statements

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 83,333	\$ 43,163	\$ 126,496
2018	40,000	41,441	81,441
2019	45,000	40,538	85,538
2020	45,000	39,581	84,581
2021	45,000	38,626	83,626
2022	45,000	37,670	82,670
2023	45,000	36,713	81,713
2024	45,000	35,756	80,756
2025	50,000	34,748	84,748
2026	50,000	33,686	83,686
2027	50,000	32,623	82,623
2028	50,000	31,559	81,559
2029	55,000	30,445	85,445
2030	55,000	29,277	84,277
2031	55,000	28,108	83,108
2032	55,000	26,938	81,938
2033	5,000	26,297	31,297
2034	60,000	25,611	85,611
2035	60,000	24,336	84,336
2036	10,000	23,588	33,588
2037	65,000	22,796	87,796
2038	65,000	21,415	86,415
2039	65,000	20,034	85,034
2040	-	19,337	19,337
2041	50,000	18,811	68,811
2042	70,000	17,537	87,537
2043	70,000	16,050	86,050
2044	-	15,300	15,300
2045	75,000	14,510	89,510
2046	75,000	12,916	87,916
2047	40,000	11,691	51,691
2048	80,000	10,417	90,417
2049	55,000	8,983	63,983
2050	80,000	7,551	87,551
2051	85,000	5,798	90,798
2052	85,000	3,989	88,989
2053	55,000	2,502	57,502
2054	90,000	964	90,964
Totals	<u>\$ 2,053,333</u>	<u>\$ 891,305</u>	<u>\$ 2,944,638</u>

As of September 30, 2016 the City had \$350,000 of authorized but unissued combination tax and revenue certificates of obligation.

City of Hempstead, Texas

Notes to the Financial Statements

Notes Payable

Governmental activities

Note payable to Regions Bank, dated October 1, 2015, matures October 2020, interest at 2.39%, payable annually, secured by equipment	\$ 172,206
Note payable to Regions Bank, dated January 14, 2016, matures January 2021, interest at 2.38%, payable annually, secured by equipment	<u>199,863</u>
Total notes payable	<u>\$ 372,069</u>

The principal and interest requirements for notes payable are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 79,290	\$ 8,395	\$ 87,685
2018	81,190	6,496	87,686
2019	83,136	4,550	87,686
2020	85,130	2,556	87,686
2021	<u>43,323</u>	<u>516</u>	<u>43,839</u>
Totals	<u>\$ 372,069</u>	<u>\$ 22,513</u>	<u>\$394,582</u>

Business-type activities

Note payable to Regions Bank, dated October 1, 2015, matures October 2020, interest at 2.39%, payable annually, secured by equipment	\$ 115,931
Note payable to Regions Bank, dated January 14, 2016, matures January 2021, interest at 2.38%, payable annually, secured by equipment	<u>63,365</u>
Total notes payable	<u>\$ 179,296</u>

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2017	\$ 38,206	\$ 4,049	\$ 42,255
2018	39,123	3,131	42,254
2019	40,062	2,193	42,255
2020	41,023	1,233	42,256
2021	<u>20,882</u>	<u>249</u>	<u>21,131</u>
Totals	<u>\$ 179,296</u>	<u>\$ 10,855</u>	<u>\$190,151</u>

City of Hempstead, Texas

Notes to the Financial Statements

Note 4. Other Information

A. Pension Information

Plan Description

The City of Hempstead, Texas, participates as one of 866 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.

Plan Provisions

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2015	Plan Year 2014
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	26
Active employees	67
Total	113

City of Hempstead, Texas

Notes to the Financial Statements

Contributions

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

Employees for the City of Hempstead, Texas, were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Hempstead, Texas, were 9.37% and 8.64% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$279,593, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.5%, 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 Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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

City of Hempstead, Texas

Notes to the Financial Statements

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

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic equity	17.5%	4.55%
International equity	17.5%	6.10%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	3.65%
Real return	10.0%	4.03%
Real estate	10.0%	5.00%
Absolute return	10.0%	4.00%
Private equity	5.0%	8.00%
Total	<u>100%</u>	

City of Hempstead, Texas

Notes to the Financial Statements

Discount Rate

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2014	\$ 9,335,605	\$ 8,491,011	\$ 844,594
Changes for the year			
Service cost	312,551	-	312,551
Interest	648,925	-	648,925
Change of benefit terms	-	-	-
Difference between expected and	(403,822)	-	(403,822)
Changes of assumptions	52,044	-	52,044
Contributions - employer	-	264,315	(264,315)
Contributions - employee	-	141,043	(141,043)
Net investment income	-	12,527	(12,527)
Benefit payments, including refunds of employee contributions	(443,061)	(443,061)	-
Administrative expense	-	(7,631)	7,631
Other changes	-	(378)	378
Net changes	<u>166,637</u>	<u>(33,185)</u>	<u>199,822</u>
Balance at December 31, 2015	<u>\$ 9,502,242</u>	<u>\$ 8,457,826</u>	<u>\$ 1,044,416</u>

City of Hempstead, Texas

Notes to the Financial Statements

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

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

	<u>1% Decrease in Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
Net pension liability	\$ 2,304,029	\$ 1,044,416	\$ 2,119

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the City recognized pension expense of \$223,091.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 479,266
Changes in actuarial assumptions	39,711	-
Difference between projected and actual investment earnings	527,410	-
Contributions subsequent to the measurement date	203,685	-
Totals	<u>\$ 770,806</u>	<u>\$ 479,266</u>

\$203,685 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2017	\$ (10,980)
2018	(10,980)
2019	11,789
2020	<u>98,026</u>
Totals	<u>\$ 87,855</u>

City of Hempstead, Texas

Notes to the Financial Statements

B. Postemployment Benefits-Supplemental Death Benefits Plan

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

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

The City offers supplemental death to:	Plan Year 2015	Plan Year 2016
Active employees (Yes or No)	Yes	Yes
Retirees (Yes or No)	Yes	Yes

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$1,584, \$1,089, and \$1,030, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.04%	0.04%	100.0%
2014	0.04%	0.04%	100.0%
2015	0.04%	0.04%	100.0%

C. Other Postemployment Benefits

City Council adopted a plan to pay for health benefit coverage for qualified retirees until age 65 under a single-employer defined benefit plan. To qualify for inclusion in the coverage, an individual must currently have 10 continuous years of full-time employment with the City or the sum of age plus service equals 75 and be eligible for a retirement annuity from the Texas Municipal Retirement System. When retirees become eligible for Medicare the health insurance coverage with the City discontinues. The City's regular health insurance providers underwrite the retiree's policies. A separate financial statement is not issued for the plan. At September 30, 2016, the City reports a post-employment benefits liability of \$2,765,144 in the government- wide activities and business-type activities.

City of Hempstead, Texas

Notes to the Financial Statements

Funding Policy

The City of Hempstead's post-retirement benefit liability is recorded on a full accrual basis in the government-wide statements. An actuarial study was performed in fiscal year 2016 to prepare for disclosure of this liability in accordance with GASB 45. The projected liability accrual for fiscal year 2016 has been recorded net of premium contributions received from retired employees as required in the plan.

The contributions requirement for plan members and the City are established and may be amended by City Council. In fiscal year 2015-2016, a premium of approximately \$5,500 each month is contributed to the plan on behalf of all retirees. This amount is subject to review during the annual budget process. Sample contribution rates for retirees and their dependents are shown below.

Coverage for Retiree Over Age 65	
<u>Medical Plan</u>	
Employee	\$ 980
Spouse	1,010
Child	745
Family	2,254
<u>Basic Life</u>	
Life	\$ 0.19 per \$1000

Contributions to the plan are designed to fund the plan 100% by the City on a pay as you go basis. The City is responsible for 100% of the retirement coverage. The retirees are responsible for their dependent coverage.

Annual OPEB Cost and Net OPEB Obligation

The employer has elected to calculate the annual required contribution of the employer (ARC) and related information using the Alternative Measurement Method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The Employer's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Other Post Employment Benefits (OPEB) Obligation			
	2016	2015	2014
Annual OPEB cost			
Annual required contribution	\$ 703,940	\$ 722,848	\$ 693,622
Interest adjustment to net OPEB obligation	95,349	65,485	37,175
Adjustment to ARC	(86,421)	(59,354)	(33,694)
Annual OPEB cost	712,868	728,979	697,103
Net employer contributions	(66,597)	(65,339)	(67,982)
Net OPEB obligation	646,271	663,640	629,121
Net OPEB obligation - beginning of year	2,118,873	1,455,233	826,112
Net OPEB obligation - end of year	\$2,765,144	\$2,118,873	\$1,455,233
Percentage of annual OPEB cost contributed	9.3%	9.0%	9.8%

City of Hempstead, Texas

Notes to the Financial Statements

The Employer's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Schedule of Employer Contributions

Fiscal Year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2016	\$ 712,868	\$ 66,597	9.34%	\$ 2,765,144
9/30/2015	728,979	65,339	8.96%	2,118,873
9/30/2014	697,103	67,982	9.75%	1,455,233

Funding Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of September 30, 2016 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (%)	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(a/b)	(b-a)	(c)	((b-a)/c)
9/30/2016	\$ -	\$ 3,635,499	0.0%	\$ 3,635,499	\$ 3,196,070	114%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into 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 employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include the 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.

Actuarial Methods and Assumptions

Actuarial valuation date	September 30, 2016
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of projected payroll (closed)
Remaining amortization period	30 years
Investment rate of return	4.5%, net of expenses
Payroll growth	3.0%
Rate of inflation	3.0%
Health care cost trend rate	9.0% initially

City of Hempstead, Texas

Notes to the Financial Statements

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Active member marital status – Assumption of marital status for active employees has been incorporated in the acceptance probability for spousal coverage. Using this approach, the percentage of future retired plan members taking spousal coverage was assumed at 1%. For active employees, spouses' genders were assumed to be opposite to the members' genders and females were assumed 3 years younger than their spouses. Covered spouse data were collected for current retired plan members as of the valuation date, and were assumed to remain unchanged until the assumed death of the spouses.

Mortality – Life expectancies were based on the RP2000 Generational Combined Healthy Male and Female mortality tables projected from the year 2000 using Projection Scale AA.

Turnover – Non-group-specific age-based turnover data provided in GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the actuary. A rate of 9 percent initially, reduced to an ultimate rate of 4.5 percent after eight years, was used.

Health insurance premiums – Health insurance premiums for retirees in effect on the fiscal year ending date were used as the basis for calculating the present value of total benefits to be paid.

D. State Awards

State grant funds are considered to be earned to the extent of expenditures made per the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

The City has received several state grant awards. These awards are subject to financial and compliance audits by the grantors or their representatives and regulatory authorities. The purpose of the audits is to ensure compliance with conditions relating to the granting of funds and other reimbursement regulations. The City's management believes that any liability for reimbursement which may arise as the result of these audits would not be material to the financial position of the City.

E. Energy and Power Purchase Commitments

The City entered into a contract with the Lower Colorado River Authority (LCRA) on January 25, 2011, amended December 1, 2014, for the sale and purchase of electricity for the operation of the City's electric utility services. The contract will remain in force for one year. The term of this contract is automatically renewed annually unless a termination notice is timely provided. This contract may be terminated in writing by the City or the LCRA by giving 90 days written notice to the other party. The termination of this contract does not invalidate any existing purchased goods or services already commenced but not yet completed at the time of termination.

City of Hempstead, Texas

Notes to the Financial Statements

The LCRA allows the City to utilize the goods and services from contractors who were awarded or which may be awarded bids by the LCRA in the furtherance of the City's electric utility services as it allows for the best utilization of taxpayer funds and furthers the efficient performance of the contractual obligations between the City and LCRA.

F. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the City purchased workers compensation and property and liability insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverages. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in insurance coverages in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

G. Pending Litigation

The City is involved in litigation. Although the outcome of these legal matters is not presently determinable, in the opinion of the City's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

H. Prior Period Adjustment

Governmental activities and HEDC beginning net position and General Fund beginning fund balance at October 1, 2015, were restated to accrue an additional month of sales tax due to the amounts received in October and November are earned in the months of August and September and the City had only accrued the sales tax funds received in October in prior years. The effect of the restatements of beginning net position and fund balance is reflected in the following table:

	Governmental Activities Net Position	Component Unit- HEDC Net Position	General Fund Fund Balance
Beginning balance, as previously reported	\$ (2,473,538)	\$ 1,667,731	\$ 199,434
Restate beginning sales tax receivable	<u>106,191</u>	<u>35,397</u>	<u>106,191</u>
Beginning balance, restated	<u>\$ (2,367,347)</u>	<u>\$ 1,703,128</u>	<u>\$ 305,625</u>

I. Closure Cost for Transfer Station

The City has a long-term contingent liability of \$72,218 for the cost associated with the potential closure of a solid waste transfer station controlled by the City. The liability is reasonably calculated annually based on an inflation factor supplied by the Texas Commission on Environmental Quality.

J. Fund Balance Deficit

The capital projects fund reported a deficit fund balance of \$124,469 at September 30, 2016. The deficit will be funded with transfers from the utility fund.

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Required Supplementary Information

City of Hempstead, Texas
 Required Supplementary Information
 General Fund
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Budget And Actual
 Year Ended September 30, 2016

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 808,833	\$ 808,833	\$ 887,027	\$ 78,194
Franchise taxes	52,400	52,400	57,814	5,414
Sales taxes	1,425,000	1,425,000	1,221,666	(203,334)
Hotel/motel taxes	-	-	58,380	58,380
Licenses and permits	39,000	39,000	50,264	11,264
Charges for services	166,100	166,100	152,539	(13,561)
Fines and forfeitures	275,000	275,000	304,864	29,864
Charges for solid waste services	867,000	867,000	806,097	(60,903)
Investment earnings	-	-	1,460	1,460
Contributions	-	-	31,215	31,215
Other revenue	3,500	3,500	18,182	14,682
Total revenues	<u>3,636,833</u>	<u>3,636,833</u>	<u>3,589,508</u>	<u>(47,325)</u>
EXPENDITURES				
Current				
General government				
Compensation	379,238	379,238	413,416	(34,178)
Maintenance	15,000	15,000	34,463	(19,463)
Contracted services and other	777,435	777,435	208,838	568,597
Supplies	11,000	11,000	16,208	(5,208)
Miscellaneous	220,955	220,955	156,990	63,965
Total general government	<u>1,403,628</u>	<u>1,403,628</u>	<u>829,915</u>	<u>573,713</u>
Municipal court				
Compensation	152,343	152,343	133,674	18,669
Maintenance	2,000	2,000	9,752	(7,752)
Contracted services and other	21,000	21,000	132,708	(111,708)
Supplies	3,500	3,500	7,553	(4,053)
Miscellaneous	85,500	85,500	9,341	76,159
Total municipal court	<u>264,343</u>	<u>264,343</u>	<u>293,028</u>	<u>(28,685)</u>
Fire department				
Compensation	333	333	318	15
Maintenance	14,000	14,000	27,555	(13,555)
Contracted services and other	22,063	22,063	43,359	(21,296)
Supplies	5,200	5,200	5,145	55
Miscellaneous	2,500	2,500	2,075	425
Total fire department	<u>44,096</u>	<u>44,096</u>	<u>78,452</u>	<u>(34,356)</u>
Police department				
Compensation	1,380,352	1,380,352	1,351,816	28,536
Maintenance	15,000	15,000	62,139	(47,139)
Contracted services and other	36,668	36,668	77,516	(40,848)
Supplies	45,900	45,900	112,226	(66,326)
Miscellaneous	39,500	39,500	74,692	(35,192)
Total police department	<u>1,517,420</u>	<u>1,517,420</u>	<u>1,678,389</u>	<u>(160,969)</u>
Public works department				
Compensation	414,050	414,050	397,946	16,104
Maintenance	505,500	505,500	339,984	165,516
Contracted services and other	6,337	6,337	5,731	606
Supplies	16,500	16,500	70,728	(54,228)
Miscellaneous	1,500	1,500	2,699	(1,199)
Total public works department	<u>943,887</u>	<u>943,887</u>	<u>817,088</u>	<u>126,799</u>

Continued

City of Hempstead, Texas
 Required Supplementary Information
 General Fund
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance - Budget And Actual
 Year Ended September 30, 2016

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Solid waste department				
Contracted services and other	650,500	650,500	745,832	(95,332)
Miscellaneous	50,000	50,000	-	50,000
Total solid waste department	700,500	700,500	745,832	(45,332)
Parks and cemetery department				
Compensation	235,491	235,491	233,065	2,426
Maintenance	18,500	18,500	24,609	(6,109)
Contracted services and other	2,079	2,079	3,460	(1,381)
Supplies	13,500	13,500	61,123	(47,623)
Miscellaneous	1,500	1,500	11,437	(9,937)
Total parks and cemetery department	271,070	271,070	333,694	(62,624)
Inspection				
Compensation	196,061	196,061	199,488	(3,427)
Maintenance	1,000	1,000	1,249	(249)
Contracted services and other	757	757	32,430	(31,673)
Supplies	2,000	2,000	6,159	(4,159)
Miscellaneous	33,500	33,500	3,666	29,834
Total inspection	233,318	233,318	242,992	(9,674)
Community center				
Compensation	186,236	186,236	183,639	2,597
Maintenance	11,500	11,500	12,973	(1,473)
Contracted services and other	16,473	16,473	60,059	(43,586)
Supplies	11,000	11,000	42,180	(31,180)
Miscellaneous	10,000	10,000	20,250	(10,250)
Total community center	235,209	235,209	319,101	(83,892)
Technology department				
Compensation	77,396	77,396	105,747	(28,351)
Maintenance	-	-	9,533	(9,533)
Supplies	-	-	441	(441)
Miscellaneous	-	-	11,998	(11,998)
Total technology department	77,396	77,396	127,719	(50,323)
Animal control				
Compensation	38,301	38,301	41,235	(2,934)
Maintenance	-	-	1,669	(1,669)
Supplies	-	-	1,451	(1,451)
Miscellaneous	3,500	3,500	126	3,374
Total animal control	41,801	41,801	44,481	(2,680)
Debt service				
Principal	-	-	108,173	(108,173)
Interest and fees	-	-	17,009	(17,009)
Total debt service	-	-	125,182	(125,182)
Capital outlay				
Governmental activities	219,000	219,000	895,824	(676,824)
Total expenditures	5,951,668	5,951,668	6,531,697	(580,029)
Excess (deficiency) of revenues over expenditures	(2,314,835)	(2,314,835)	(2,942,189)	(627,354)
OTHER FINANCING SOURCES				
Loan proceeds	-	-	411,015	411,015
Transfer in (out)	-	-	2,700,000	2,700,000
Total other financing sources	-	-	3,111,015	3,111,015
Net change in fund balance	(2,314,835)	(2,314,835)	168,826	2,483,661
Fund balance, beginning of year	199,434	199,434	199,434	-
Prior Period Adjustment	-	-	106,191	106,191
FUND BALANCE, END OF YEAR	\$ (2,115,401)	\$ (2,115,401)	\$ 474,451	\$ 2,589,852

The Notes to the Required Supplementary Information are an integral part of this statement.

City of Hempstead, Texas

Required Supplementary Information

Schedule of Funding Progress

Other Post Employment Benefits – Retiree Health Plan

Last Three Fiscal Years

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UALL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2014	-	3,152,517	3,152,517	0%	2,575,309	122.4%
9/30/2015	-	3,152,517	3,152,517	0%	2,721,895	115.8%
9/30/2016	-	3,635,499	3,635,499	0%	3,196,070	113.7%

The Notes to the Required Supplementary Information are an integral part of this statement.

City of Hempstead, Texas

Required Supplementary Information

Schedule of Changes in Net Pension Liability And Related Ratios -

Texas Municipal Retirement System

Last Two Fiscal Years*

	<u>2016</u>	<u>2015</u>
TOTAL PENSION LIABILITY		
Service cost	\$ 312,551	\$ 281,893
Interest	648,925	634,068
Differences between expected and actual experience	(403,822)	(300,406)
Changes of assumptions	52,044	-
Benefit payments, including refunds of employee contributions	<u>(443,061)</u>	<u>(394,233)</u>
Net change in total pension liability	166,637	221,322
Total pension liability - beginning	<u>9,335,605</u>	<u>9,114,283</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u>9,502,242</u>	<u>9,335,605</u>
PLAN FIDUCIARY NET POSITION		
Contributions - employer	\$ 264,315	\$ 232,272
Contributions - employee	141,043	129,761
Net investment income	12,527	461,462
Benefits payments, including refunds of employee contributions	(443,061)	(394,233)
Administrative expense	(7,631)	(4,818)
Other	<u>(378)</u>	<u>(396)</u>
Net change in plan fiduciary net position	(33,185)	424,048
Plan fiduciary net position - beginning	<u>8,491,011</u>	<u>8,066,963</u>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>8,457,826</u>	<u>8,491,011</u>
NET PENSION LIABILITY - ENDING (a)-(b)	<u>\$ 1,044,416</u>	<u>\$ 844,594</u>
Plan fiduciary net position as a percentage of total pension liability	89.01%	90.95%
Covered employee payroll	\$ 2,820,857	\$ 2,595,211
Net pension liability as a percentage of covered employee payroll	37.02%	32.54%

*The amounts presented for the fiscal year were determined as of the Plan's fiscal year end December 31.

GASB 68 requires 10 fiscal years of data to be provided in this schedule. The actuary provided the current year results. The City will be required to build this schedule over the next 10-year period.

City of Hempstead, Texas
 Required Supplementary Information
 Schedule of City Contributions
 Texas Municipal Retirement System
 Last Two Fiscal Years*

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 279,593	\$ 252,055
Contributions in relation to the actuarially determined contribution	<u>(279,593)</u>	<u>(252,055)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,167,580	\$ 2,721,895
Contributions as a percentage of covered employee payroll	8.8%	9.2%

*The amounts presented for the fiscal year were determined as of the City's fiscal year end September 30. GASB 68 requires 10 fiscal years of data to be provided in this schedule. The actuary provided the current year results. The City will be required to build this schedule over the next 10-year period.

City of Hempstead, Texas

Notes to the Required Supplementary Information

Note 1. Budget

A. Budgetary Information

The following procedures are utilized in establishing the budgetary data as reflected in the basic financial statements:

1. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for the purposed of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. All budget appropriations lapse at year end.

B. Variances with Final Budget

The City's general fund budget had no variances between original and final budget.

C. Excess Expenditures Over Appropriations

For the year ended September 30, 2016, the general fund expenditures exceeded its appropriations in the following functions:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Municipal court	\$ 264,343	\$ 293,028	\$ (28,685)
Fire department	44,096	78,452	(34,356)
Police department	1,517,420	1,678,389	(160,969)
Solid waste department	700,500	745,832	(45,332)
Parks and cemetery department	271,070	333,694	(62,624)
Inspection	233,318	242,992	(9,674)
Community center	235,209	319,101	(83,892)
Technology department	77,396	127,719	(50,323)
Animal control	41,801	44,481	(2,680)
Debt service	-	125,182	(125,182)
Capital outlay	219,000	895,824	(676,824)

City of Hempstead, Texas

Notes to the Required Supplementary Information

Note 2. Pension

TMRS

The Schedule of Changes in the City's Net Pension Liability and Related Ratios shows the changes in total pension liability less the changes in fiduciary net position, resulting in the net pension liability calculation for the City for the Plan's fiscal year-end December 31. Note that this is a 10-year schedule, to be created by the City prospectively, over the next 10-year period. This schedule is provided by the actuary for the current period.

The Schedule of Employer Contributions shows the City's required annual contributions from the actuarial valuation, compared with the actual contributions remitted. This schedule is based on the City's respective fiscal year-end, and is created by the City, and built prospectively over the next 10-year period. The City provides the following notes to Schedule of City's Contributions, including the methods and assumptions used to determine the contribution rates and information about benefit changes during the year as follows:

Valuation date

Notes

Actuarially determined contribution rates are calculated as of December 31, 2015 and become effective in January, 13 months later

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	10 year smoothed market, 15% soft corridor
Inflation	2.50%
Salary increase	3.50% to 10.5%, including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other information

Notes

There were no benefit changes during the year.

City of Hempstead, Texas

Notes to the Required Supplementary Information

Note 3. OPEB

Actuarial Assumptions – The Required Supplementary Schedules for Other Postemployment Benefits on the previous pages were prepared using the actuarial valuations for determining the actuarially determined contributions rates as of September 30, 2016. The actuarial assumptions used are as follows:

Actuarial Methods and Assumptions	
Actuarial valuation date	September 30, 2016
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of projected payroll (closed)
Remaining amortization period	30 years
Investment rate of return	4.5%, net of expenses
Payroll growth	3.0%
Rate of inflation	3.0%
Health care cost trend rate	9.0% initially

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Active member marital status – Assumption of marital status for active employees has been incorporated in the acceptance probability for spousal coverage. Using this approach, the percentage of future retired plan members taking spousal coverage was assumed at 1%. For active employees, spouses' genders were assumed to be opposite to the members' genders and females were assumed 3 years younger than their spouses. Covered spouse data were collected for current retired plan members as of the valuation date, and were assumed to remain unchanged until the assumed death of the spouses.

Mortality – Life expectancies were based on the RP2000 Generational Combined Healthy Male and Female mortality tables projected from the year 2000 using Projection Scale AA.

Turnover – Non-group-specific age-based turnover data provided in GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the actuary. A rate of 9 percent initially, reduced to an ultimate rate of 4.5 percent after eight years, was used.

Health insurance premiums – Health insurance premiums for retirees in effect on the fiscal year ending date were used as the basis for calculating the present value of total benefits to be paid.

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Supplementary Information

City of Hempstead, Texas
Schedule of Revenues And Expenses
By Department – Enterprise Funds
Year Ended September 30, 2016

	Business-Type Activities - Enterprise Fund					Totals
	Electric Department	Water Department	Natural Gas Department	Sewer Department	Administration Department	
OPERATING REVENUES						
Charges for services - utilities	\$ 5,894,449	\$ 1,168,642	\$ 450,159	\$ 847,358	\$ -	\$ 8,360,608
Penalties and reconnect fees	131,028	35,944	11,923	18,558	-	197,453
Tap fees	-	10,981	1,750	4,800	-	17,531
Miscellaneous	8,605	2,175	1,035	3,989	-	15,804
Total operating revenues	<u>6,034,082</u>	<u>1,217,742</u>	<u>464,867</u>	<u>874,705</u>	<u>-</u>	<u>8,591,396</u>
OPERATING EXPENSES						
Salaries	202,196	205,169	79,738	145,613	240,941	873,657
Employee benefits	75,006	80,186	41,572	62,869	98,238	357,871
Contracted services and other	1,459	175	1,459	1,459	-	4,552
Wholesale utility purchases	3,158,685	-	140,883	-	-	3,299,568
Maintenance	89,065	236,823	41,557	149,111	18,023	534,579
Supplies	768	23,965	846	15,843	27,426	68,848
Telephone and utilities	-	-	-	7,297	48,238	55,535
Insurance	6,839	11,264	6,781	7,081	242	32,207
Travel, fees and dues	1,096	13,398	4,409	2,551	27,397	48,851
Miscellaneous	235	162	77	77	2,404	2,955
Depreciation	185,687	149,809	55,987	326,438	1,341	719,262
Total operating expenses	<u>3,721,036</u>	<u>720,951</u>	<u>373,309</u>	<u>718,339</u>	<u>464,250</u>	<u>5,997,885</u>
Operating income (loss)	<u>2,313,046</u>	<u>496,791</u>	<u>91,558</u>	<u>156,366</u>	<u>(464,250)</u>	<u>2,593,511</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	717	1,006	855	717	-	3,295
Interest and fees	(1,529)	(38,043)	(375)	(6,392)	-	(46,339)
Total nonoperating revenues (expenses)	<u>(812)</u>	<u>(37,037)</u>	<u>480</u>	<u>(5,675)</u>	<u>-</u>	<u>(43,044)</u>
Income (loss) before transfers	2,312,234	459,754	92,038	150,691	(464,250)	2,550,467
Capital contribution - capital projects fund	-	86,926	-	-	-	86,926
Transfer in (out)	-	420,967	-	-	(3,605,221)	(3,184,254)
CHANGE IN NET POSITION	<u>\$ 2,312,234</u>	<u>\$ 967,647</u>	<u>\$ 92,038</u>	<u>\$ 150,691</u>	<u>\$ (4,069,471)</u>	<u>(546,861)</u>
Net position - beginning of year						18,548,850
NET POSITION - END OF YEAR						<u>\$18,001,989</u>

City of Hempstead, Texas

Statement of Net Position – Component Unit

Hempstead Economic Development Corporation

September 30, 2016

	Component Unit
	Hempstead EDC
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,684,394
Receivables (net)	
Sales and other taxes	66,381
Notes receivable	1,708
Accrued Interest	3,066
Other	500
Total current assets	<u>1,756,049</u>
Noncurrent assets	
Capital assets	
Land and improvements	98,185
Total noncurrent assets	<u>98,185</u>
TOTAL ASSETS	<u>\$ 1,854,234</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 1,298
Accrued liabilities	879
Total current liabilities	<u>2,177</u>
Total liabilities	<u>2,177</u>
NET POSITION	
Net investment in capital assets	98,185
Unrestricted	1,753,872
Total net position	<u>1,852,057</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,854,234</u>

City of Hempstead, Texas

Statement of Revenues, Expenses, and Changes in Net Position – Component Unit Hempstead Economic Development Corporation Year Ended September 30, 2016

	<u>Component Unit Hempstead EDC</u>
OPERATING REVENUES	
Sales taxes	\$ 407,602
Total revenues	<u>407,602</u>
OPERATING EXPENSES	
Economic development	
Salaries	111,907
Employee benefits	21,972
Maintenance	1,695
Contracted services and other	12,472
Supplies	12,715
Insurance	426
Reimbursement to City for principal and interest for industrial park	86,960
Travel, fees and dues	2,563
Miscellaneous	36,849
Total expenses	<u>287,559</u>
Operating income	<u>120,043</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	<u>28,886</u>
Total nonoperating revenues (expenses)	<u>28,886</u>
Change in net position	148,929
Net position, beginning of year	1,667,731
Prior period adjustment	35,397
NET POSITION, END OF YEAR	<u><u>\$ 1,852,057</u></u>

Overall Compliance and Internal Control Section



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

The Honorable Mayor and Members of
the City Council and Management of the
City of Hempstead, Texas
1125 Austin Street
Hempstead, Texas 77445

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of City of Hempstead, Texas as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated March 20, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Honorable Mayor and Members of
City Council and Management of the
City of Hempstead, Texas

Compliance and Other Matters

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

Purpose of this Report

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

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
March 20, 2017

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City of Hempstead, Texas
 Schedule of Findings And Responses
 Year Ended September 30, 2016

Section I – Summary of Auditor’s Results	
Financial Statements	
1. Type of auditor’s report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to Financial Statements noted?	No
Section II – Findings Related to Financial Statements	
1. Financial Statements Findings	
None Reported	
2. Findings Related To Compliance With Laws and Regulations	
None Reported	

City of Hempstead, Texas
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2016

Prior Year Findings
None reported

City of Hempstead, Texas

Corrective Action Plan

Year Ended September 30, 2016

Current Year Findings
None reported