

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
HEDWIG VILLAGE, TEXAS**

For the Year Ended  
December 31, 2015

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# CITY OF HEDWIG VILLAGE, TEXAS

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## *INDEPENDENT AUDITORS' REPORT*

To the Honorable Mayor and  
City Council Members of the  
City of Hedwig Village, Texas:

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

We have audited the accompanying financial statements of the governmental activities and each major fund, of the City of Hedwig Village, Texas (the "City"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditors' 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. 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 auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of December 31, 2015, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

In 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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, budgetary comparison information, and schedule of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule 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 schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
May 18, 2016

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***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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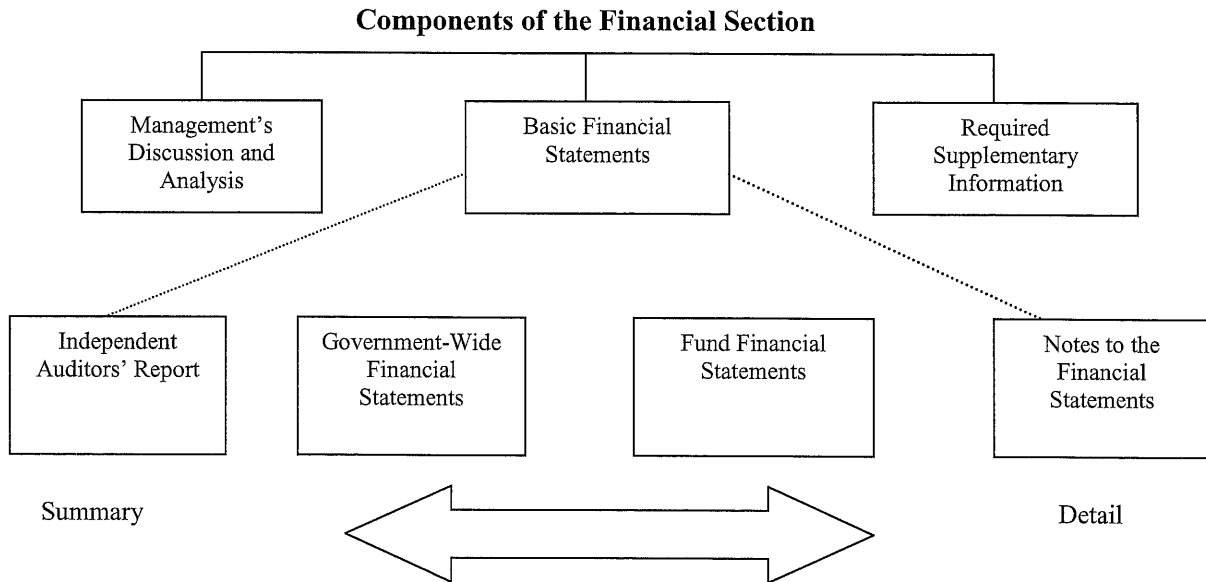
# CITY OF HEDWIG VILLAGE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Hedwig Village, Texas (the "City") for the year ended December 31, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

### Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, even if cash has not yet changed hands.

The Statement of Net Position presents information on all the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference is 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. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended December 31, 2015**

occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include one class of activity:

1. Governmental Activities – All of the City's basic services are reported here including public safety (police and fire), public works (streets and park maintenance), culture and recreation, and general government. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.

The government-wide financial statements can be found after the MD&A.

### **FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The only category of City funds is governmental.

#### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City'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 five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the capital projects fund, and the traffic mitigation fund, which are considered to be major funds for reporting purposes. While the police seizure fund did not meet the technical criteria to be reported as a major fund, the City has elected to present it as such.

The City adopts an annual appropriated budget for its general fund, traffic mitigation fund, police seizure fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

#### **Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended December 31, 2015

**Other Information**

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes the budgetary comparison schedules for the general fund, the traffic mitigation fund, and the police seizure fund and a schedule of changes in net pension liability and related ratios and schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$16,762,882 as of year end. This compares with \$16,994,846 from the prior fiscal year. A large portion of the City's net position, \$15,453,809 or 92 percent, reflects its investments in capital assets (e.g., land, infrastructure, and buildings and improvements), less any debt used to acquire those assets that is 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 assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014</b>
<b><u>Assets</u></b>		
Current and other assets	\$ 6,036,825	\$ 7,278,386
Capital assets, net	19,485,343	17,973,411
<b>Total Assets</b>	<b>25,522,168</b>	<b>25,251,797</b>
Deferred outflows - pensions	152,669	105,034
<b>Total Deferred Outflows of Resources</b>	<b>152,669</b>	<b>105,034</b>
<b><u>Liabilities</u></b>		
Long-term liabilities	6,215,758	6,601,020
Other liabilities	751,474	170,941
<b>Total Liabilities</b>	<b>6,967,232</b>	<b>6,771,961</b>
Deferred inflows - pensions	2,352	-
Unavailable revenues -property taxes	1,942,371	1,590,024
<b>Total Deferred Inflows of Resources</b>	<b>1,944,723</b>	<b>1,590,024</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	15,453,809	15,779,480
Restricted	1,145,895	829,557
Unrestricted	163,178	385,809
<b>Total Net Position</b>	<b>\$ 16,762,882</b>	<b>\$ 16,994,846</b>

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended December 31, 2015

A portion of the City's net position, \$1,145,895 or seven percent, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$163,178 or one percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position decreased by \$231,964 during the current fiscal year, a decrease of one percent in comparison to the prior year.

There was a decrease in the beginning net position of \$143,026 due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III.F. to the financial statements.

In the current fiscal year, GASB Statement Nos. 68 and 71 require the City to recognize a net pension liability and deferred outflows/inflows of resources as discussed in note IV.C. to the financial statements. The net pension liability increased by \$25,795 for governmental activities. The net change in deferred outflows/inflows increased net position by \$45,283 for governmental activities.

**Statement of Activities:**

The following table provides a summary of the City's changes in net position:

	<b>Governmental Activities</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 543,879	\$ 563,992
Operating grants and contributions	937,132	250,940
General revenues:		
Property taxes	1,578,624	1,524,584
Sales taxes	1,874,264	1,842,864
Franchise fees and other taxes	430,549	423,242
Investment income	5,020	2,615
Other revenue	57,731	74,329
<b>Total Revenues</b>	<b>5,427,199</b>	<b>4,682,566</b>
<b>Expenses</b>		
General government	1,047,806	792,733
Public safety	3,350,127	3,942,859
Public works	1,068,639	486,860
Culture and recreation	54,731	55,873
Interest and fees on long-term debt	137,860	202,656
<b>Total Expenses</b>	<b>5,659,163</b>	<b>5,480,981</b>
<b>Change in Net Position</b>	<b>(231,964)</b>	<b>(798,415)</b>
Beginning net position	16,994,846	17,793,261
<b>Ending Net Position</b>	<b>\$ 16,762,882</b>	<b>\$ 16,994,846</b>

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended December 31, 2015**

Revenues from governmental activities totaled \$5,427,199, which is an increase of \$744,633 from the 2014 fiscal year, mainly due to an increase in operating grants and contributions of \$686,192. This increase is mainly due to an increase in revenue received from METRO. Sales taxes are the City's largest revenue source and totaled \$1,874,264 for the year. This represents an increase of \$31,400 or two percent compared to the previous year.

Expenses for governmental activities increased by \$178,182. In total, expenses for the year were \$5,659,163, a three percent increase from the prior year due to depreciation expense and loss on disposal of capital assets in the current year, offset by an increase in capitalized infrastructure projects.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

The City's governmental funds reflect a combined fund balance of \$3,351,280. Of this, \$1,345 is nonspendable for prepaid expenses, \$171,415 is restricted for child safety, \$30,811 is restricted for court technology, \$360,085 is restricted for debt service, \$1,773,744 is restricted for capital projects, \$578,965 is restricted for traffic mitigation, and \$4,619 is restricted for police seizure.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$430,296, while total fund balance reached \$633,867. This represents a decrease of \$78,012 from 2014. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents nine percent of total general fund expenditures, while total fund balance represents 14 percent of that same amount.

There was a decrease of \$99,474 in the debt service fund balance for a total of \$360,085 at year end. The decrease is due to debt service payments exceeding property tax collections.

There was a decrease of \$2,363,626 in the capital projects fund balance for a total of \$1,773,744 at year end. This is a result of an increase in capital outlay expenditures for the construction of the police facility.

There was an increase of \$393,660 in the traffic mitigation fund balance for a total of \$578,965 at year end. This is a result of an increase in revenue received from METRO.

There was an increase of \$2,535 in the police seizure fund balance for a total of \$4,619 at year end. This was a result of asset seizure income received during the year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual general fund revenues were less than final budgeted revenues by \$71,498 during 2015. This net variance includes a positive variance of \$61,453 for property taxes, offset by negative variances of \$82,150 for fines and forfeitures revenue and \$85,222 in other revenue.

Budgeted expenditures were more than actual amounts by \$249,628 for the fiscal year. The greatest positive variance was \$209,362 for public safety expenditures.

**CITY OF HEDWIG VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended December 31, 2015

**CAPITAL ASSETS**

At the end of the year, the City's governmental activities had invested \$19,485,343 in capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$1,511,932 compared to the prior year.

Capital asset events during the year included the following:

- Purchase of two Ford Explorers for the police department for a total of \$68,000
- Increase in construction in progress of \$2,391,558 for the police facility

More detailed information on the City's capital assets is presented in note III. C. to the financial statements.

**LONG-TERM DEBT**

At the end of the current year, the City had total bonds and certificates of obligation outstanding of \$5,640,000. Of this amount, \$1,465,000 was general obligation refunding bonds debt and \$4,175,000 was certificates of obligation.

More detailed information about the City's long-term liabilities is presented in note III. D. to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City adopted a fiscal year 2016 expenditure budget for the general fund of \$5,176,232, which is an increase of 4.9 percent from the prior year amended budget. The City budgeted for fiscal year 2016 revenues of \$4,256,232, net of transfers from other funds, which is an increase of approximately three percent from the prior year amended budget. The 2016 tax rate is \$0.210311, which is an increase of \$0.013877 from the prior year.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Kelly Johnson, City Administrator/City Secretary-Treasurer, City of Hedwig Village, 955 Piney Point Road, Hedwig Village, Texas 77024.



***BASIC FINANCIAL STATEMENTS***

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# CITY OF HEDWIG VILLAGE, TEXAS

## STATEMENT OF NET POSITION

December 31, 2015

	<b>Primary Government Governmental Activities</b>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 4,394,231
Receivables	1,641,249
Prepaid items	1,345
<b>Total Current Assets</b>	<b>6,036,825</b>
<b>Noncurrent Assets</b>	
Capital assets	
Non-depreciable	3,009,076
Net depreciable capital assets	16,476,267
<b>Total Noncurrent Assets</b>	<b>19,485,343</b>
<b>Total Assets</b>	<b>25,522,168</b>
<b><u>Deferred Outflows of Resources</u></b>	
Deferred outflows - pension	152,669
<b><u>Liabilities</u></b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	704,856
Accrued interest payable	46,618
<b>Total Current Liabilities</b>	<b>751,474</b>
<b>Noncurrent Liabilities</b>	
Long-term liabilities due within one year	606,224
Long-term liabilities due in more than one year	5,335,679
Pension liability	273,855
<b>Total Noncurrent Liabilities</b>	<b>6,215,758</b>
<b>Total Liabilities</b>	<b>6,967,232</b>
<b><u>Deferred Inflows of Resources</u></b>	
Deferred inflows - pension	2,352
Unavailable revenue - property taxes	1,942,371
<b>Total Deferred Outflows of Resources</b>	<b>1,944,723</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	15,453,809
Restricted for:	
Child safety	171,415
Court technology	30,811
Debt service	360,085
Traffic mitigation	578,965
Police seizure	4,619
Unrestricted	163,178
<b>Total Net Position</b>	<b>\$ 16,762,882</b>

See Notes to Financial Statements.

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# CITY OF HEDWIG VILLAGE, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 1,047,806	\$ -	\$ -	\$ (1,047,806)
Public safety	3,350,127	303,482	-	(3,046,645)
Public works	1,068,639	240,397	937,132	108,890
Culture and recreation	54,731	-	-	(54,731)
Interest and fees on long-term debt	137,860	-	-	(137,860)
<b>Total Governmental Activities</b>	<b>\$ 5,659,163</b>	<b>\$ 543,879</b>	<b>\$ 937,132</b>	<b>(4,178,152)</b>
<b>General Revenues</b>				
Taxes:				
				1,578,624
				1,874,264
				430,549
				5,020
				57,731
			<b>Total General Revenues</b>	<b>3,946,188</b>
			<b>Change in Net Position</b>	<b>(231,964)</b>
			Beginning net position	16,994,846
			<b>Ending Net Position</b>	<b>\$ 16,762,882</b>

See Notes to Financial Statements.

# CITY OF HEDWIG VILLAGE, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

December 31, 2015

	General	Debt Service	Capital Projects	Traffic Mitigation
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,177,587	\$ 468,840	\$ 2,348,567	\$ 394,618
Receivables	1,116,277	340,625	-	184,347
Prepaid items	1,345	-	-	-
Due from other funds	-	199,940	-	-
<b>Total Assets</b>	<b>\$ 2,295,209</b>	<b>\$ 1,009,405</b>	<b>\$ 2,348,567</b>	<b>\$ 578,965</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 130,033	\$ -	\$ 574,823	\$ -
Due to other funds	199,940	-	-	-
<b>Total Liabilities</b>	<b>329,973</b>	<b>-</b>	<b>574,823</b>	<b>-</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	1,331,369	649,320	-	-
<b><u>Fund Balances</u></b>				
Nonspendable:				
Prepaid items	1,345	-	-	-
Restricted for:				
Child safety	171,415	-	-	-
Court technology	30,811	-	-	-
Debt service	-	360,085	-	-
Police seizure	-	-	-	-
Traffic mitigation	-	-	-	578,965
Capital projects	-	-	1,773,744	-
Unassigned:				
General fund	430,296	-	-	-
<b>Total Fund Balances</b>	<b>633,867</b>	<b>360,085</b>	<b>1,773,744</b>	<b>578,965</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,295,209</b>	<b>\$ 1,009,405</b>	<b>\$ 2,348,567</b>	<b>\$ 578,965</b>

See Notes to Financial Statements.

<u>Police Seizure</u>	<u>Total Governmental Funds</u>
\$ 4,619	\$ 4,394,231
-	1,641,249
-	1,345
-	199,940
<u>\$ 4,619</u>	<u>\$ 6,236,765</u>
\$ -	\$ 704,856
-	199,940
<u>-</u>	<u>904,796</u>
<u>-</u>	<u>1,980,689</u>
-	1,345
-	171,415
-	30,811
-	360,085
4,619	4,619
-	578,965
-	1,773,744
-	430,296
<u>4,619</u>	<u>3,351,280</u>
<u>\$ 4,619</u>	<u>\$ 4,256,076</u>

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**December 31, 2015**

Total fund balance for the governmental funds	\$	3,351,280
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Nondepreciable capital assets		3,009,076
Depreciable capital assets		25,095,704
Accumulated depreciation		(8,619,437)
Long-term liabilities and deferred outflows and inflows related to the net pension liability are not reported in the governmental funds.		
Net pension liability		(273,855)
Deferred outflows - pensions		152,669
Deferred inflows - pensions		(2,352)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
Unavailable revenue related to property taxes		38,318
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.		
Accrued interest payable		(46,618)
Long-term liabilities due within one year		(606,224)
Long-term liabilities due in more than one year		(5,335,679)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>16,762,882</u></b>

See Notes to Financial Statements.

# CITY OF HEDWIG VILLAGE, TEXAS

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

For the Year Ended December 31, 2015

	General	Debt Service	Capital Projects	Traffic Mitigation
<b>Revenues</b>				
Property taxes	\$ 1,159,904	\$ 413,286	\$ -	\$ -
Sales taxes	1,874,264	-	-	-
Franchise and other taxes	430,549	-	-	-
Licenses and permits	240,397	-	-	-
Fines and forfeitures	300,950	-	-	-
Intergovernmental	-	-	-	937,132
Investment income	1,279	405	2,947	386
Other revenue	57,731	-	-	-
<b>Total Revenues</b>	4,065,074	413,691	2,947	937,518
<b>Expenditures</b>				
<b>Current:</b>				
General government	657,914	-	15	-
Public safety	3,293,264	-	-	-
Public works	607,802	-	-	-
Culture and recreation	54,731	-	-	-
<b>Capital outlay</b>	73,233	-	2,391,558	-
<b>Debt service:</b>				
Principal	-	400,000	-	-
Interest and fiscal charges	-	113,165	-	-
<b>Total Expenditures</b>	4,686,944	513,165	2,391,573	-
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(621,870)	(99,474)	(2,388,626)	937,518
<b>Other Financing Sources (Uses)</b>				
Transfers in	543,858	-	-	-
Transfers (out)	-	-	-	(543,858)
Sale of capital assets	-	-	25,000	-
<b>Total Other Financing Sources (Uses)</b>	543,858	-	25,000	(543,858)
<b>Net Change in Fund Balances</b>	(78,012)	(99,474)	(2,363,626)	393,660
Beginning fund balances	711,879	459,559	4,137,370	185,305
<b>Ending Fund Balances</b>	\$ 633,867	\$ 360,085	\$ 1,773,744	\$ 578,965

See Notes to Financial Statements.

<u>Police Seizure</u>	<u>Total Governmental Funds</u>
\$ -	\$ 1,573,190
-	1,874,264
-	430,549
-	240,397
2,532	303,482
-	937,132
3	5,020
-	57,731
2,535	5,421,765
-	657,929
-	3,293,264
-	607,802
-	54,731
-	2,464,791
-	400,000
-	113,165
-	7,591,682
2,535	(2,169,917)
-	543,858
-	(543,858)
-	25,000
-	25,000
2,535	(2,144,917)
2,084	5,496,197
\$ 4,619	\$ 3,351,280

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2015**

Net changes in fund balances - total governmental funds \$ (2,144,917)

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

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	2,558,450
Depreciation expense	(719,592)
Net effect of disposal of capital assets	(326,926)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	5,434
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Net pension liability and deferred outflows and inflows related to the net pension liability are not reported in the governmental funds.

Net pension liability	(25,795)
Deferred outflows - pension	47,635
Deferred inflows - pension	(2,352)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the effect of these differences in the treatment of long-term debt and related items.

Debt principal repayments	400,000
Premium	10,263

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 the governmental funds.

Accrued interest expense	(34,958)
Compensated absences	794

<b>Change in Net Position of Governmental Activities</b>	<b>\$ (231,964)</b>
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See Notes to Financial Statements.

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2015

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Hedwig Village, Texas (the “City”) was incorporated under the laws of the State of Texas in 1954 to provide municipal services such as police protection, fire protection, public works, and general government services for its residents. The City operates under general laws of the State of Texas, which provides for a “Mayor-Council” form of government.

The City is an independent political subdivision of the State of Texas governed by an elected five-member council and mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. No other entities, organizations, or functions have been included in the City’s financial reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement Activities) report information about the City as a whole. These statements include all activities of the City. Governmental activities are normally supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

### 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, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, and fines and forfeitures. Expenditures include general government, public safety, public works, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The traffic mitigation fund, used to account for the receipt and expenditure of funds received from the Metropolitan Transit Authority of Harris County, Texas, fund is considered a major fund for reporting purposes. The police seizure fund did not meet the technical requirements for reporting as a major fund; however, it is considered to be significant in presenting the overall operations of the City and, as such, has been presented as a major fund.

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 preparation of the governmental-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental 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.

### 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.



# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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.

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 City 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 and claims and judgments, 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.

Property taxes, sales taxes, franchise fees, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current 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 are considered to be measurable and available only when cash is received by the City.

### **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, demand deposits, balances in statewide investment pools (TexPool), and short-term investments with original maturities of three months or less from the date of acquisition.

#### **2. Investments**

In accordance with GASB Statement No. 31, "*Accounting and Reporting for Certain Investments and External Investment Pools*," the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

### 3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

### 4. Capital Assets

Capital assets, which include land, construction in progress, vehicles and equipment, buildings and improvements, and infrastructure assets (e.g., roads and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets, are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of three years for personal property and \$25,000 or more for buildings and infrastructure. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles and equipment	3 to 15 years
Infrastructure	25 to 45 years
Buildings and improvements	5 to 40 years

### 5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that

**CITY OF HEDWIG VILLAGE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended December 31, 2015**

were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported in the governmental funds balance sheet. The governmental funds reports unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. At the government-wide level, the City reports a deferred inflow of resources for that portion of property taxes that were collected for use in the subsequent period.

**6. Compensated Employee Absences**

The City maintains formal programs for vacation and sick leave. The City's vacation policy provides vacations of ten days after one year of service, up to 15 days with five years of service and up to 20 days with 15 years of service. No vacation can be carried over to the ensuing calendar year. The City provides sick leave of ten days per year, which accumulates up to a maximum of 180 days. Payment may be made for up to 30 days unused sick leave. In addition, employees are allowed to accrue up to 60 hours of compensatory time which is paid upon termination. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

**7. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

### **8. 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 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.

### **9. 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.

### **10. Fund Balance Policies**

Fund balances of governmental funds are 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).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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 is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (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. The City 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

# **CITY OF HEDWIG VILLAGE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended December 31, 2015**

taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### **11. Estimates**

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

### **12. Pensions**

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

## **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 (including special assessments) 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 taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

## **II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except for the capital projects fund, which adopts a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is at the department level as stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made during the year. Encumbrance accounting is not utilized.

**CITY OF HEDWIG VILLAGE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended December 31, 2015

**III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Deposits and Investments**

At December 31, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 691,817	0.00

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*Credit risk.* The City’s policy requires that investment pools must be rated no lower than ‘AAA’ or ‘AAA-m’. Bankers’ acceptances must be issued in the United States and carry a rating of ‘A1’/‘P1’ as provided by two of the top nationally recognized rating agencies. As of December 31, 2015, the City’s investments in TexPool was rated ‘AAAm’ by Standard & Poor’s.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of December 31, 2015, market values of pledged securities and FDIC insurance exceeded bank balances.

*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’s investment policy requires that all securities bought be held in safekeeping by either the City, the City’s designated depository, a City account in an independent third-party financial institution, or with the Federal Reserve Bank. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rate TexPool ‘AAAm’. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

### B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Traffic Mitigation	Total
Property taxes	\$ 700,052	\$ 340,625	\$ -	\$ 1,040,677
Sales tax	368,693	-	-	368,693
Franchise fees	20,288	-	-	20,288
Mixed beverage taxes	13,993	-	-	13,993
Other	13,251	-	184,347	197,598
	\$ 1,116,277	\$ 340,625	\$ 184,347	\$ 1,641,249

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	Unavailable	Unearned
Current property taxes receivable - general fund	\$ -	\$ 1,304,507
Delinquent property taxes receivable - general fund	26,862	-
Current property taxes receivable - debt service fund	-	637,864
Delinquent property taxes receivable - debt service fund	11,456	-
	\$ 38,318	\$ 1,942,371

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

### C. Capital Assets

A summary of changes in capital assets at year end is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 477,762	\$ -	\$ -	\$ 477,762
Construction in progress	139,756	2,391,558	-	2,531,314
Total capital assets not being depreciated	617,518	2,391,558	-	3,009,076
Other capital assets:				
Vehicles and equipment	1,047,794	78,792	(290,664)	835,922
Buildings and improvements	3,036,217	46,600	(573,185)	2,509,632
Infrastructure	21,708,650	41,500	-	21,750,150
Total other capital assets	25,792,661	166,892	(863,849)	25,095,704
Less accumulated depreciation for:				
Vehicles and equipment	(809,704)	(150,570)	290,664	(669,610)
Buildings and improvements	(695,173)	(67,699)	246,259	(516,613)
Infrastructure	(6,931,891)	(501,323)	-	(7,433,214)
Total accumulated depreciation	(8,436,768)	(719,592)	536,923	(8,619,437)
Other capital assets, net	17,355,893	(552,700)	(326,926)	16,476,267
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 17,973,411</b>	<b>\$ 1,838,858</b>	<b>\$ (326,926)</b>	<b>19,485,343</b>
			Plus unspent bond proceeds	1,803,454
			Less associated debt	(5,834,988)
			<b>Net Investment in Capital Assets</b>	<b>\$ 15,453,809</b>

Depreciation was charged to governmental activities functions as follows:

General government	\$ 90,540
Public safety	125,300
Public works	503,752
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 719,592</b>



# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

### D. Long-Term Debt

The following is a summary of changes in the City's total governmental activities long-term liabilities for the year.

	Beginning Balance*	Additions	Deductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities</b>					
Bonds, notes, and other payables:					
General obligation bonds	\$ 1,865,000	\$ -	\$ (400,000)	\$ 1,465,000 *	\$ 410,000
Certificates of obligation	4,175,000	-	-	4,175,000 *	100,000
Bond premium	205,251	-	(10,263)	194,988 *	-
Net pension liability	248,060	25,795	-	273,855	-
Compensated absences	107,709	59,309	(60,103)	106,915	96,224
<b>Total Governmental Activities</b>	<b>\$ 6,601,020</b>	<b>\$ 85,104</b>	<b>\$ (470,366)</b>	<b>\$ 6,215,758</b>	<b>\$ 606,224</b>
				<b>\$ 5,609,534</b>	
				<b>\$ 5,834,988</b>	

\* Beginning balances have been restated to account for a net pension liability

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt was comprised of the following debt issues:

Description	Interest Rates	Balance
<b>Governmental Activities</b>		
<b>General Obligation Refunding Bonds</b>		
Series 2012	1.00-1.75%	\$ 1,465,000
<b>Certificates of Obligation</b>		
Series 2014	2.00-4.00%	4,175,000
<b>Total Governmental Activities Long-Term Debt</b>		<b>\$ 5,640,000</b>

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Dec 31	Governmental Activities		
	Principal	Interest	Total
2016	\$ 510,000	\$ 140,238	\$ 650,238
2017	520,000	134,088	654,088
2018	310,000	129,238	439,238
2019	320,000	123,741	443,741
2020	330,000	117,938	447,938
2021-2025	1,315,000	503,089	1,818,089
2026-2030	1,210,000	345,975	1,555,975
2031-2034	1,125,000	114,800	1,239,800
<b>Total</b>	<b>\$ 5,640,000</b>	<b>\$ 1,609,107</b>	<b>\$ 7,249,107</b>

General obligation bonds and certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds and certificates of obligation are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

### **Federal Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, they could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

### **E. Interfund Transactions**

The composition of interfund balances as of year end is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service Fund	General Fund	\$ 199,940

Interfund receivables and payables are considered to be temporary loans and will be repaid during the following year.

Transfers between governmental funds during the year were as follows:

Transfer Out	Transfer In	Amount
Traffic Mitigation Fund	General Fund	\$ 543,858

The traffic mitigation fund transfers revenues to the general fund to pay for eligible METRO activities during the year.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

### F. Restatement of Net Position

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for the net pension liability as of measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year, December 31, 2014.

The net position was restated as follows:

	<b>Governmental Activities</b>
Beginning net position - as reported	\$ 17,137,872
Net pension liability	(248,060)
Deferred outflows - pension	105,034
<b>Beginning Net Position - Restated</b>	<b>\$ 16,994,846</b>

## IV. OTHER INFORMATION

### A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation. The City has no additional risk or responsibility to the funds outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

### B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

### C. Pension Plan

#### Texas Municipal Retirement System

##### Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 TMRS 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 that can be obtained at [www.tmr.com](http://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 payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member’s deposits and interest.

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:

	2015	2014
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

### Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to, but not yet receiving benefits	16
Active employees	29
Total	54

### Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

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 were required to contribute five percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.06 percent and 6.28 percent in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended December 31, 2015 were \$112,907 and were equal to the required contributions.

### Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

### Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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.

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

### Discount Rate

The discount rate used to measure the TPL was seven percent. 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 TPL.

### Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	\$ 149,597	\$ -	\$ 149,597
Interest	290,630	-	290,630
Difference between expected and actual experience	(2,997)	-	(2,997)
Contributions - employer	-	105,034	(105,034)
Contributions - employee	-	86,662	(86,662)
Net investment income	-	222,250	(222,250)
Benefit payments, including refunds of employee contributions	(112,090)	(112,090)	-
Administrative expense	-	(2,320)	2,320
Other changes	-	(191)	191
<b>Net Changes</b>	<u>325,140</u>	<u>299,345</u>	<u>25,795</u>
Balance at December 31, 2013	4,133,103	3,885,043	248,060
<b>Balance at December 31, 2014</b>	<u><u>\$ 4,458,243</u></u>	<u><u>\$ 4,184,388</u></u>	<u><u>\$ 273,855</u></u>

# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

### Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of seven percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability (Asset)	\$ 846,377	\$ 273,855	\$ (203,480)

### 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.tmrs.com](http://www.tmrs.com).

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

For the fiscal year ended December 31, 2015, the City recognized pension expense of \$93,419.

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 2,352
Difference between projected and actual investment earnings	39,762	-
Contributions subsequent to the measurement date	112,907	-
<b>Total</b>	<b>\$ 152,669</b>	<b>\$ 2,352</b>

\$112,907 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 NPL for the fiscal year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 9,296
2017	9,296
2018	9,296
2019	9,522
<b>Total</b>	<b>\$ 37,410</b>

**CITY OF HEDWIG VILLAGE, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended December 31, 2015

**D. Other Post Employment Benefits**

**TMRS Supplemental Death Benefits Fund**

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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 post employment benefit,” or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended December 31, 2015, the City offered the supplemental death benefit to both active and retired employees.

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 2015, 2014, and 2013 were \$360, \$347, and \$138, respectively, which equaled the required contributions each year. The City’s contribution rate to the TMRS SDBF for the retiree portion for the past three years are shown below:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Annual Req. Contrib. (Rate)	0.02%	0.02%	0.01%
Actual Contribution Made	0.02%	0.02%	0.01%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

**E. Related Organizations and Joint Ventures**

On December 20, 1978, the City entered into an interlocal cooperation agreement with the cities of Bunker Hill Village, Hilshire Village, Hunters Creek Village, Piney Point Village, and Spring Valley Village, Texas, creating the Village Fire Department (VFD). The agreement ran for a period of 12 years beginning January 1, 1979 and ended December 31, 1990. Effective January 1, 1991, the agreement automatically renewed for a period of five years and will continue to renew on each expiration date unless terminated by at least one of the contracting cities. Under the terms of the agreement, the City is liable for 18.5 percent of VFD’s approved budget.



# CITY OF HEDWIG VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2015

Consolidated financial information of the VFD extracted from the audited financial statements for the year ended December 31, 2015, on which VFD's auditors expressed an unmodified opinion, are as follows:

	<u>VFD Total</u>		<u>City's Portion (18.5%)</u>	
	<u>Net Position</u>	<u>Balance Sheet</u>	<u>Net Position</u>	<u>Balance Sheet</u>
Total assets	\$ 2,260,579	\$ 920,294	\$ 418,207	\$ 170,254
Total deferred outflows of resources	394,824	-	73,042	-
Total liabilities	749,989	42,731	138,748	7,905
Total deferred inflows of resources	15,939	-	2,949	-
<b>Total Participants' Equity</b>	<u>\$ 1,889,475</u>	<u>\$ 877,563</u>	<u>\$ 349,553</u>	<u>\$ 162,349</u>
	<u>Change in</u>	<u>Revenues and</u>	<u>Change in</u>	<u>Revenues and</u>
	<u>Net Position</u>	<u>Expenditures</u>	<u>Net Position</u>	<u>Expenditures</u>
Total revenues	\$ 5,262,065	\$ 5,263,321	\$ 973,482	\$ 973,714
Total expenditures/expenses	5,299,140	5,041,864	980,341	932,745
Revenues over expenditures/expenses	(37,075)	221,457	(6,859)	40,970
Surplus refund to cities	(193,459)	(193,459)	(35,790)	(35,790)
Beginning participants' equity	2,120,009	849,565	392,202	157,170
<b>Ending Participants' Equity</b>	<u>\$ 1,889,475</u>	<u>\$ 877,563</u>	<u>\$ 349,553</u>	<u>\$ 162,349</u>

### F. Revenue Agreement with METRO

#### Revenue Allocation Agreement

Effective October 1, 2014, the City entered into an amended Congestion Mitigation/Traffic Management Agreement (the "Agreement") with METRO, which continues through December 31, 2025, unless terminated earlier per the provisions of the Agreement. Under the terms of the Agreement, the City will receive periodic payments in amounts equal to one-half of all available sales and use tax revenues collected by or for METRO within the corporate limits of the City. The City may utilize the funds for traffic-related projects and costs. The funds are accounted for in the Traffic Mitigation Fund.

### G. Health Insurance

In September 2007, the City entered into an agreement by and between the Memorial Villages Water Authority, the cities of Hunters Creek Village and Spring Valley Village and VFD to provide employee health insurance for the participants. The insurance agreement expired on December 31, 2013, and shall be automatically renewed for successive one year terms on January 1 of each succeeding year. Under the terms of the insurance agreement, each party is responsible for the monthly premiums covering that entity's employees and no entity is liable for any losses or damages caused by another participant.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended December 31, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Property taxes	\$ 1,098,451	\$ 1,098,451	\$ 1,159,904	\$ 61,453
Sales taxes	1,830,219	1,879,713	1,874,264	(5,449)
Franchise and other taxes	425,000	420,000	430,549	10,549
Licenses and permits	200,000	210,855	240,397	29,542
Fines and forfeitures	383,100	383,100	300,950	(82,150)
Investment income	1,500	1,500	1,279	(221)
Other revenue	120,115	142,953	57,731	(85,222)
<b>Total Revenues</b>	<u>4,058,385</u>	<u>4,136,572</u>	<u>4,065,074</u>	<u>(71,498)</u>
<b>Expenditures</b>				
General government	619,188	680,182	657,914	22,268
Public safety	3,609,757	3,502,626	3,293,264	209,362
Public works	558,796	619,320	607,802	11,518
Culture and recreation	56,644	55,844	54,731	1,113
Capital outlay	14,000	78,600	73,233	5,367
<b>Total Expenditures</b>	<u>4,858,385</u>	<u>4,936,572</u>	<u>4,686,944</u>	<u>249,628</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(800,000)</u>	<u>(800,000)</u>	<u>(621,870)</u>	<u>178,130</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	800,000	800,000	543,858	(256,142)
<b>Total Other Financing Sources</b>	<u>800,000</u>	<u>800,000</u>	<u>543,858</u>	<u>(256,142)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(78,012)</u>	<u>\$ (78,012)</u>
Beginning fund balance			<u>711,879</u>	
<b>Ending Fund Balance</b>			<u>\$ 633,867</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**TRAFFIC MITIGATION FUND**  
For the Year Ended December 31, 2015

	Original and Final Budgets	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Intergovernmental	\$ 800,000	\$ 937,132	\$ 137,132
Investment income	200	386	186
<b>Total Revenues</b>	800,200	937,518	137,318
<b><u>Expenditures</u></b>			
General government	200	-	200
<b>Total Expenditures</b>	200	-	200
<b>Excess of Revenues Over Expenditures</b>	800,000	937,518	137,518
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	(800,000)	(543,858)	256,142
<b>Total Other Financing (Uses)</b>	(800,000)	(543,858)	256,142
<b>Net Change in Fund Balance</b>	\$ -	393,660	\$ 393,660
Beginning fund balance		185,305	
<b>Ending Fund Balance</b>		\$ 578,965	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**POLICE SEIZURE FUND**  
For the Year Ended December 31, 2015

	Original and Final Budgets	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Fines and forfeitures	\$ 2,084	\$ 2,532	\$ 448
Investment income	-	3	3
<b>Total Revenues</b>	2,084	2,535	451
<b><u>Expenditures</u></b>			
Capital outlay	2,084	-	2,084
<b>Total Expenditures</b>	2,084	-	2,084
<b>Net Change in Fund Balance</b>	\$ -	2,535	\$ 2,535
Beginning fund balance		2,084	
<b>Ending Fund Balance</b>		\$ 4,619	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**

December 31, 2015

	<b>Measurement Year</b>
	<b>2014*</b>
<b>Total Pension Liability</b>	
Service cost	\$ 149,597
Interest (on the total pension liability)	290,630
Changes of benefit terms	-
Difference between expected and actual experience	(2,997)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(112,090)
<b>Net Change in Total Pension Liability</b>	<b>325,140</b>
Beginning total pension liability	4,133,103
<b>Ending Total Pension Liability</b>	<b>\$ 4,458,243</b>
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 105,034
Contributions - employee	86,662
Net investment income	222,250
Benefit payments, including refunds of employee contributions	(112,090)
Administrative expense	(2,320)
Other	(191)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>299,345</b>
Beginning plan fiduciary net position	3,885,043
<b>Ending Plan Fiduciary Net Position</b>	<b>\$ 4,184,388</b>
<b>Net Pension Liability</b>	<b>\$ 273,855</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	93.86%
<b>Covered Employee Payroll</b>	\$ 1,733,239
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	15.80%

\*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

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# CITY OF HEDWIG VILLAGE, TEXAS

## SCHEDULE OF CONTRIBUTIONS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

December 31, 2015

	Fiscal Year*	
	2014	2015
Actuarially determined contribution	\$ 105,034	\$ 112,907
Contributions in relation to the actuarially determined contribution	105,034	112,907
Contribution deficiency (excess)	\$ -	\$ -
 Covered employee payroll	 \$ 1,733,239	 \$ 1,797,877
 Contributions as a percentage of covered employee payroll	 6.06%	 6.28%

\*Only two years of information is currently available. The City will build this schedule over the next eight-year period.

#### Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	16 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.50% to 12.0% including inflation
Investment rate of return	7.0%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

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***SUPPLEMENTARY INFORMATION***

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**CITY OF HEDWIG VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**

For the Year Ended December 31, 2015

	<b>Original Budgets</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 420,281	420,281	\$ 413,286	\$ (6,995)
Investment income	144	144	405	261
<b>Total Revenues</b>	420,425	420,425	413,691	(6,734)
<b>Expenditures</b>				
Debt service:				
Principal	400,000	400,000	400,000	-
Interest and fiscal charges	20,425	113,425	113,165	260
<b>Total Expenditures</b>	420,425	513,425	513,165	260
<b>Net Change in Fund Balance</b>	\$ -	\$ (93,000)	(99,474)	\$ (6,474)
Beginning fund balance			459,559	
<b>Ending Fund Balance</b>			\$ 360,085	

Notes to Other Supplementary Information

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