

CITY OF HEREFORD, TEXAS

FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT

SEPTEMBER 30, 2015

CITY OF HEREFORD, TEXAS

SEPTEMBER 30, 2015

<u>CONTENTS</u>	<u>PAGE</u>
FINANCIAL SECTION	
Independent Auditors' Report	3
<u>Basic Financial Statements:</u>	
Statement of Net Position	5
Statement of Activities	6
Balance Sheet - Governmental Funds	8
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	10
Statement of Net Position - Water and Sewer Fund	12
Statement of Revenues, Expenses, and Changes in Fund Net Position - Water and Sewer Fund	13
Statement of Cash Flows - Water and Sewer Fund	14
Statement of Fiduciary Net Position	16
Statement of Changes in Fiduciary Net Position	17
Notes to Financial Statements	18
SUPPLEMENTAL INFORMATION SECTION	
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (GAAP Basis) and Actual - General Fund	36
Schedule of Changes in Net Pension Liability and Related Ratios	37
Schedule of Employer Contributions	38
Combining Balance Sheet - Nonmajor Governmental Funds	39
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	40
Schedule of Valuation and General Obligation Debt History	41
Schedule of Tax Rate, Levy and Collection History	42
Schedule of General Obligation Debt Service Requirements	43
Schedule of Other General Debt Obligations	44
General Fund Revenues and Expenditures History	45
Schedule of Current Investments	46
Water and Sewer Fund Condensed Statement of Operations	47

FINANCIAL SECTION

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Commission
City of Hereford, Texas

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

Management's Responsibility for the Financial Statements

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

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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hereford, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



McGinty & Associates, LLP
Certified Public Accountants

205 W. 4th Street, Suite 201
Hereford, Texas 79045
(806) 364-6432

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of changes in net pension liability and related ratios, and the schedule of employer contributions on pages 36 through 38 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 the 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.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hereford, Texas' basic financial statements. The combining statements and other supplemental schedules on pages 39 through 47 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

McBerty + Associates LLP

Hereford, Texas
February 5, 2016

CITY OF HEREFORD, TEXAS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	<u>Primary Government</u>			Component Unit HEDC
	<u>Govern- Mental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	
<u>ASSETS</u>				
Cash.....	\$ 113,781	\$ 2,761,444	\$ 2,875,225	\$ 1,352,619
Investments.....	479,009	2,915,746	3,394,755	2,320,525
Receivables (Net):				
Property Taxes	55,678	-	55,678	-
Accounts	238,874	513,806	752,680	-
Notes	-	-	-	60,000
Other	8,858	-	8,858	403
Internal Balances.....	833,620	(833,620)	-	-
Due from Component Unit....	12,338	-	12,338	-
Inventories.....	25,959	158,803	184,762	-
Restricted Assets.....	-	41,733	41,733	-
Capital Assets:				
Non-Depreciable	648,618	2,346,066	2,994,684	137,220
Depreciable, Net	7,733,489	10,590,434	18,323,923	15,712
Total Assets	<u>10,150,224</u>	<u>18,494,412</u>	<u>28,644,636</u>	<u>3,886,479</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
RELATED TO PENSIONS.....	<u>392,341</u>	<u>111,663</u>	<u>504,004</u>	<u>11,285</u>
<u>LIABILITIES</u>				
Bank Overdraft.....	33,156	-	33,156	-
Accounts Payable.....	499,508	265,321	764,829	331
Accrued Liabilities.....	-	42,674	42,674	-
Deferred Revenue.....	-	38,718	38,718	-
Due to Primary Government..	-	-	-	12,338
Non-Current Liabilities:				
Due Within One Year	227,703	1,085,000	1,312,703	-
Due in More Than One Year	479,967	2,259,436	2,739,403	-
Net Pension Liability ...	1,536,379	437,265	1,973,644	44,191
Deposits.....	-	275,389	275,389	-
Total Liabilities	<u>2,776,713</u>	<u>4,403,803</u>	<u>7,180,516</u>	<u>56,860</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
RELATED TO PENSIONS.....	<u>84,912</u>	<u>24,167</u>	<u>109,079</u>	<u>2,442</u>
<u>NET POSITION</u>				
Net Investment in				
Capital Assets	7,674,437	9,592,064	17,266,501	152,932
Restricted for:				
Debt Service	-	41,733	41,733	-
Police	7,622	-	7,622	-
Parks	45,374	-	45,374	-
Unrestricted.....	<u>(46,493)</u>	<u>4,544,308</u>	<u>4,497,815</u>	<u>3,685,530</u>
Total Net Position	<u>\$ 7,680,940</u>	<u>\$14,178,105</u>	<u>\$21,859,045</u>	<u>\$ 3,838,462</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015

	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>FUNCTIONS/PROGRAMS:</u>					
Primary Government:					
Governmental Activities:					
General Government	\$ 835,191	\$ 399,520	\$ -	\$ -	\$ (435,671)
Public Safety	3,263,516	244,020	2,237	44,500	(2,972,759)
Streets and Public Works	1,632,025	28,072	-	257,366	(1,346,587)
Sanitation and Health	1,574,352	2,133,814	-	-	559,462
Parks and Recreation	1,682,385	331,480	65,308	-	(1,285,597)
Airport	329,010	178,904	-	-	(150,106)
Total Governmental	9,316,479	3,315,810	67,545	301,866	(5,631,258)
Activities					
Business-Type Activities:					
Water and Sewer Utilities	3,626,085	5,526,341	-	-	1,900,256
Total Business-Type	3,626,085	5,526,341	-	-	1,900,256
Activities					
Total Primary Government	\$12,942,564	\$ 8,842,151	\$ 67,545	\$ 301,866	\$ (3,731,002)
Component Unit:					
Hereford Economic					
Development Corp.	\$ 207,314	-	-	-	(207,314)
Total Component Units	\$ 207,314	-	-	-	\$ (207,314)

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITIES (continued)
YEAR ENDED SEPTEMBER 30, 2015

	Primary Government		Component
	Governmental	Business-	Unit
	Activities	Type	HEDC
	Activities	Activities	Total
Net (Expense) Revenue ...	\$ (5,631,258)	\$ 1,900,256	\$ (3,731,002) \$ (207,314)
General Revenues:			
Taxes:			
Property Taxes	1,752,830	-	1,752,830
Sales Taxes	1,500,401	-	1,500,401
Franchise Taxes	1,102,318	-	1,102,318
Motel Occupancy Taxes ..	170,647	-	170,647
Lease Income	-	113,515	113,515
Interest Income	2,253	18,139	20,392
Miscellaneous	37,174	-	37,174
Sale of Assets	31,662	-	31,662
Transfers	1,880,925	(1,880,925)	-
Total General Revenues	6,478,210	(1,749,271)	4,728,939
and Transfers	846,952	150,985	997,937
Change in Net Position	8,133,363	14,396,932	22,530,295
Net Position - Beginning	(1,299,375)	(369,812)	(1,669,187)
Prior Period Adjustment			(37,373)
Net Position - Beginning	6,833,988	14,027,120	20,861,108
as Restated	\$ 7,680,940	\$ 14,178,105	\$ 21,859,045
Net Position - Ending			\$ 3,838,462

CHANGE IN NET POSITION:

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>			
Cash.....	\$ 26,312	\$ 87,469	\$ 113,781
Investments.....	479,009	-	479,009
Receivables (Net):			
Property Taxes	55,678	-	55,678
Accounts	238,874	-	238,874
Other	5,512	3,346	8,858
Due from Other Funds.....	880,755	5,040	885,795
Due from Component Unit.....	12,338	-	12,338
Inventories.....	25,959	-	25,959
	<u>\$1,724,437</u>	<u>\$ 95,855</u>	<u>\$1,820,292</u>
 <u>LIABILITIES</u>			
Bank Overdraft.....	\$ 33,156	\$ -	\$ 33,156
Accounts Payable.....	496,162	3,346	499,508
Due to Other Funds.....	5,040	47,135	52,175
Total Liabilities	<u>534,358</u>	<u>50,481</u>	<u>584,839</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Property Tax Revenue	52,594	-	52,594
Total Deferred Inflows of Resources	<u>52,594</u>	<u>-</u>	<u>52,594</u>
 <u>FUND BALANCES</u>			
Nonspendable:			
Inventories	25,959	-	25,959
Restricted for:			
Police	7,622	-	7,622
Parks	-	45,374	45,374
Unassigned.....	1,103,904	-	1,103,904
Total Fund Balances	<u>1,137,485</u>	<u>45,374</u>	<u>1,182,859</u>
 Total Liabilities and Fund Balances	 <u>\$1,724,437</u>	 <u>\$ 95,855</u>	 <u>\$1,820,292</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS (continued)
SEPTEMBER 30, 2015

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION:

Total Fund Balance - Total Governmental Funds	\$1,182,859
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$20,653,898, net of accumulated depreciation of \$12,271,791 are not financial resources and, therefore, are not reported in governmental funds	8,382,107
Deferred outflows of resources in the amount of \$392,341, are not available financial resources and, therefore, are not reported in governmental funds	392,341
Long-term property tax receivables are not available to pay current period expenditures and, therefore, are unavailable in governmental funds	52,594
Long-term liabilities of \$707,670 are not due and payable in the current period and are not reported in governmental funds	(707,670)
Net pension liability of \$1,536,379 is not due and payable in the current period and is not reported in governmental funds	(1,536,379)
Deferred inflows of resources in the amount of \$84,912, are not due and payable in the current Period and are not reported in governmental funds	<u>(84,912)</u>
Net Position of Governmental Activities	<u>\$7,680,940</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Other Governmental Funds	Total
<u>REVENUES:</u>			
Property Taxes.....	\$1,747,963	\$ -	\$1,747,963
Sales Taxes.....	1,500,401	-	1,500,401
Franchise Taxes.....	1,102,318	-	1,102,318
Motel Occupancy Taxes.....	170,647	-	170,647
Charges for Services.....	3,315,810	-	3,315,810
Grant Revenue.....	46,737	257,366	304,103
Interest Income.....	2,139	114	2,253
Contributions.....	25,277	40,031	65,308
Miscellaneous Revenue.....	37,174	-	37,174
	7,948,466	297,511	8,245,977
<u>EXPENDITURES:</u>			
Current:			
General Government	813,606	-	813,606
Public Safety	2,996,518	-	2,996,518
Streets and Public Works	1,440,346	-	1,440,346
Sanitation and Health	1,574,514	-	1,574,514
Parks and Recreation	1,487,745	12,497	1,500,242
Airport	280,190	-	280,190
Capital Outlays.....	1,822,124	310,416	2,132,540
Debt Service:			
Principal Retirement	237,935	-	237,935
Interest Charges	16,660	-	16,660
	10,669,638	322,913	10,992,551
<u>EXCESS (DEFICIT) OF REVENUES</u>			
<u>OVER EXPENDITURES.....</u>	(2,721,172)	(25,402)	(2,746,574)
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfers In.....	2,150,000	53,050	2,203,050
Loan Proceeds.....	579,528	-	579,528
Sale of Assets.....	31,662	-	31,662
	2,761,190	53,050	2,814,240
<u>NET CHANGE IN FUND BALANCES</u>	40,018	27,648	67,666
<u>FUND BALANCES:</u>			
Beginning of Year.....	1,097,467	17,726	1,115,193
End of Year.....	\$1,137,485	\$ 45,374	\$1,182,859

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS (continued)
YEAR ENDED SEPTEMBER 30, 2015

RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES:

Net Change in Fund Balances - Total Governmental Funds \$ 67,666

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 Outlays	2,132,540
Depreciation Expense	(764,828)

Governmental funds report payments to the retirement plan as expenditures; however, in the statement of activities, pension expense is recorded in accordance with GASB 68:

Retirement Plan Payments	274,808
Pension Expense	(204,383)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Change in unavailable deferred property tax revenue	4,867
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Governmental funds do not report transfers of capital assets to business-type funds in the fund statements, however, the business-type funds report these transfers as an addition to capital assets as transfers from the governmental funds. This is the amount of water system improvements constructed through the Capital Projects Fund transferred to the Water and Sewer Fund.....

(322,125)

The proceeds of debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:

Loan Proceeds	(579,528)
Debt Repayments	<u>237,935</u>

Change in Net Position of Governmental Activities \$ 846,952

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF NET POSITION - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2015

CURRENT ASSETS

Cash.....	\$ 2,761,444
Investments.....	2,915,746
Receivables (Net):	
Accounts	513,806
Due from Other Funds.....	47,135
Inventories.....	158,803
	<u>6,396,934</u>

NONCURRENT ASSETS

Restricted Assets.....	41,733
Capital Assets:	
Non-Depreciable	2,346,066
Depreciable, Net	10,590,434
	<u>12,978,233</u>
 Total Assets	 <u>19,375,167</u>

DEFERRED OUTFLOWS OF RESOURCES

<u>RELATED TO PENSIONS</u>	<u>111,663</u>
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CURRENT LIABILITIES

Accounts Payable.....	265,321
Accrued Liabilities.....	42,674
Due to Other Funds.....	880,755
Deferred Revenue.....	38,718
Long-Term Debt, Amounts Due Within One Year.....	1,085,000
	<u>2,312,468</u>

NONCURRENT LIABILITIES

Long-Term Debt, Amounts Due in More Than One Year.....	2,259,436
Net Pension Liability.....	437,265
Deposits.....	275,389
	<u>2,972,090</u>
 Total Liabilities	 <u>5,284,558</u>

DEFERRED INFLOWS OF RESOURCES

<u>RELATED TO PENSION</u>	<u>24,167</u>
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NET POSITION

Net Investment in Capital Assets.....	9,592,064
Restricted for Debt Service.....	41,733
Unrestricted.....	4,544,308
	<u>14,178,105</u>
 Total Net Position	 <u>\$14,178,105</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET POSITION - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2015

OPERATING REVENUES:

Water Billings.....	\$ 3,944,886
Sewer Billings.....	1,395,008
Penalties.....	170,425
Service Taps.....	11,344
Miscellaneous.....	4,678
	<u>5,526,341</u>

OPERATING EXPENSES:

Personnel Cost.....	1,146,079
Depreciation and Amortization.....	676,379
Heat, Light and Power.....	658,017
Repairs and Maintenance.....	585,274
Insurance.....	159,580
Supplies and Chemicals.....	151,079
Fuel.....	39,937
Water Purchases.....	36,787
Telephone.....	29,144
Dues and Fees.....	23,478
Lab Expense.....	11,707
Travel.....	10,723
Uniforms.....	9,832
Property Taxes.....	6,240
Miscellaneous.....	5,600
Rents.....	2,448
	<u>3,552,304</u>

Income from Operations..... 1,974,037

NONOPERATING REVENUES (EXPENSES):

Lease Income.....	113,515
Interest Income.....	18,139
Interest and Fiscal Charges.....	(73,781)
	<u>57,873</u>

Income Before Transfers..... 2,031,910

Transfers In..... 322,125
Transfers Out..... (2,203,050)

CHANGE IN NET POSITION..... 150,985

Net Position - Beginning..... 14,396,932

Prior Period Adjustment..... (369,812)

Net Position - Beginning as Restated..... 14,027,120

Net Position - Ending..... \$14,178,105

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Customers.....	\$5,498,247
Other Operating Receipts.....	4,678
Cash Paid to Suppliers for Goods and Services.....	(1,877,963)
Cash Payments to Employees for Services.....	<u>(985,243)</u>
Net Cash Provided by (Used for) Operations.....	<u>2,639,719</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Rents Received.....	123,903
Transfers from Reserve Funds.....	499,050
Transfers to Other Funds.....	(2,203,050)
Transfers to Reserve Funds.....	<u>(498,700)</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(2,078,797)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and Construction of Capital Assets.....	(510,324)
Principal Paid on Bond Maturities.....	(430,000)
Interest and Fees Paid on Long-Term Debt.....	<u>(69,050)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,009,374)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment Income.....	17,847
Purchase of Certificates of Deposit.....	<u>(10,527)</u>
Net Cash Provided by (Used for) Investing Activities.....	<u>7,320</u>

NET INCREASE (DECREASE) IN CASH

Cash, Beginning of Year.....	<u>3,202,576</u>
Cash, End of Year.....	<u>\$2,761,444</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND (continued)
YEAR ENDED SEPTEMBER 30, 2015

RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO
NET CASH PROVIDED BY (USED FOR) OPERATIONS:

Income (Loss) from Operations	\$1,974,037
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:	
Depreciation	676,379
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(81,847)
(Increase) Decrease in Inventory	(24,986)
Increase (Decrease) in Pension Related Accounts	(20,043)
Increase (Decrease) in Water Deposits	11,296
Increase (Decrease) in Accounts Payable	104,851
Increase (Decrease) in Accrued Property Taxes	<u>32</u>
Net Cash Provided by (Used for) Operations	<u>\$2,639,719</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2015

	<u>Employee Retirement Fund</u>
<u>ASSETS</u>	
Cash.....	\$ 31
Deferred Compensation Plan Assets.....	<u>136,554</u>
	<u>136,585</u>
<u>LIABILITIES</u>	
Due to General Fund.....	<u>31</u>
<u>NET POSITION</u>	
Held in Trust for Employee Retirement.....	<u>\$ 136,554</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2015

	Employee Retirement Fund
<u>ADDITIONS</u>	
Employee Contributions.....	\$ 3,825
Investment Income.....	4,198
Total Additions	<u>8,023</u>
 <u>DEDUCTIONS</u>	
Benefits.....	1,917
Administrative Expenses.....	740
Total Deductions	<u>2,657</u>
 Change in Net Position	 5,366
Net Position - Beginning	<u>131,188</u>
Net Position - Ending	<u>\$ 136,554</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Hereford operates under a Council-Manager form of government and provides the following services: public safety, streets, sanitation and health, culture and recreation, public improvements, planning and zoning, airport operations, water and sewer utilities, and general administrative service. The following is a summary of the more significant policies:

A. The Reporting Entity:

The accompanying financial statements present the City's primary government and the component unit, Hereford Economic Development Corporation (HEDC), over which the City exercises significant influence. Significant influence or accountability is based on operational or financial relationships with the City (as distinct from legal relationships). The HEDC was incorporated in 1994 for the purpose of providing economic assistance to businesses located in or relocating to the City of Hereford and the surrounding area. Separate financial statements for the HEDC are not issued.

B. Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns with composite columns for non-major funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and 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 tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

D. Fund Types and Major Funds:

The City considers its General Fund and its Water and Sewer Fund to be major funds.

General Fund:

The General Fund is the primary fund of the City. It is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific resources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds:

Capital Project Funds account for financial resources to be used for the acquisition and construction of major capital facilities, which are not financed by the Water and Sewer Fund.

Water and Sewer Fund:

The Water and Sewer Fund is used to account for operations of the utility system, which is financed and operated in a manner similar to private business enterprises. For the purpose of its statement of cash flows, the City considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Fiduciary Funds (not included in government-wide statements):

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, or other funds.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

E. Capital Assets and Depreciation:

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, except for street paving, curbs and gutters. The City is not required to retroactively capitalize infrastructure and has not done so for governmental funds infrastructure. The City, however, will prospectively capitalize all infrastructure. The City's property, plant, equipment, and infrastructure are comprehensively reported in the government-wide statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend the useful lives are not capitalized. Capital assets, including those of the component unit, are depreciated using the straight-line method over the estimated useful lives of the assets. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the operations.

Estimated useful lives are as follows:

Buildings	40 Years
Improvements, Other than Buildings	10-40 Years
Machinery and Equipment	5-20 Years

F. Long-Term Debt:

In the government-wide and proprietary fund financial statements, outstanding debts are reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period and repayments of debt as expenditures of the current period.

G. Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Inventories:

Inventories are stated at the lower of cost (first-in, first-out method) or market.

I. Date of Management's Review:

Management has evaluated subsequent events through February 5, 2016, the date the financial statements were available to be issued.

J. Proprietary Fund Revenues and Expenses:

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges for water and sewer services. Operating expenses for the Water and Sewer Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

K. Restricted Resources:

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

L. FUND EQUITY:

In the government-wide and proprietary fund financial statements, equity is classified as net position and displayed in three components:

- 1) Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- 2) Restricted net position consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through enabling legislation.
- 3) Unrestricted net position consists of all other assets that do not meet the definition of "restricted" or "net investment in capital assets."

In the governmental funds financial statements, equity is classified as fund balance. Fund balance is further classified as follows:

- 1) Nonspendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.
- 2) Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to enabling legislation.
- 3) Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision making authority. The City Council is the highest level of decision making authority 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 by the City Council is taken to remove or revise the limitation.
- 4) Assigned includes fund balance amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the City Council. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.
- 5) Unassigned includes the residual balance of the General Fund that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

M. Pensions:

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

NOTE 2 - BUDGETS AND ACCOUNTABILITY:

The City Manager submits an annual budget in accordance with applicable state laws and regulations. The budget is presented to the City Commission for review, and public hearings are held to address priorities and the allocation of resources. Before the start of the next fiscal year, the City Commission adopts the budget for City operating funds. Once approved, the City Commission may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

NOTE 3 - RESTRICTED ASSETS:

The Water and Sewer Fund has \$41,733 in cash, which is restricted for debt service of bonds payable in accordance with bond ordinances.

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE:

Significant receivables include amounts due from customers primarily for utility services and trash collection, and amounts due from property taxes receivable. Allowances for non-collectible accounts have been recorded based on the estimated amount of uncollectible accounts. The allowance in the general fund is \$26,706 and the allowance in the Water and Sewer Fund is \$39,472.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

In the governmental fund financial statements, property taxes receivable are recorded at the total amount of delinquent taxes owed at the fiscal year end. If delinquent taxes are not paid within 60 days of the fiscal year end, they are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when the cash is received. Over time, substantially all property taxes are collected.

NOTE 5 - NOTES RECEIVABLE:

Notes receivable in the component unit, Hereford Economic Development Corporation, consist of the following:

Note receivable from Premiere Cinema Corp. in the original amount of \$75,000 to be forgiven at the rate of \$15,000 per year, with no interest, each year Premiere Cinema Corp. maintains commercial operations, beginning August 31, 2014 and ending August 31, 2019, unsecured.....	<u>\$60,000</u>
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CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM DEBT:

Long-term debt of the Governmental Funds as of September 30, 2015, consists of the following:

	<u>Balance</u> <u>9-30-14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9-30-15</u>	<u>Due Within</u> <u>One Year</u>
First Financial Bank, monthly payments of \$6,363, including interest at 3.00%, through February 2015, secured by compactor	\$ 31,471	\$ -	\$(31,471)	\$ -	\$ -
First Financial Bank, monthly payments of \$7,061, including interest at 2.25%, through October 2019, secured by fire truck	-	400,000	(69,969)	330,031	78,111
First Financial Bank, monthly payments of \$2,903, including interest at 2.25%, through December 2018, secured by golf carts	138,333	-	(32,027)	106,306	32,781
First Financial Bank, monthly payments of \$3,169, including interest at 2.25%, through March 2020, secured by dump trucks	-	179,528	(17,051)	162,477	34,729
First Financial Bank, monthly payments of \$3,736, including interest at 2.50%, through July 2016, secured by golf course equipment	80,206	-	(43,315)	36,891	36,891
First Financial Bank, monthly payments of \$3,869, including interest at 2.40%, through April 2017, secured by street sweeper	<u>116,067</u>	<u>-</u>	<u>(44,102)</u>	<u>71,965</u>	<u>45,191</u>
	<u>\$366,077</u>	<u>\$579,528</u>	<u>\$(237,935)</u>	<u>\$707,670</u>	<u>\$227,703</u>

Future maturities of long-term debt of the Governmental Funds are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$227,703	\$ 13,633	\$241,336
2017	175,705	8,881	184,586
2018	152,317	5,282	157,599
2019	126,423	2,066	128,489
2020	<u>25,522</u>	<u>135</u>	<u>25,657</u>
	<u>\$707,670</u>	<u>\$ 29,997</u>	<u>\$737,667</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 - LONG-TERM DEBT (continued):

Long-term debt of the Water and Sewer Fund as of September 30, 2015, consists of the following:

	<u>Balance</u> <u>9-30-14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9-30-15</u>	<u>Due Within</u> <u>One Year</u>
First Financial Bank, annual payments of \$320,000, plus interest at 1.84%, through August 2019, secured by certificates of deposit	\$1,600,000	\$ -	\$ -	\$1,600,000	\$ 640,000
Water and Sewer 2010 series general obligation refunding bonds, dated Oct. 1, 2010, due in annual installments through Sep. 1, 2020, bearing interest rates of 2.00% to 4.00%	1,450,000	-	(215,000)	1,235,000	225,000
Water and Sewer 2010 series combination tax and revenue certificates of obligation, dated Oct. 1, 2010, due in annual installments through Sep. 1, 2017, bearing interest rates of 2.00% to 3.00%	665,000	-	(215,000)	450,000	220,000
	<u>3,715,000</u>	-	<u>(430,000)</u>	<u>3,285,000</u>	<u>\$1,085,000</u>
Plus unamortized premium on 2010 bonds and certificates	83,792	-	(24,356)	59,436	
	<u>\$3,798,792</u>	<u>\$ -</u>	<u>\$ (454,356)</u>	<u>\$3,344,436</u>	

Future maturities of long-term debt of the Water and Sewer Fund are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$1,085,000	\$ 112,682	\$1,197,682
2017	785,000	62,859	847,859
2018	565,000	42,940	607,940
2019	580,000	27,170	607,170
2020	270,000	10,800	280,800
	<u>\$3,285,000</u>	<u>\$ 256,451</u>	<u>\$3,541,451</u>

Revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The City is in compliance with all significant bond indentures and restrictions.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 - COMPENSATED ABSENCES:

Employees of the City of Hereford are entitled to paid vacation days and paid sick days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. It is the policy of the City to recognize the costs of compensated absences when actually paid to employees.

NOTE 8 - CITY FARM LEASE:

The City owns farm land near its wastewater treatment facility and leases this land to an individual for agricultural purposes. The lease term is for one year beginning January 1, 2015, with an annual rental of \$62,500. The City also owns farm land north of town and leases this land to an individual for agricultural purposes as well. The lease term is for five years beginning January 1, 2015, with an annual rental of \$36,553. The lessee may terminate this agreement upon sixty days prior written notice.

NOTE 9 - WATER TOWER LEASE:

The City leases space on one of its water towers to a company for the operation of communications equipment. The initial term of the lease was for a period of ten years, beginning April 2001, with the lessee having the option to renew the lease for four additional periods of five years each. The annual lease is currently \$11,109, and the annual lease will be increased by 15% for each renewal period. The lessee may terminate this agreement upon thirty days prior written notice.

NOTE 10 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and other claims of various natures. The City purchases insurance from Texas Municipal League Intergovernmental Risk Pool (TML-IRP) to indemnify it in the event of loss. The City pays annual premiums for such coverage. TML-IRP purchases re-insurance, and the City does not retain risk of loss exceeding deductibles. The City has had no significant reduction in insurance coverage from the previous year and claims have not exceeded coverage in the last three years.

NOTE 11 - DEFERRED INFLOWS OF RESOURCES:

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 only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable property tax revenue*, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 - DEPOSITS AND INVESTMENTS:

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

The City's cash deposits at September 30, 2015, were entirely covered by FDIC insurance and pledged collateral held by the agent bank.

Investments

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) local government investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2015, are shown as follows:

<u>Type of Security</u>	<u>Fair Value</u>	<u>Percentage of Total</u>	<u>Credit Rating</u>	<u>Investment Maturity</u>
<u>Primary Government:</u>				
Certificates of Deposit	<u>\$3,394,755</u>	<u>100.00%</u>	N/A	Less than one year
<u>Component Unit:</u>				
Certificates of Deposit	<u>\$2,320,525</u>	<u>100.00%</u>	N/A	Less than one year

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 12 - DEPOSITS AND INVESTMENTS (continued):

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk. At September 30, 2015, the City's investments are rated as to credit quality as shown above.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by deposit insurance plus the amount of the pledged surety bond. At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single user. At year end, the City's exposure to concentration of credit risk is shown above as the percentage of each investment type.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City's exposure to interest rate risk is summarized in the above table. Since the investment is a zero coupon bond, the rate of return is guaranteed and the City is not exposed to any interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing or the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 13 - CAPITAL ASSETS:

Following is a summary of the capital asset activity for the year ended September 30, 2015:

	<u>Beginning</u> <u>Of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>End</u> <u>Of Year</u>
<u>Primary Government:</u>				
<u>Governmental Activities:</u>				
<u>Non-Depreciable Assets:</u>				
Land.....	\$ 619,289	\$ -	\$ -	\$ 619,289
Construction in Progress	79,714	1,179,948	(1,230,333)	29,329
<u>Depreciable Assets:</u>				
Buildings.....	2,849,817	37,411	-	2,887,228
Improvements.....	6,849,674	1,025,006	-	7,874,680
Machinery & Equipment.	8,444,989	798,383	-	9,243,372
	<u>18,843,483</u>	<u>3,040,748</u>	<u>(1,230,333)</u>	<u>20,653,898</u>
Accumulated Depreciation	<u>11,506,963</u>	<u>764,828</u>	<u>-</u>	<u>12,271,791</u>
Governmental Activities				
Net Capital Assets	<u>\$ 7,336,520</u>	<u>\$ 2,275,920</u>	<u>\$ (1,230,333)</u>	<u>\$ 8,382,107</u>
<u>Business-Type Activities:</u>				
<u>Non-Depreciable Assets:</u>				
Land.....	\$ 2,300,995	\$ -	\$ -	\$ 2,300,995
Construction in Progress	86,323	43,959	(85,211)	45,071
<u>Depreciable Assets:</u>				
Buildings.....	808,840	106,047	-	914,887
Water and Sewer System	20,975,630	407,336	-	21,382,966
Machinery & Equipment.	1,872,704	109,154	-	1,981,858
	<u>26,044,492</u>	<u>666,496</u>	<u>(85,211)</u>	<u>26,625,777</u>
Accumulated Depreciation	<u>13,012,898</u>	<u>676,379</u>	<u>-</u>	<u>13,689,277</u>
Business-Type Activities				
Net Capital Assets	<u>\$13,031,594</u>	<u>\$ (9,883)</u>	<u>\$ (85,211)</u>	<u>\$12,936,500</u>
Primary Government Net				
Capital Assets	<u>\$20,368,114</u>	<u>\$ 2,266,037</u>	<u>\$ (1,315,544)</u>	<u>\$21,318,607</u>
<u>Component Unit:</u>				
Hereford Economic Development Corp:				
<u>Non-Depreciable Assets:</u>				
Land.....	\$ -	\$ 137,220	\$ -	\$ 137,220
<u>Depreciable Assets:</u>				
Furniture & Equipment.	40,061	-	-	40,061
	<u>40,061</u>	<u>137,220</u>	<u>-</u>	<u>177,281</u>
Accumulated Depreciation	<u>21,681</u>	<u>2,668</u>	<u>-</u>	<u>24,349</u>
Component Units Net				
Capital Assets	<u>\$ 18,380</u>	<u>\$ 134,552</u>	<u>\$ -</u>	<u>\$ 152,932</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 13 - CAPITAL ASSETS (continued):

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 29,667
Public Safety	296,729
Streets and Public Works ..	196,760
Sanitation and Health	560
Parks and Recreation	190,576
Airport	<u>50,536</u>
	<u>\$764,828</u>

NOTE 14 - DEFERRED COMPENSATION PLAN:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. PEBSICO is the independent plan administrator. Employees who choose to participate may elect the amount of their contributions, within legal limits, and defer federal income taxation on that portion of their salaries and the earnings thereon. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Under the terms of IRC Section 457, the employee's contributions and all income attributable to the investment of such amounts are the property of the City until paid or made available to the participants or their beneficiaries. The plan assets represent a general liability of the City to its employees whose rights to the fair market value of their participant shares are equal to the rights of other general creditors.

It is the City's opinion that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 15 -- INTERNAL BALANCES AND TRANSFERS:

Internal balances result from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There are no interfund balances that are not expected to be repaid by September 30, 2016. Following is a summary of interfund balances:

	Due From:			
Due To:	General Fund	Other Gov't Funds	Water & Sewer Fund	Total
General Fund	\$ -	\$ -	\$880,755	\$880,755
Other Gov't Funds	5,040	-	-	5,040
Water and Sewer Fund	-	47,135	-	47,135
	<u>\$ 5,040</u>	<u>\$ 47,135</u>	<u>\$880,755</u>	<u>\$932,930</u>

The City makes transfers from the Water and Sewer Fund to the General Fund to subsidize expenses of the General Fund when considered necessary by city management. During the year the City transferred \$2,150,000 from the Water and Sewer Fund to the General Fund. The City also transferred \$53,050 from its Water and Sewer Fund to its Capital Projects Fund for part of its matching requirement on a water facility improvement grant.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 16 - EMPLOYEE RETIREMENT PLAN:

A. Plan Description

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

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

B. 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% 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 of the City were as follows:

Employee Deposit Rate	5.0%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as age/years of service)	60/5,0/25
Updated Service Credits	100% Repeating Transfers
Annuity Increase (to retirees)	70% 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	38
Inactive employees entitled to but not yet receiving benefits	33
Active employees	<u>89</u>
Total	<u>160</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

NOTE 16 - EMPLOYEE RETIREMENT PLAN (continued):

C. Contributions

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

Employees of the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.95% and 10.67% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$488,822, and were equal to the required contributions.

D. 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 Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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 Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

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

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 16 - EMPLOYEE RETIREMENT PLAN (continued):

D. Net Pension Liability (continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	<u>100.00%</u>	

Discount Rate

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

Changes in the Net Pension Liability

Following is a summary of the changes in Net Pension Liability/(Asset):

	<u>Total Pension Liability (a)</u>	<u>Fiduciary Net Pension Position (b)</u>	<u>Net Pension Liability/ (Asset) (a) - (b)</u>
Balance at 12/31/2013	\$17,135,157	\$15,081,858	\$ 2,053,299
Changes for the Year:			
Service Cost	455,019	-	455,019
Interest on Total Pension Liability	1,189,397	-	1,189,397
Changes of Benefit Terms	-	-	-
Difference in Expected/Actual Experience	(135,529)	-	(135,529)
Changes of Assumptions	-	-	-
Benefit Payments, Including Refunds	(742,564)	(742,564)	-
Contributions - Employer	-	474,595	(474,595)
Contributions - Employee	-	216,731	(216,731)
Net Investment Income	-	862,774	(862,774)
Administrative Expenses	-	(9,008)	9,008
Other	-	(741)	741
Balance at 12/31/2014	<u>\$17,901,480</u>	<u>\$15,883,645</u>	<u>\$ 2,017,835</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 16 - EMPLOYEE RETIREMENT PLAN (continued):

D. Net Pension Asset (continued)

Sensitivity Analysis

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

	<u>1%</u>	<u>Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount</u>	<u>Increase</u>
		<u>Rate</u>	
Net Pension Liability/(Asset)	\$4,630,786	\$2,017,835	\$ (119,253)

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.

E. Pension Expense and Deferred Inflows/Outflows of Resources

Pension Expense

For the year ended September 30, 2015, the City recognized pension expense of \$396,287 calculated as follows:

Service Cost	\$ 455,019
Interest on Total Pension Liability	1,189,397
Current Period Benefit Changes	-
Employee Contributions	(216,731)
Projected Earnings on Plan Investments	(1,055,730)
Administrative expenses	9,008
Other Changes in Fiduciary Net Position	741
Recognition of Current Year Outflow(Inflow) of Resources:	
Liabilities	(24,008)
Assets	38,591
Amortization of Prior Year Outflows(Inflows) of Resources:	
Liabilities	-
Assets	-
 Total Pension Expense	 <u>\$ 396,287</u>

Deferred Inflows/Outflows of Resources

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

	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>
	<u>of Resources</u>	<u>of Resources</u>
Difference in Expected and Actual Experience	\$111,521	\$ -
Difference in Assumption Changes	-	-
Difference in Projected and Actual Earnings on Pension Plan Investments	-	154,365
Contributions Made Subsequent to the Measurement Date	-	360,924
 Total	 <u>\$111,521</u>	 <u>\$515,289</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 16 - EMPLOYEE RETIREMENT PLAN (continued):

E. Pension Expense and Deferred Inflows/Outflows of Resources (continued)

The amount of \$360,924 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2015	\$ 14,583
2016	14,583
2017	14,583
2018	14,584
2019	(15,489)
Thereafter	-
	<u>\$ 42,844)</u>

Supplemental Death Benefits Plan

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

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

The City 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 insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2013, 2014 and 2015 were \$7,568, \$7,708 and \$8,529, respectively, which equaled the required contribution each year.

Note 17 - Prior Period Adjustment:

The beginning net position of the Governmental Activities in the government-wide financial statements was decreased by \$1,299,375, the beginning net position of the Water and Sewer Fund was decreased by \$396,812, and the beginning net position of the component unit, HEDC, was decreased by \$37,373 to adjust for the implementation of the requirements of GASB 68 as it relates to the accounting and financial reporting for pensions.

SUPPLEMENTAL INFORMATION SECTION

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts	Variance Over (Under)
	Original	Final		
<u>REVENUES:</u>				
Property Taxes.....	\$1,685,000	\$1,685,000	\$1,747,963	\$ 62,963
Sales Taxes.....	1,438,000	1,438,000	1,500,401	62,401
Franchise Taxes.....	1,027,277	1,027,277	1,102,318	75,041
Motel Occupancy Taxes.....	170,000	170,000	170,647	647
Charges for Services.....	3,198,312	3,198,312	3,315,810	117,498
Grant Revenue.....	3,000	3,000	46,737	43,737
Interest Income.....	1,800	1,800	2,139	339
Contributions.....	16,000	16,000	25,277	9,277
Miscellaneous Revenue.....	24,800	24,800	37,174	12,374
	<u>7,564,189</u>	<u>7,564,189</u>	<u>7,948,466</u>	<u>384,277</u>
<u>EXPENDITURES:</u>				
Current:				
General Government	892,330	892,330	813,606	(78,724)
Public Safety	3,015,625	3,015,625	2,996,518	(19,107)
Streets and Public Works	1,363,231	1,363,231	1,440,346	77,115
Sanitation and Health ...	1,272,470	1,272,470	1,574,514	302,044
Parks and Recreation ...	1,443,950	1,443,950	1,487,745	43,795
Airport	363,350	363,350	280,190	(83,160)
Capital Outlays.....	323,575	323,575	1,822,124	1,498,549
Debt Service:				
Principal Retirement	69,969	69,969	237,935	167,966
Interest Charges	7,704	7,704	16,660	8,956
	<u>8,752,204</u>	<u>8,752,204</u>	<u>10,669,638</u>	<u>1,917,434</u>
<u>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES.....</u>				
	<u>(1,188,015)</u>	<u>(1,188,015)</u>	<u>(2,721,172)</u>	<u>(1,533,157)</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers In.....	1,279,500	1,279,500	2,150,000	870,500
Loan Proceeds.....	-	-	579,528	579,528
Sale of Assets.....	-	-	31,662	31,662
	<u>1,279,500</u>	<u>1,279,500</u>	<u>2,761,190</u>	<u>1,481,690</u>
<u>NET CHANGE IN FUND BALANCES ..</u>				
	<u>91,485</u>	<u>91,485</u>	<u>40,018</u>	<u>(51,467)</u>
<u>FUND BALANCES:</u>				
Beginning of Year.....	<u>1,097,467</u>	<u>1,097,467</u>	<u>1,097,467</u>	<u>-</u>
End of Year.....	<u>\$1,188,952</u>	<u>\$1,188,952</u>	<u>\$1,137,485</u>	<u>\$ (51,467)</u>

CITY OF HEREFORD, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS

	Year Ended December 31									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Total Pension Liability										
Service Cost	\$ 455,019	N/A								
Interest on Total Pension Liability	1,189,397	N/A								
Changes of Benefit Terms	-	N/A								
Difference Between Expected and Actual Experience	(135,529)	N/A								
Change of Assumptions	-	N/A								
Benefit Payments/Refunds of Contributions	(742,564)	N/A								
Net Change in Total Pension Liability	766,323	N/A								
Total Pension Liability, Beginning	17,135,157	N/A								
Total Pension Liability, Ending (a)	\$ 17,901,480	N/A								
Fiduciary Net Position										
Employer Contributions	\$ 474,595	N/A								
Member Contributions	216,731	N/A								
Investment Income Net of Investment Expenses	862,774	N/A								
Benefit Payments/Refunds of Contributions	(742,564)	N/A								
Administrative Expenses	(9,008)	N/A								
Other	(741)	N/A								
Net Change in Fiduciary Net Position	801,787	N/A								
Fiduciary Net Position, Beginning	15,081,858	N/A								
Fiduciary Net Position, Ending (b)	\$ 15,883,645	N/A								
Net pension liability / (asset), ending = (a)-(b)	\$ 2,017,835	N/A								
Fiduciary net position as a % of total pension liability	88.73%	N/A								
Pensionable covered payroll	\$ 4,334,622	N/A								
Net pension liability as a % of covered payroll	46.55%	N/A								

CITY OF HEREFORD, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST TEN YEARS

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2005	N/A	N/A	N/A	N/A	N/A
2006	N/A	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A	N/A
2009	N/A	N/A	N/A	N/A	N/A
2010	N/A	N/A	N/A	N/A	N/A
2011	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A
2013	N/A	N/A	N/A	N/A	N/A
2014	\$ 488,822	\$ 488,822	\$ -	\$ 4,550,619	10.74%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 Years
Asset Valuation Method	10 Year Smoothed Market, 15% Soft Corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% Including Inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes

There were no benefit changes during the year.

CITY OF HEREFORD, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	Special Revenue		Capital Projects TCDP Grant Fund	Total Nonmajor Governmental Funds
	Office of Justice Programs Grant Fund	Voluntary Park Fund		
<u>ASSETS</u>				
Cash	\$ -	\$ 40,334	\$ 47,135	\$ 87,469
Due from Other Funds	-	5,040	-	5,040
Due from State	-	-	3,346	3,346
Total Assets	\$ -	\$ 45,374	\$ 50,481	\$ 95,855
<u>LIABILITIES</u>				
Accounts Payable	\$ -	-	3,346	3,346
Due to Other Funds	-	-	47,135	47,135
Total Liabilities	-	-	50,481	50,481
<u>FUND BALANCES</u>				
Restricted for Parks	-	45,374	-	45,374
Restricted for Police	-	-	-	-
Total Fund Balances	-	45,374	-	45,374
Total Liabilities and Fund Balances	\$ -	\$ 45,374	\$ 50,481	\$ 95,855

CITY OF HEREFORD, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Special Revenue		Capital Projects		Total	
	Office of Justice Programs Grant Fund	Voluntary Park Fund	TCDP Grant Fund	Nonmajor Governmental Funds		
<u>REVENUES:</u>						
Grant Revenue	\$ -	-	\$ 257,366	-	\$ 257,366	
Interest Income	-	114	-	114	114	
Contributions	-	40,031	-	40,031	40,031	
	-	40,145	257,366	-	297,511	
<u>EXPENDITURES:</u>						
Current:						
Public Safety	-	-	-	-	-	
Parks and Recreations	-	12,497	-	-	12,497	
Capital Outlays	-	-	310,416	-	310,416	
	-	12,497	310,416	-	322,913	
<u>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</u>	-	27,648	(53,050)	-	(25,402)	
<u>OTHER FINANCING SOURCES (USES):</u>						
Transfers In	-	-	53,050	-	53,050	
<u>NET CHANGE IN FUND BALANCES</u>	-	27,648	-	-	27,648	
<u>FUND BALANCES:</u>						
Beginning of Year	-	17,726	-	-	17,726	
End of Year	-	\$ 45,374	-	-	\$ 45,374	

CITY OF HEREFORD, TEXAS

SCHEDULE OF VALUATION AND GENERAL OBLIGATION DEBT HISTORY
LAST FIVE YEARS

<u>Fiscal Year Ended 9/30</u>	<u>Estimated Population⁽¹⁾</u>	<u>Taxable Assessed Valuation⁽²⁾</u>	<u>Taxable Assessed Valuation Per Capita</u>	<u>G.O. Tax Debt Outstanding at End of Year⁽³⁾</u>	<u>Ratio Tax Debt to Taxable Assessed Valuation</u>	<u>Funded Debt Per Capita</u>
2011	15,370	492,707,876	32,056	4,300,000	0.87%	280
2012	15,370	513,310,637	33,397	3,330,000	0.65%	217
2013	15,370	512,579,710	33,349	2,540,000	0.50%	165
2014	15,370	533,178,474	34,690	2,115,000	0.40%	138
2015	15,370	538,725,936	35,050	1,685,000	0.31%	110

(1) Source: 2000 U.S. Census, 2010 U.S. Census.

(2) As reported by the Deaf Smith County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Does not include self-supporting debt.

CITY OF HEREFORD, TEXAS

SCHEDULE OF TAX RATE, LEVY AND COLLECTION HISTORY
LAST FIVE YEARS

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2011	0.338200	0.338200	-	1,656,222	97.99%	99.77%
2012	0.323308	0.323308	-	1,659,100	97.80%	99.44%
2013	0.326700	0.326700	-	1,656,213	98.34%	97.84%
2014	0.320900	0.320900	-	1,686,515	98.28%	99.20%
2015	0.320900	0.320900	-	1,728,986	98.51%	99.85%

CITY OF HEREFORD, TEXAS

SCHEDULE OF GENERAL OBLIGATION

DEBT SERVICE REQUIREMENTS

SEPTEMBER 30, 2015

Fiscal Year Ended 9/30	The Certificates			% of Principal Retired
	Principal	Interest	Total	
2016	445,000	69,050	514,050	72.98%
2017	465,000	58,300	523,300	83.12%
2018	245,000	44,950	289,950	88.45%
2019	260,000	31,000	291,000	94.12%
2020	270,000	21,200	291,200	100.00%
	<u>\$ 1,685,000</u>	<u>\$ 224,500</u>	<u>\$ 1,909,500</u>	

CITY OF HEREFORD, TEXAS

SCHEDULE OF OTHER GENERAL DEBT OBLIGATIONS
SEPTEMBER 30, 2015

Authorized But Unissued General Obligation Bonds - None.

As of September 30, 2015, the City of Hereford owed \$707,670 to First Financial Bank for financed golf carts, a financed fire truck, a financed street sweeper, two financed dump trucks and financed golf course equipment. The City makes monthly payments of \$20,738 including interest on these notes. As of September 30, 2015, the City of Hereford also owed \$1,600,000 to First Financial Bank for financed land. The City of Hereford makes annual payments of \$320,000 plus interest on this note. For additional information on these notes payable, please refer to Note 6 - Long-Term Debt on page 23 in the "Notes to Financial Statements."

CITY OF HEREFORD, TEXAS

**GENERAL FUND REVENUES AND EXPENDITURES HISTORY
LAST FIVE YEARS**

<u>Revenues:</u>	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Taxes -- Property	\$ 1,747,963	\$ 1,703,321	\$ 1,593,600	\$ 1,678,311	\$ 1,684,282
Taxes -- Sales and Occupancy	1,671,048	1,634,200	1,534,753	1,517,507	1,426,268
Charges for Services	3,315,810	3,134,863	3,045,105	3,193,523	3,119,151
Franchise Taxes	1,102,318	1,081,674	981,116	1,024,363	993,957
Miscellaneous	37,174	38,201	49,644	28,306	143,789
Grant Income	46,737	21,175	9,000	38,698	29,506
Contributions	25,277	17,019	555,288	432,446	9,942
Investment Income	2,139	2,246	1,915	2,316	2,060
Total Revenues	7,948,466	7,632,699	7,770,421	7,915,470	7,408,955
<u>Expenditures:</u>					
General Government	813,606	772,348	791,666	707,406	818,708
Public Safety	2,996,518	2,745,111	2,823,170	2,702,124	2,555,220
Streets and Public Works	1,440,346	1,281,545	1,289,227	1,219,748	1,074,120
Sanitation and Health	1,574,514	1,425,072	1,327,049	1,303,615	1,328,090
Parks and Recreation	1,487,745	1,501,181	1,321,039	1,440,122	1,268,486
Airport	280,190	302,251	347,237	376,057	336,460
Capital Outlays	1,822,124	598,302	1,316,565	1,321,016	765,022
Debt Service:					
Principal Retirement	237,935	262,616	222,776	214,501	165,592
Interest and Fiscal Charges	16,660	11,772	14,838	18,692	15,972
Total Expenditures	10,669,638	8,900,198	9,453,567	9,303,281	8,327,670
<u>Excess (Deficit) of Revenues Over Expenditures</u>	<u>(2,721,172)</u>	<u>(1,267,499)</u>	<u>(1,683,146)</u>	<u>(1,387,811)</u>	<u>(918,715)</u>
<u>Other Financing Sources (Uses):</u>					
Operating Transfers In	2,150,000	1,250,000	1,535,000	1,200,000	600,000
Sale of General Fixed Assets	31,662	-	-	-	67,010
Loan Proceeds	579,528	164,384	-	218,175	337,191
Operating Transfers Out	-	-	-	-	-
Total Other Financing Sources (Uses)	2,761,190	1,414,384	1,535,000	1,418,175	1,004,201
<u>Net Change in Fund Balances</u>	<u>40,018</u>	<u>146,885</u>	<u>(148,146)</u>	<u>30,364</u>	<u>85,486</u>
<u>Fund Balances:</u>					
Beginning of Year	1,097,467	950,582	1,098,728	1,068,364	982,878
End of Year	\$ 1,137,485	\$ 1,097,467	\$ 950,582	\$ 1,098,728	\$ 1,068,364

CITY OF HEREFORD, TEXAS

SCHEDULE OF CURRENT INVESTMENTS

SEPTEMBER 30, 2015

As of September 30, 2015, the City's investable funds were invested in the following categories:

<u>Type of Investment</u>	<u>Market Value</u>	<u>Maturity</u>
Certificates of Deposit	\$ 3,394,755	30 Days
Total	<u>\$ 3,394,755</u>	

As of such date, 100% of the City's investment portfolio will mature within 30 days.

CITY OF HEREFORD, TEXAS

WATER AND SEWER FUND CONDENSED STATEMENT OF OPERATIONS
LAST FIVE YEARS

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
<u>OPERATING REVENUES:</u>					
Water Billings	\$ 3,944,886	\$ 4,183,037	\$ 4,338,873	\$ 4,346,250	\$ 3,904,272
Sewer Billings	1,395,008	1,427,324	1,227,195	1,218,209	1,162,851
Penalties	170,425	164,715	141,272	139,767	141,800
Miscellaneous	4,678	2,223	3,925	3,057	4,108
Service Taps	11,344	9,404	8,200	8,968	6,180
Total Operating Revenues	<u>5,526,341</u>	<u>5,786,703</u>	<u>5,719,465</u>	<u>5,716,251</u>	<u>5,219,211</u>
<u>OPERATING EXPENSES:</u>					
Personnel Cost	1,146,079	1,134,518	1,088,913	1,094,929	1,118,128
Depreciation and Amortization	676,379	667,541	641,957	613,226	622,349
Heat, Light and Power	658,017	652,883	624,771	640,861	551,205
Maintenance	585,274	438,392	454,515	449,367	421,769
Insurance	159,580	157,423	132,387	133,889	118,527
Supplies and Chemicals	151,079	165,735	125,089	119,492	106,311
Telephone	29,144	17,216	14,960	16,561	19,407
Water Purchases	36,787	38,311	50,626	41,395	30,255
Fuel	39,937	54,701	56,451	56,531	53,739
Dues and Fees	23,478	21,180	27,576	25,021	19,090
Miscellaneous	5,600	6,246	5,681	5,600	5,600
Uniforms	9,832	5,143	5,953	5,813	4,957
Travel	10,723	7,368	3,134	4,490	5,516
Rent	2,448	2,448	2,448	1,836	2,748
Property Taxes	6,240	4,743	3,519	3,595	3,776
Lab Expense	11,707	9,235	7,480	4,227	12,779
Total Operating Expenditures	<u>3,552,304</u>	<u>3,383,083</u>	<u>3,245,460</u>	<u>3,216,833</u>	<u>3,096,156</u>
Income from Operations	<u>1,974,037</u>	<u>2,403,620</u>	<u>2,474,005</u>	<u>2,499,418</u>	<u>2,123,055</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>					
Investment Income	18,139	10,583	9,305	8,920	9,969
Lease Income	113,515	89,809	89,809	88,809	86,584
Gain (Loss) on Sale of Fixed Assets	-	(2,009)	-	-	-
Interest and Fiscal Charges	(73,781)	(55,403)	(64,789)	(82,290)	(211,190)
Total Non-Operating Revenues (Expenses)	<u>57,873</u>	<u>42,980</u>	<u>34,325</u>	<u>15,439</u>	<u>(114,637)</u>
Income Before Transfers & Capital Contributions	2,031,910	2,446,600	2,508,330	2,514,857	2,008,418
Transfers In	322,125	-	-	382,839	-
Transfers Out	(2,203,050)	(1,251,955)	(1,535,000)	(1,301,881)	(630,958)
<u>CHANGE IN NET POSITION</u>	<u>150,985</u>	<u>1,194,645</u>	<u>973,330</u>	<u>1,595,815</u>	<u>1,377,460</u>
Net Position - Beginning	14,396,932	13,202,287	12,339,057	10,743,242	9,365,782
Prior Period Adjustment	(369,812)	-	(110,100)	-	-
Net Position - Ending	<u>\$ 14,178,105</u>	<u>\$ 14,396,932</u>	<u>\$ 13,202,287</u>	<u>\$ 12,339,057</u>	<u>\$ 10,743,242</u>