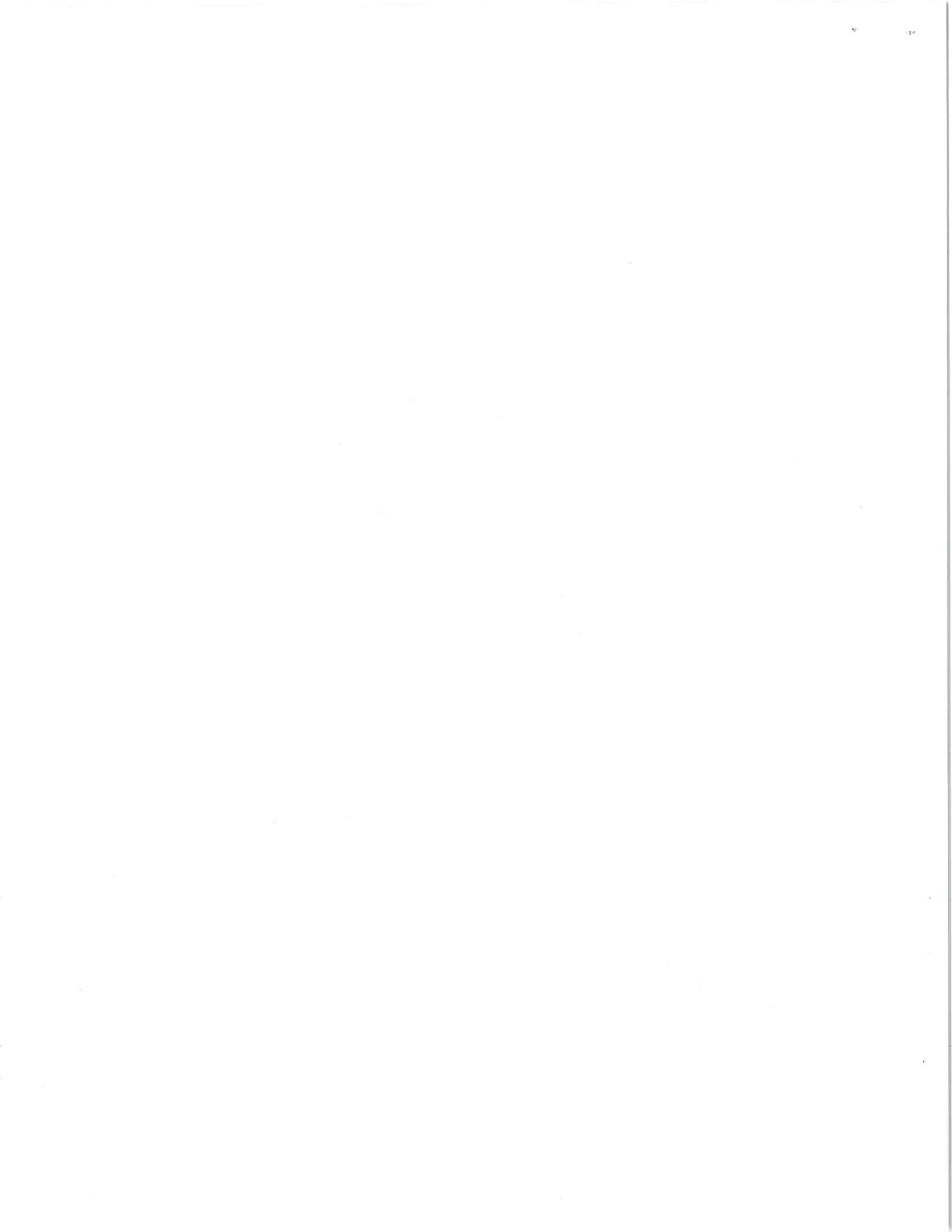


**CITY OF LIBERTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015**



**CITY OF LIBERTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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FINANCIAL SECTION

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SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
(936) 336-7205

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Liberty, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, 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.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, effective October 1, 2014, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison and pension plan information on pages 3 through 11 and 47 through 50 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 combining and individual nonmajor fund financial statements and the supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2016, on our consideration of the City of Liberty, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.
Liberty, Texas
January 19, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of the City of Liberty, Texas (the City) presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

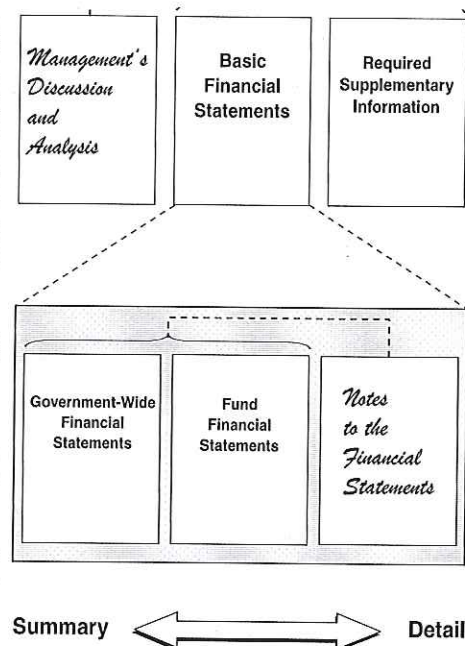
- The City's total combined net position was \$45.6 million at September 30, 2015, compared to \$44.7 million at September 30, 2014.
- Revenues for 2015 were \$29.7 million compared to \$31.6 million in 2014. Charges for electrical services decreased \$0.6 million as a result of lower power costs. Capital grants decreased \$1.4 million compared to 2014. Additionally, property tax revenues increased \$0.2 million, and sales tax revenues decreased \$0.4 million respectively.
- During the year ended September 30, 2015, the City's total expenses were \$32.3 million compared to \$27.8 million in 2014. Expenses increased \$4.2 million as a result of the change in accounting for pensions.
- The general fund reported a fund balance of \$4.5 million at September 30, 2015, a \$0.3 million decrease from September 30, 2014.
- During 2015, the City continued with various construction projects from the prior year. Those projects included sewer system and wastewater treatment plant rehabilitation, electrical improvements, new street and completion of the police department. Funding for these projects continued to be provided by capital grants and debt issuances.
- As of September 30, 2015, the City has \$2.8 million in restricted cash for debt service and \$1.0 million in restricted cash remaining from the debt issuances to fund capital projects.
- During 2015, the City received \$4.0 million from SRMPA for Cambridge Project net profits. This is presented as a special item in the electric fund.
- Effective for fiscal year 2015, the City implemented a change in accounting principle related to pensions. As a result, the City recognized the pension obligation and a corresponding reduction in net position of \$0.5 million at the beginning of the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. Additionally, the City implemented GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred inflows and outflows of resources into the required components of the residual measure and renaming that measure as net position. The basic financial statements of the City include (a) Management's Discussion and Analysis, (b) Government-wide Financial Statements, (c) Fund Financial Statements, (d) Notes to Financial Statements; and (e) Required Supplementary Information. The basis of presentation and the basis of accounting for the government-wide and fund financial statements is discussed below:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.

Figure A-1, Required Components of the City's Annual Financial Report



- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities in the government that operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and are related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

Type of Statements	Government-wide Entire City's government (except fiduciary funds) and the City's component units	Governmental Funds The activities of the City that are not proprietary or fiduciary	Fund Statements Proprietary Funds Activities the City operates similar to private businesses & self insurance	Fiduciary Funds Instances in which the City is the trustee or agent for someone else's resources
Scope				
Required financial statements	<ul style="list-style-type: none"> ♦ Statement of net position ♦ Statement of activities 	<ul style="list-style-type: none"> ♦ Balance sheet ♦ Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> ♦ Statement of net position ♦ Statement of revenues, expenses and changes in fund net position ♦ Statement of cash flows 	<ul style="list-style-type: none"> ♦ Statement of fiduciary net position ♦ Statement of changes in fiduciary net position
Accounting basis and measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets, liabilities and deferred inflows and outflows of resources—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, streets, sanitation, economic development,

culture and recreation, and interest on long-term debt. Property taxes and other taxes finance most of these activities.

The government-wide financial statements of the City also include the *Business-type activities* such as electric services, water and wastewater services and garbage services. These services are financed through user charges. The City's internal service fund, the employee health trust fund, is also included in these statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental Funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information to the right of the governmental funds statement, that explain the relationship (or differences) between them.
- *Proprietary Funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$45.6 million at September 30, 2015, compared to \$44.7 million at September 30, 2014. (See Table A-1).

Table A-1
City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2014	2015	2014	2015	2014	2015-2014
Assets:							
Cash	\$6,083.7	\$8,408.3	\$8,393.3	\$4,426.7	\$14,477.0	\$12,835.0	12.8%
Cash – Restricted	2,914.6	4,610.1	995.8	798.3	3,910.4	5,408.4	-27.7%
Investments	226.1	220.4	-	-	226.1	220.4	2.6%
Accounts Receivable	29.1	98.3	2,117.1	2,395.1	2,146.2	2,493.4	-13.9%
Taxes Receivable, Net	576.3	507.6	-	-	576.3	507.6	13.5%
Due from State/Federal							
Agencies	566.5	882.8	-	14.6	566.5	897.4	-36.9%
Due from Other							
Governments	5.6	2.8	-	-	5.6	2.8	100.0%
Inventory	34.5	33.3	377.0	353.7	411.5	387.0	6.3%
Internal Balances	34.3	(102.2)	(34.3)	102.2	-	-	-
Capital Assets, Net	27,979.9	24,261.2	22,691.5	22,667.4	50,671.4	46,928.6	8.0%
Total Assets	38,450.6	38,922.6	34,540.4	30,758.0	72,991.0	69,680.6	4.8%
Deferred Outflows of Resources	707.7	130.3	-	-	707.7	130.3	443.1%
Liabilities:							
Accounts Payable	199.8	214.2	2,104.6	2,461.2	2,304.4	2,675.4	-13.9%
Customer Overpayments	-	-	27.2	28.5	27.2	28.5	-4.6%
Payable from Restricted Assets	-	-	-	237.1	-	237.1	-100.0%
Due to State/Federal							
Agencies	26.2	46.2	40.0	38.1	66.2	84.3	-21.5%
Accrued Interest Payable	32.3	34.8	15.1	16.5	47.4	51.3	-7.6%
Service Deposits	-	-	319.5	287.1	319.5	287.1	11.3%
Premium on Bonds Issued	335.0	360.5	-	-	335.0	360.5	-7.1%
Long-Term Liabilities:							
Due Within One Year	1,481.0	1,299.8	620.4	626.6	2,101.4	1,926.4	9.1%
Due in More Than One Year	11,416.8	12,755.2	6,140.0	6,725.9	17,556.8	19,481.1	-9.9%
Pension Liability (1)	5,300.1	-	-	-	5,300.1	-	100.0%
Total Liabilities	18,791.2	14,710.7	9,266.8	10,421.0	28,058.0	25,131.7	11.6%
Net Position:							
Net Investment in Capital Assets	16,181.7	10,395.9	16,231.2	15,693.3	32,412.9	26,089.2	24.2%
Restricted for Debt Service	2,386.2	1,985.8	719.7	210.7	3,105.9	2,196.5	45.0%
Restricted for Building Security and Technology	53.4	47.0	-	-	53.4	47.0	13.6%
Unrestricted	1,745.8	11,913.5	8,322.7	4,433.0	10,068.5	16,346.5	-38.0%
Total Net Position	\$20,367.1	\$24,342.2	\$25,273.6	\$20,337.0	\$45,640.7	\$44,679.2	2.2%

(1) Change in accounting for pension liabilities in accordance with GASB Statement No. 68.

As of September 30, 2015, the City had invested \$32.4 million in capital assets, net of related debt. Approximately \$3.1 million of the City's net position are restricted for debt service. Additionally, approximately \$1.0 million remains restricted for construction projects, but as the related debt is outstanding, there is no effect on net position. The remaining unrestricted net position of \$10.1 million represents resources available to fund the programs of the City next year.

As of September 30, 2014, the City had invested \$26.1 million in capital assets, net of related debt. Approximately \$2.1 million of the City's net position were restricted for debt service. The remaining unrestricted net position was \$16.3 million.

Changes in Net Position

The City's total revenues for 2015 were \$29.7 million compared to \$31.6 million in 2014. A significant portion, 76 percent, of the City's revenue comes from charges for services. (See Figure A-3.) Other revenue sources include property taxes (12 percent), sales tax (11 percent), and grants and contributions (1 percent). The total cost of all programs and services was \$32.3 million; 48 percent of these costs are electric services, 3 percent are for streets and general maintenance and 6 percent are for water and wastewater services. Police department expenses and fire department expenses accounted for 7 percent and 7 percent, respectively, of total expenses. Due to the change in accounting for pension costs, 13 percent of total costs was pension related in 2015.

The City's total revenues for 2014 were \$31.6 million compared to \$30.1 million in 2013. A significant portion, 72 percent, of the City's revenue comes from charges for services. (See Figure A-3.) Other revenue sources include property taxes (10 percent), sales tax (12 percent), and grants and contributions (5 percent). The total cost of all programs and services was \$27.8 million; 60 percent of these costs are electric services, 3 percent are for streets and general maintenance and 6 percent are for water and wastewater services. Police department expenses and fire department expenses accounted for 7 percent and 7 percent, respectively, of total expenses.

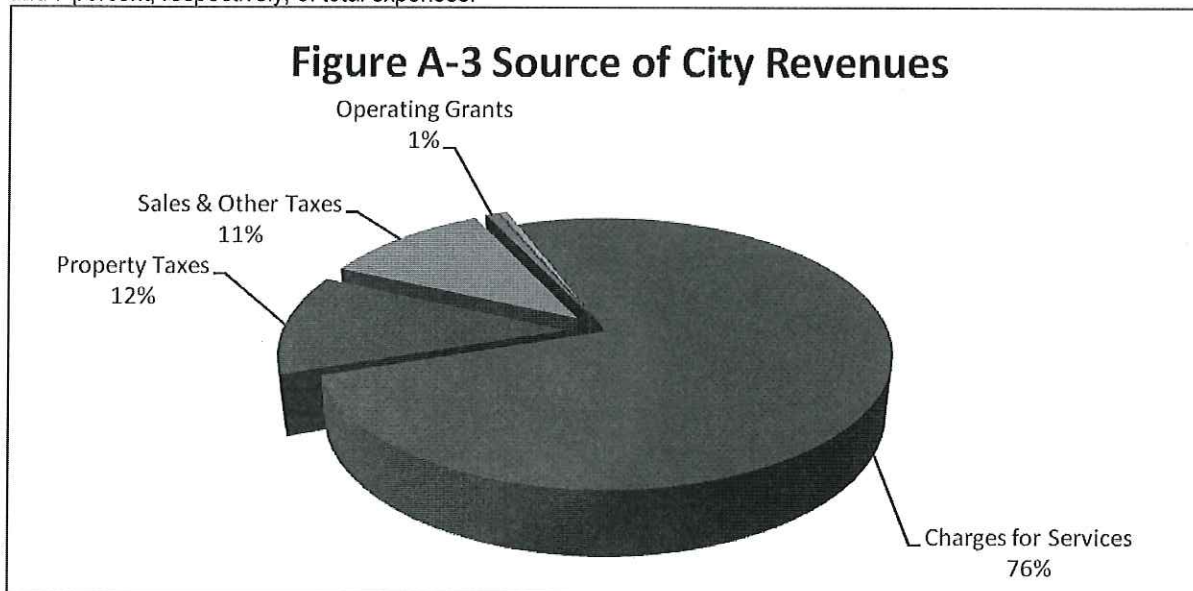


Table A-2
Changes in the City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015	2014	2015	2014	2015	2014	2015-2014
Program Revenues:							
Charges for Services -							
Governmental Activities	\$1,448.2	\$1,308.5	-	-	\$1,448.2	\$1,308.5	10.7%
Electric	-	-	\$17,353.3	\$17,921.3	17,353.3	17,921.3	-3.2%
Water and Wastewater	-	-	2,935.9	2,856.5	2,935.9	2,856.5	2.8%
Garbage	-	-	726.7	710.6	726.7	710.6	2.3%
Operating Grants and Contributions	233.0	149.8	2.8	-	235.8	149.8	57.5%
Capital Grants and Contributions	-	1,166.8	-	227.9	-	1,394.7	-100.0%
General Revenues:							
Property Taxes	3,550.5	3,313.2	-	-	3,550.5	3,313.2	7.2%
Sales and Other Taxes	3,281.2	3,695.2	-	-	3,281.2	3,695.2	-11.2%
Gain/(Loss) on Sale of Assets	20.8	200.1	5.7	-	26.5	200.1	-86.8%
Investment Earnings	35.8	34.8	18.3	13.6	54.1	48.4	11.8%
Other	86.1	37.7	-	-	86.1	37.7	128.4%
Total Revenues	\$8,655.6	\$9,906.1	\$21,042.7	\$21,729.9	\$29,698.3	\$31,636.0	-6.1%

Table A-2 (Continued)
Changes in the City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2015-2014
	2015	2014	2015	2014	2015	2014	
Expenses by Functions/ Programs							
Administration and City Business and Support Services	\$1,054.5	\$1,151.4	-	-	\$1,054.5	\$1,151.4	-8.4%
Economic Development	710.1	681.9	-	-	710.1	681.9	4.1%
Public Health and Fire/ Emergency	393.4	162.0	-	-	393.4	162.0	142.8%
Police and Court	2,273.2	1,879.2	-	-	2,273.2	1,879.2	21.0%
Animal Control	2,264.6	2,061.6	-	-	2,264.6	2,061.6	9.8%
Library	137.9	92.7	-	-	137.9	92.7	48.8%
Streets and General	636.8	599.2	-	-	636.8	599.2	6.3%
Parks and Recreation	907.0	847.5	-	-	907.0	847.5	7.0%
Inspection Services	320.8	317.2	-	-	320.8	317.2	1.1%
Airport Operations	197.6	135.7	-	-	197.6	135.7	45.6%
Interest on Long-Term	391.0	428.8	-	-	391.0	428.8	-8.8%
Bond Issuance Costs	429.7	379.9	-	-	429.7	379.9	13.1%
Pension Expense (1)	-	105.6	-	-	-	105.6	-100.0%
Electric	4,236.1	-	-	-	4,236.1	-	100.0%
Water and Wastewater	-	-	\$15,712.1	\$16,640.4	\$15,712.1	16,640.4	-5.6%
Garbage	-	-	2,038.2	1,775.0	2,038.2	1,775.0	14.8%
	-	-	560.3	541.9	560.3	541.9	3.4%
Total Expenses	<u>13,952.7</u>	<u>8,842.7</u>	<u>18,310.6</u>	<u>18,957.3</u>	<u>32,263.3</u>	<u>27,800.0</u>	15.6%
Change in Net Position Before Items & Transfer	(5,297.1)	1,063.4	2,732.1	2,772.6	(2,565.0)	3,836.0	-168.8%
Special Items	-	177.5	4,000.0	1,500.0	4,000.0	1,677.5	238.8%
Transfers	<u>1,795.5</u>	<u>2,062.0</u>	<u>(1,795.5)</u>	<u>(2,062.0)</u>	<u>-</u>	<u>-</u>	-
Change in Net Position	<u>(3,501.6)</u>	<u>3,302.9</u>	<u>4,936.6</u>	<u>2,210.6</u>	<u>1,435.0</u>	<u>5,513.5</u>	-74.0%
Net Position – Beginning	24,342.2	21,039.3	20,337.0	18,126.4	44,679.2	39,165.7	14.1%
Cumulative Effect of Change in Accounting Principle (1)	<u>(473.5)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(473.5)</u>	<u>-</u>	-100.0%
Net Position – Ending	<u>\$20,367.1</u>	<u>\$24,342.2</u>	<u>\$25,273.6</u>	<u>\$20,337.0</u>	<u>\$45,640.7</u>	<u>\$44,679.2</u>	2.2%

(1) Change in accounting for pension costs in accordance with GASB Statement No. 68.

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$14.0 million.
- The amount that our taxpayers paid for these activities was \$3.6 million in property taxes and \$3.3 million in sales and other taxes.
- The remaining funding came primarily from charges for services (\$1.4 million).

Table A-3
Net Cost of Selected Governmental-Type City Functions
(in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	2015	2014	% Change 2015-2014	2015	2014	% Change 2015-2014
Administration and City Council	\$1,054.5	\$1,151.4	-8.4%	\$1,044.4	\$1,071.2	-2.5%
Business and Support Services	710.1	681.9	4.1%	710.1	681.9	4.1%
Economic Development/Tourism	393.4	162.0	142.8%	340.6	116.4	192.6%
Public Health and Safety:						
Fire/ Emergency Medical Services	2,273.2	1,879.2	21.0%	1,369.3	1,116.5	22.6%
Police and Municipal Court	2,264.6	2,061.6	9.8%	2,044.6	635.8	221.6%
Animal Control	137.9	92.7	48.8%	131.3	92.3	42.3%
Library	636.8	599.2	6.3%	502.4	569.6	-11.8%
Streets and General Maintenance	907.0	847.5	7.0%	907.0	847.2	-5.2%
Parks and Recreation	320.8	317.2	1.1%	273.5	305.1	-10.4%
Inspection Services	197.6	135.7	45.6%	142.1	105.1	35.2%
Airport Operations	391.0	428.8	-8.8%	140.3	190.9	-26.5%
Interest on Long-Term Debt	429.7	379.9	13.1%	429.7	379.9	13.1%
Bond Issuance Costs	-	105.6	-100.0%	-	105.6	-100.0%
Pension Expense	4,236.1	-	100.0%	4,236.1	-	100.0%
Total	<u>\$13,952.7</u>	<u>\$8,842.7</u>	57.8%	<u>\$12,271.4</u>	<u>\$6,217.5</u>	97.4%

Business-type Activities

Revenues of the City's business-type activities decreased \$0.7 million from 2014 to \$21.0 million, and expenses decreased \$0.7 million to \$18.3 million compared to 2014. The electric fund had lower revenues and expenses due to lower power costs in 2015. Revenues and expenses for the other utility funds remained fairly consistent with prior year levels.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$8.6 million, a decrease of \$1.4 million from 2014. Expenditures for the governmental funds were higher than prior year amounts by \$1.1 million. The increase in expenditures was primarily due to increased fire, police and economic development costs of \$0.4 million, \$0.2 million and \$0.2 million, respectively. Capital expenditures of governmental funds were \$4.8 million in both years.

General Fund Budgetary Highlights

The City revises its budget as needed to meet the needs of the City. General fund revenues were \$0.1 million higher than budgeted primarily due to higher fees of \$0.2 million. Expenditures were \$0.4 million lower than budgeted. Other financing sources from transfers from other funds were \$0.7 million lower than expected. Overall, the general fund ended the year with a budget deficit of \$0.3 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the City had invested \$112.6 million in a broad range of capital assets, including land, equipment, buildings, vehicles, utility systems and infrastructure. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$4.5 million over the prior year.

Table A-4
City's Capital Assets
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2015-2014
	2015	2014	2015	2014	2015	2014	
Land	\$1,317.7	\$1,306.7	\$2.6	\$2.6	\$1,320.3	\$1,309.3	-0.8%
Buildings and Improvements	13,994.1	13,977.9	\$1,049.5	\$1,279.5	15,043.6	15,257.4	-1.4%
Construction in Progress	8,783.3	4,318.6	11,395.7	12,579.6	20,179.0	16,898.2	19.4%
Infrastructure	47,234.8	47,220.0	-	-	47,234.8	47,220.0	0.1%
Utility Systems	-	-	21,418.5	19,744.8	21,418.5	19,744.8	8.5%
Vehicles	1,948.2	2,009.3	383.1	608.7	2,331.3	2,618.0	-11.0%
Furniture and Equipment	3,774.2	3,692.0	702.9	779.7	4,477.1	4,471.7	0.1%
Assets Held Under Capital Lease	365.0	365.0	232.7	232.7	597.7	597.7	0.0%
Totals at Historical Cost	77,417.3	72,889.5	35,185.0	35,227.6	112,602.3	108,117.1	4.1%
Total Accumulated Depreciation	(49,437.4)	(48,628.3)	(12,493.5)	(12,560.2)	(61,930.9)	(61,188.5)	1.2%
Net Capital Assets	\$27,979.9	\$24,261.2	\$22,691.5	\$22,667.4	\$50,671.4	\$46,928.6	8.0%

Long Term Debt

At yearend, the City had \$19.7 million in debt outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Bond Ratings

The City's bonds are presently rated "A" by Standard & Poor's Rating Services. LCDC's bonds are presently rated at "A-" by Standard & Poor's Rating Services.

Table A-5
City's Long Term Debt
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2015-2014
	2015	2014	2015	2014	2015	2014	
Capital Lease Obligations	\$181.5	\$221.6	\$15.9	\$53.3	\$197.4	\$274.9	-28.2
Bonds Payable, 2007 Series	-	-	5,655.0	6,025.0	5,655.0	6,025.0	-6.1%
Bonds Payable, 2010 Series	520.0	1,030.0	-	-	520.0	1,030.0	-49.5%
Certificates of Obligation, 2010A	4,265.0	4,370.0	-	-	4,265.0	4,370.0	-2.4%
Certificates of Obligation, 2010	-	-	1,055.0	1,235.0	1,055.0	1,235.0	-14.6%
Certificates of Obligation, 2012	1,595.0	1,655.0	-	-	1,595.0	1,655.0	-3.6%
Refunding Bonds, 2012	2,390.0	2,630.0	-	-	2,390.0	2,630.0	-9.1%
Note Payable- FLNB	-	23.1	-	-	-	23.1	-100.0%
LCDC Sales Tax Bonds	3,100.0	3,215.0	-	-	3,100.0	3,215.0	-3.6%
LCDC Note Payable HGAC	473.7	490.3	-	-	473.7	490.3	-3.4%
Compensated Absences	372.6	420.0	34.5	39.2	407.1	459.2	-11.3%
Total Long Term Debt	\$12,897.8	\$14,055.0	\$6,760.4	\$7,352.5	\$19,658.2	\$21,407.5	-8.2%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2016 budget preparation remained fairly consistent with amounts used in 2016. As a result, the combined tax rate for Maintenance and Operations and Interest and Sinking is budgeted to remain at 59 cents per \$100 valuation.
- General operating fund spending in the 2016 budget is expected to be \$8.2 million, a 2% decrease over budgeted amounts for 2015.

These indicators were taken into account when adopting the general fund budget for 2016. The 2016 budget is essentially a balanced budget. As a result fund balance in the general fund is expected to remain constant. The City has several capital construction projects continuing into 2016. The additional capital additions needed by the City in 2016 are anticipated to be funded by prior debt issuances, capital grants, and surplus funds received in 2015. Thus, no significant capital additions are budgeted in the general fund.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Financial Department.

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BASIC FINANCIAL STATEMENTS

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CITY OF LIBERTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash	\$6,083,729	\$8,393,294	\$14,477,023
Cash – Restricted	2,914,633	995,794	3,910,427
Investments	226,061	-	226,061
Accounts Receivable, Net	29,107	2,117,113	2,146,220
Taxes Receivable, Net	576,338	-	576,338
Due From State	566,530	-	566,530
Due from Other Governments	5,549	-	5,549
Inventory	34,501	376,958	411,459
Internal Balances	34,286	(34,286)	-
Capital Assets, Net	27,979,907	22,691,530	50,671,437
TOTAL ASSETS	38,450,641	34,540,403	72,991,044
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Interest on Refunded Debt	117,264	-	117,264
Deferred Outflows Related to Pensions	590,442	-	590,442
TOTAL DEFERRED OUTFLOWS OF RESOURCES	707,706	-	707,706
<u>LIABILITIES</u>			
Accounts Payable	199,828	2,104,600	2,304,428
Customer Overpayments Payable	-	27,181	27,181
Payable from Restricted Assets	-	-	-
Due to State/Federal Agencies	26,227	39,961	66,188
Accrued Interest Payable	32,269	15,109	47,378
Service Deposits	-	319,498	319,498
Premium on Bonds Issued, Net	334,965	-	334,965
Long-term Liabilities:			
Due Within One Year	1,480,992	620,423	2,101,415
Due In More Than One Year	11,416,824	6,140,000	17,556,824
Pension Liability	5,300,101	-	5,300,101
TOTAL LIABILITIES	18,791,206	9,266,772	28,057,978
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-	-	-
<u>NET POSITION</u>			
Net Investment in Capital Assets	16,181,756	16,231,220	32,412,976
Restricted for Debt Service	2,386,209	719,703	3,105,912
Restricted for Building Security and Technology	53,416	-	53,416
Unrestricted	1,745,760	8,322,708	10,068,468
TOTAL NET POSITION	\$20,367,141	\$25,273,631	\$45,640,772

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Government Activities:				
Administration	\$1,054,513	\$8,925	\$1,146	-
Business and Support Services	710,106	-	-	-
Economic Development/Tourism	393,362	42,662	10,125	-
Public Health and Safety:				
Fire/EMS	2,273,199	839,357	64,545	-
Police	2,095,645	-	3,163	-
Municipal Court	168,981	216,883	-	-
Animal Control	137,890	6,541	-	-
Library	636,819	15,440	118,990	-
Streets	803,181	-	-	-
Maintenance	103,789	-	-	-
Parks and Recreation	320,780	12,295	35,000	-
Inspection Services	197,578	55,444	-	-
Airport Operations	390,985	250,698	-	-
Interest on Long-term Debt	429,697	-	-	-
Pension Expense	4,236,132	-	-	-
Total Governmental Activities	13,952,657	1,448,245	232,969	-
Business-Type Activities:				
Electric	15,712,125	17,353,252	-	-
Water and Wastewater	2,038,214	2,935,940	2,855	-
Garbage	560,293	726,657	-	-
Total Business-Type Activities	18,310,632	21,015,849	2,855	-
Totals	\$32,263,289	\$22,464,094	\$235,824	\$-

General Revenues
Property Taxes Levied For:
General Purposes
Debt Service
Sales Tax
Other Taxes
Gain/loss on Sale of Assets
Miscellaneous Income
Investment Income
Total General Revenues

Special Items
Transfers

Change in Net Position
Net Position, Beginning of Year
Cumulative Effect of Change in
Accounting Principle(Note 16)
Net Position, End of Year

The accompanying notes are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$(1,044,442)	-	\$(1,044,442)
(710,106)	-	(710,106)
(340,575)	-	(340,575)
(1,369,297)	-	(1,369,297)
(2,092,482)	-	(2,092,482)
47,902	-	47,902
(131,349)	-	(131,349)
(502,389)	-	(502,389)
(803,181)	-	(803,181)
(103,789)	-	(103,789)
(273,485)	-	(273,485)
(142,134)	-	(142,134)
(140,287)	-	(140,287)
(429,697)	-	(429,697)
(4,236,132)	-	(4,236,132)
(12,271,443)	-	(12,271,443)
-	\$1,641,127	1,641,127
-	900,581	900,581
-	166,364	166,364
-	2,708,072	2,708,072
(12,271,443)	2,708,072	(9,563,371)
2,160,559	-	2,160,559
1,389,883	-	1,389,883
3,034,144	-	3,034,144
247,129	-	247,129
20,759	5,745	26,504
86,142	-	86,142
35,753	18,324	54,077
6,974,369	24,069	6,998,438
-	4,000,000	4,000,000
1,795,529	(1,795,529)	-
(3,501,545)	4,936,612	1,435,067
24,342,213	20,337,019	44,679,232
(473,527)	-	(473,527)
\$20,367,141	\$25,273,631	\$45,640,772

CITY OF LIBERTY, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Liberty Community Development Corporation	Debt Service Funds	
			City of Liberty	LCDC
<u>ASSETS</u>				
Cash	\$4,083,594	\$1,836,054	-	-
Cash – Restricted	53,416	-	\$1,797,704	\$301,315
Investments	-	-	-	-
Accounts Receivable, Net	29,107	-	-	-
Taxes Receivable – Delinquent	543,536	-	417,354	-
Less: Allowance for Uncollectible Taxes	(217,525)	-	(167,027)	-
Due from State/Federal Agencies	341,020	170,510	-	-
Due from Other Governments	5,549	-	-	-
Inventory	34,501	-	-	-
Interfund Receivable	644,081	2,530	59,753	9,379
TOTAL ASSETS	5,517,279	2,009,094	2,107,784	310,694
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$5,517,279	\$2,009,094	\$2,107,784	\$310,694
<u>LIABILITIES</u>				
Accounts Payable	\$96,105	\$2,466	-	-
Due to State/Federal Agencies	17,117	-	-	-
Interfund Payable	632,985	9,467	-	-
TOTAL LIABILITIES	746,207	11,933	-	-
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Taxes Revenue	312,452	-	\$245,741	-
TOTAL DEFERRED INFLOWS OF RESOURCES	312,452	-	245,741	-
<u>FUND BALANCES</u>				
Restricted Fund Balances:				
Debt Service	-	-	1,862,043	\$310,694
Capital Projects	-	-	-	-
Building Security and Technology	53,416	-	-	-
Committed Fund Balance	572,087	1,997,161	-	-
Assigned	834,250	-	-	-
Unassigned	2,998,867	-	-	-
TOTAL FUND BALANCES	4,458,620	1,997,161	1,862,043	310,694
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$5,517,279	\$2,009,094	\$2,107,784	\$310,694

The accompanying notes are an integral part of this statement.

Capital Projects Fund (CO 2010A)	Capital Projects Fund (CO 2012)	Capital Projects Fund LCDC	Other Governmental Funds	Total Governmental Funds
-	\$50,000	-	\$114,081	\$6,083,729
\$111,806	11,786	\$638,606	-	2,914,633
-	-	-	226,061	226,061
-	-	-	-	29,107
-	-	-	-	960,890
-	-	-	-	(384,552)
-	-	-	55,000	566,530
-	-	-	-	5,549
-	-	-	-	34,501
8,117	-	-	2,878	726,738
119,923	61,786	638,606	398,020	11,163,186
-	-	-	-	-
\$119,923	\$61,786	\$638,606	\$398,020	\$11,163,186
-	-	\$43,275	\$57,982	\$199,828
-	-	-	9,110	26,227
-	\$50,000	-	-	692,452
-	50,000	43,275	67,092	918,507
-	-	-	-	558,193
-	-	-	-	558,193
-	-	-	-	2,172,737
\$119,923	11,786	\$595,331	-	727,040
-	-	-	-	53,416
-	-	-	330,928	2,900,176
-	-	-	-	834,250
-	-	-	-	2,998,867
119,923	11,786	595,331	330,928	9,686,486
\$119,923	\$61,786	\$638,606	\$398,020	\$11,163,186

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CITY OF LIBERTY, TEXAS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2015

TOTAL GOVERNMENTAL FUND BALANCES	\$9,686,486
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,979,907
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	558,193
Payables for debt principal which was not due in the current period are not reported in the funds.	(12,897,816)
Payables for debt interest which are not due in the current period are not reported in the funds.	(32,269)
The premium paid for bond issuance is income in the funds when incurred but are deferred and amortized in the SNP.	(334,965)
Liability for pension obligation is not reported in the funds.	(5,300,101)
Deferred outflows of resources related to pensions is not reported in the funds.	590,442
Interest on advance refunding of debt is expensed in the funds but deferred and amortized in the SNP.	117,264
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$20,367,141</u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	General	Liberty Community Development Corporation	Debt Service Funds City of Liberty	LCDC
<u>REVENUES:</u>				
Ad Valorem Taxes	\$2,118,639	-	\$1,363,092	-
Sales Tax	2,023,822	\$1,010,322	-	-
Other Taxes	205,123	-	-	-
Fines & Forfeitures	212,030	-	-	-
Investment Income	11,801	7,330	4,389	\$648
Licenses, Fees & Rents	938,002	-	-	-
Intergovernmental Transfers & Grants	66,949	-	-	-
Donations	133,480	-	-	-
Sale of Assets	20,759	-	-	-
Other Revenues & Receipts	86,142	-	-	-
TOTAL REVENUES	5,816,747	1,017,652	1,367,481	648
<u>EXPENDITURES:</u>				
Administration	1,008,313	-	-	-
Business & Support Services	686,040	-	-	-
Economic Development / Tourism	-	259,759	-	-
Public Health & Safety:				
Fire/EMS	1,979,890	-	-	-
Police	1,899,551	-	-	-
Municipal Court	171,142	-	-	-
Animal Control	131,741	-	-	-
Library	436,254	-	-	-
Streets	732,961	-	-	-
Maintenance	92,746	-	-	-
Parks & Recreation	282,727	-	-	-
Inspection Services	184,453	-	-	-
Airport Operations	-	-	-	-
Capital Expenditures	394,797	-	-	-
Debt Service: Principal	63,382	16,538	915,000	115,000
Interest & Fees	5,436	19,311	300,925	119,038
TOTAL EXPENDITURES	8,069,433	295,608	1,215,925	234,038
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,252,686)	722,044	151,556	(233,390)
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	2,059,433	-	-	234,038
Operating Transfers Out	(118,000)	(2,521,433)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,941,433	(2,521,433)	-	234,038
Net Change In Fund Balances	(311,253)	(1,799,389)	151,556	648
Fund Balances, Beginning of Year	4,769,873	3,796,550	1,710,487	310,046
Fund Balances, End of Year	\$4,458,620	\$1,997,161	\$1,862,043	\$310,694

The accompanying notes are an integral part of this statement.

Capital Projects (CO2010A)	Capital Projects (CO2012)	Capital Projects Fund LCDC	Other Governmental Funds	Total Governmental Funds
-	-	-	-	\$3,481,731
-	-	-	-	3,034,144
-	-	-	\$42,006	247,129
-	-	-	4,853	216,883
\$558	\$73	\$2,915	8,039	35,753
-	-	-	47,585	985,587
-	-	-	-	66,949
-	-	-	32,540	166,020
-	-	-	-	20,759
-	-	-	245,775	331,917
558	73	2,915	380,798	8,586,872
-	-	-	-	1,008,313
-	-	-	-	686,040
-	-	-	120,419	380,178
-	-	-	-	1,979,890
-	-	-	6,335	1,905,886
-	-	-	-	171,142
-	-	-	-	131,741
-	-	-	33,483	469,737
-	-	-	-	732,961
-	-	-	-	92,746
-	-	-	-	282,727
-	-	-	-	184,453
-	-	-	273,725	273,725
125,048	382,893	3,835,715	14,861	4,753,314
-	-	-	-	1,109,920
-	-	-	-	444,710
125,048	382,893	3,835,715	448,823	14,607,483
(124,490)	(382,820)	(3,832,800)	(68,025)	(6,020,611)
-	80,000	2,237,395	43,038	4,653,904
(213,904)	-	-	(5,038)	(2,858,375)
(213,904)	80,000	2,237,395	38,000	1,795,529
(338,394)	(302,820)	(1,595,405)	(30,025)	(4,225,082)
458,317	314,606	2,190,736	360,953	13,911,568
\$119,923	\$11,786	\$595,331	\$330,928	\$9,686,486

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CITY OF LIBERTY, 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 SEPTEMBER 30, 2015**

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$(4,225,082)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	4,753,314
The depreciation of capital assets used in the governmental activities are not reported in the funds.	(1,034,634)
Interest paid for advance refunding of bonds is expensed in the funds but is deferred and amortized in the SNP. This is the change in amounts this year.	(13,030)
Premium received with bond issuance is revenue in the Funds, but is deferred and amortized in the SNP. This is the change in these amounts this year.	25,543
Certain property taxes are deferred in the funds. This is the change in these amounts this year.	68,711
Interest is not expensed until paid in the funds but is expensed when incurred in the SOA. This is the change in these amounts this year.	2,500
Payables for compensated absences which were not due in the current period are not reported in the funds. This is the change in these amounts this year.	47,345
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	1,109,920
Change in net pension obligation and deferred outflows related to pensions are not reports as expenses in the SOA.	<u>(4,236,132)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$(3,501,545)</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business-Type Activities – Enterprise Funds			
	Electric	Water and Wastewater	Garbage	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS:</u>				
Cash and Cash Equivalents	\$7,411,881	\$593,583	\$387,830	\$8,393,294
Cash – Restricted	11,551	984,243	-	995,794
Accounts Receivable, Net	1,870,420	193,765	52,928	2,117,113
Inventory	223,387	153,571	-	376,958
Due from Other Funds	-	562,237	-	562,237
TOTAL CURRENT ASSETS	9,517,239	2,487,399	440,758	12,445,396
Property, Plant and Equipment	9,837,002	25,347,953	-	35,184,955
Less: Allowance For Depreciation	(3,822,667)	(8,670,758)	-	(12,493,425)
Net Property, Plant and Equipment	6,014,335	16,677,195	-	22,691,530
TOTAL ASSETS	15,531,574	19,164,594	440,758	35,136,926
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES:</u>				
Accounts Payable	2,035,698	23,234	45,668	2,104,600
Customer Overpayments Payable	27,181	-	-	27,181
Due to State/Federal Agencies	35,027	-	4,934	39,961
Due to Other Funds	482,271	109,315	4,937	596,523
Accrued Interest Payable	4,610	10,499	-	15,109
Service Deposits	273,523	45,475	500	319,498
Current Maturities of Long-term Debt	202,867	417,556	-	620,423
TOTAL CURRENT LIABILITIES	3,061,177	606,079	56,039	3,723,295
Long-term Debt, net of Current Portion	865,000	5,275,000	-	6,140,000
TOTAL LIABILITIES	3,926,177	5,881,079	56,039	9,863,295
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-	-
<u>NET POSITION</u>				
Net Investment in Capital Assets	4,970,886	11,260,334	-	16,231,220
Restricted for Debt Service	-	719,703	-	719,703
Unrestricted (Deficit)	6,634,511	1,303,478	384,719	8,322,708
TOTAL NET POSITION	\$11,605,397	\$13,283,515	\$384,719	\$25,273,631

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities – Enterprise Funds			
	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Garbage</u>	<u>Total</u>
<u>OPERATING REVENUES:</u>				
Charges for Services, Net	\$17,348,117	\$2,929,351	\$726,657	\$21,004,125
Connection Fees and Other	5,135	6,589	-	11,724
Investment Income	13,276	4,068	980	18,324
Grant Income	-	2,855	-	2,855
TOTAL OPERATING REVENUES	17,366,528	2,942,863	727,637	21,037,028
<u>OPERATING EXPENSES:</u>				
Power Purchases	15,739,643	-	-	15,739,643
Purchased Power Rebate	(1,095,366)	-	-	(1,095,366)
Personnel Costs	443,489	658,494	-	1,101,983
Distribution Supplies and Contracts	14,363	67,933	560,293	642,589
Maintenance and Repairs	341,946	339,889	-	681,835
Other Charges and Services	23,730	401,026	-	424,756
Interest Expense	68,082	137,890	-	205,972
TOTAL OPERATING EXPENSES	15,535,887	1,605,232	560,293	17,701,412
NET OPERATING INCOME (LOSS) BEFORE DEPRECIATION	1,830,641	1,337,631	167,344	3,335,616
LESS: Depreciation and Amortization	(176,238)	(432,982)	-	(609,220)
NET OPERATING INCOME (LOSS)	1,654,403	904,649	167,344	2,726,396
<u>NONOPERATING REVENUES (EXPENSES):</u>				
SRMPA - Cambridge Distribution	4,000,000	-	-	4,000,000
Gain (Loss) on the Sale of Assets	10,079	(4,334)	-	5,745
TOTAL NONOPERATING REVENUES (EXPENSES)	4,010,079	(4,334)	-	4,005,745
INCOME BEFORE TRANSFERS	5,664,482	900,315	167,344	6,732,141
Operating Transfers In	12,200	201,704	-	213,904
Operating Transfers Out	(1,197,720)	(731,714)	(79,999)	(2,009,433)
CHANGES IN NET POSITION	4,478,962	370,305	87,345	4,936,612
NET POSITION, BEGINNING OF YEAR	7,126,435	12,913,210	297,374	20,337,019
NET POSITION, END OF YEAR	\$11,605,397	\$13,283,515	\$384,719	\$25,273,631

The accompanying notes are an integral part of this statement.

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CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Business-Type Activities – Enterprise Funds			
	Electric	Water & Wastewater	Garbage	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Cash Received from Customers	\$17,664,200	\$2,935,593	\$727,980	\$21,327,773
Cash Received from Suppliers for Rebate	1,095,366	-	-	1,095,366
Cash Paid to Suppliers for Goods and Services	(16,391,497)	(986,770)	(579,098)	(17,957,365)
Cash Paid to Employees for Services	(443,489)	(658,494)	-	(1,101,983)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,924,580	1,290,329	148,882	3,363,791
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>				
Operating Transfers, In (Out)	12,200	201,704	-	213,904
Transfers to General Fund	(1,197,720)	(731,714)	(79,999)	(2,009,433)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(1,185,520)	(530,010)	(79,999)	(1,795,529)
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>				
Interest on Debt Paid	(68,870)	(138,501)	-	(207,371)
Principal Payments on Debts	(180,000)	(407,470)	-	(587,470)
Proceeds from Disposition of Assets	10,079	9,811	-	19,890
Acquisition of Capital Assets	(135,104)	(512,413)	-	(647,517)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(373,895)	(1,048,573)	-	(1,422,468)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Cambridge Revenue	4,000,000	-	-	4,000,000
Interest on Cash and Investments	13,276	4,068	980	18,324
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	4,013,276	4,068	980	4,018,324
NET INCREASE (DECREASE) IN CASH	4,378,441	(284,186)	69,863	4,164,118
CASH & TIME DEPOSITS, BEGINNING OF YEAR	3,044,991	1,862,012	317,967	5,224,970
<u>CASH & TIME DEPOSITS, END OF YEAR</u>	\$7,423,432	\$1,577,826	\$387,830	\$9,389,088
Reconciliation of Income before Capital Contributions and Transfers to Net Cash Provided (Used) by Operating Activities:				
Income Before Capital Contributions and Transfers	\$5,664,482	\$900,315	\$167,344	\$6,732,141
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities -				
(Gain)/Loss on Sale of Assets	(10,079)	4,334	-	(5,745)
Depreciation and Amortization	176,238	432,982	-	609,220
Nonoperating Income	(4,000,000)	-	-	(4,000,000)
Investment Income	(13,276)	(4,068)	(980)	(18,324)
Interest Expense	68,082	137,890	-	205,972
(Increase) Decrease in:				
Accounts Receivable	287,123	(10,375)	1,263	278,011
Inventory	(5,132)	(18,145)	-	(23,277)
Due from Other Funds	128,454	(2,924)	-	125,530
Due from State/Federal Agencies	-	14,634	-	14,634
Increase (Decrease) in:				
Accounts Payable	(332,569)	(261,309)	331	(593,547)
Customer Overpayments	(1,306)	-	-	(1,306)
Due to State/Federal Agencies	1,807	-	57	1,864
Due to Other Funds	(64,570)	94,681	(19,193)	10,918
Service Deposits	25,131	7,173	60	32,364
Compensated Absences Payable	195	(4,859)	-	(4,664)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$1,924,580	\$1,290,329	\$148,882	\$3,363,791

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2015

<u>ASSETS</u>	Employees Pension <u>Trust Fund</u>
Investments, at Fair Value:	
Growth & Income Fund	\$25,154
Money Market Fund	114
Bond Fund	220
Balanced Fund	822
Fixed Income Account	46,475
Foreign Equity Portfolio Fund	12,812
Equity – Income Portfolio Fund	1,412
Growth Portfolio Fund	<u>25,985</u>
TOTAL ASSETS	<u>\$112,994</u>
 <u>NET POSITION</u>	
Net Position of Assets Held In Trust For Pension Benefits	<u>\$112,994</u>
TOTAL NET POSITION	<u>\$112,994</u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2015

	Employees Pension Trust Fund
<u>ADDITIONS:</u>	
Investment Income (Loss), Including Appreciation or Depreciation in Fair Value of Investments	<u>\$(2,256)</u>
TOTAL	<u>(2,256)</u>
<u>DEDUCTIONS:</u>	
Withdrawals	<u>(225)</u>
TOTAL	<u>(225)</u>
CHANGE IN NET POSITION	(2,481)
Net Position – Beginning of Year	<u>115,475</u>
Net Position – End of Year	<u>\$112,994</u>

The accompanying notes are an integral part of this statement.

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CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Liberty, Texas (the City) is a Home Rule City which operates under a City Charter adopted by the voters in 1958. The Charter provides for a Council – Manager form of government comprised of a mayor and six council members. It is the Council's responsibility to appoint a City Manager who is the chief administrative and executive officer of the City.

The City's major operations include public safety, fire protection, emergency medical services, parks and recreation, library, and general administrative services. Additionally, the City operates utility funds for the provision of utilities, including electric, water and wastewater, and garbage services. The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity –

For financial reporting purposes, the City includes all funds, agencies and boards that are controlled by or dependent on the City Council. Control or dependence is determined on the basis of control of the governing board, budget adoption, taxing authority, and responsibility for debts or deficits.

The accompanying financial statements include those of the City of Liberty (the primary government) and its component unit. The Liberty Community Development Corporation (the Corporation), an entity legally separate from the City, is a non-profit industrial development corporation whose purpose is to promote economic development within the City. The Corporation is governed by a seven-member board that is appointed by the City Council. The budget, policies and directives of the Corporation are subject to approval by the City Council. Therefore, the Corporation is reported as if it were part of the City's operations, and is included in the financial reporting entity as a blended component unit. Its financial activity is reported as a major special revenue fund, a debt service fund and a capital projects fund in the accompanying financial statements. There are no other entities that should be included in the City's reporting entity because of significant operational or financial relationships to the City.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation –

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.

Government-Wide Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed through user charges.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues of the City.

Fund Financial Statements: Fund financial statements report detailed information about the City. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental and proprietary fund financial statements is on the major funds rather than reporting funds by type. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Governmental Fund Types: All governmental funds are reported using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become 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. Property taxes receivable, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes are recorded and deferred until they become available. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. The funds included in this category are as follows:

General Fund – This fund is the general operating fund of the City and is used to account for resources and functions traditionally associated with governments that are not required to be accounted for in another fund.

Special Revenue Funds – These funds are established to account for the proceeds of specific revenue sources other than assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, all general obligation indebtedness not serviced by the proprietary funds.

Capital Projects Funds – These funds are used to account for all major capital expenditures not financed by the proprietary or trust funds.

Proprietary Fund Types: All proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating expenses of the City's proprietary fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's funds included in this category are the utility funds and an internal service fund. Utility funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the Council is that the cost of providing certain goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges for those services. Utility funds for the City consist of the Electric Fund, Water and Wastewater Fund, and Garbage Fund.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Types: Fiduciary fund statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. These fund types account for assets held by the City as a trustee or agent for individuals, organizations, and other units of governments. The City currently has one fiduciary fund, the Pension Trust Fund. This fund was established to provide pension benefits for City employees. The principal revenue source for this fund is earnings from investments. The assets of this fund and results of operations have not been combined with other funds of the City in the accompanying financial statements. (See Note 9).

C. Use of Estimates –

The preparation of financial statements in conformity with generally accepted accounting principles, as applicable to governmental entities, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Budgets and Budgetary Accounting –

Prior to September 30, of each year, the City adopts a budget for the fiscal year beginning October 1, of that year. The budget, which includes anticipated revenues and expenditures, is adopted for the Governmental Fund Types and all Proprietary Funds. The budget is amended by the Council as needed throughout the year.

E. Interfund Transactions and Balances –

Interfund transactions intended to reflect the transfer of resources between funds are reflected as transfers. Certain transactions representing short-term liabilities between funds are recorded as receivables and payables in the respective funds at the time the transactions are reported on the fund basis statements.

F. Cash and Cash Equivalents –

For purposes of the Statement of Cash Flows, the City considers all certificates of deposit with a maturity of one year or less when issued to be cash equivalents. Cash deposits and certificates of deposit are reported at their carrying amount, which reasonably estimates fair value.

G. Restricted Cash –

As of September 30, 2015, the City had cash restricted as follows:

	Balances September 30, 2015
Cash Restricted for Debt Service – City Governmental	\$1,797,704
Cash Restricted for Debt Service – LCDC Governmental	301,315
Cash Restricted for Debt Service – Proprietary Funds	730,202
Cash Restricted for Building Security & Technology	53,416
Cash from Certificates of Obligation, Series 2012, Restricted for Capital Improvements	11,786
Cash from Certificates of Obligation, Series 2010A, Restricted for Capital Improvements	111,806
Cash from LCDC Sales Tax Revenue Bonds, Series 2014, Restricted for Capital Projects	638,606
Cash from Certificates of Obligation, Series 2010, Restricted for Electrical Capital Project	11,551
Cash from Bonds Payable, Series 2007, Restricted for Water and Wastewater Capital Project	254,041
Total Restricted Cash	<u>\$3,910,427</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accounts Receivable –

Accounts receivable from electric, water and wastewater, and garbage services are presented net of allowance for doubtful accounts of \$76,153 at September 30, 2015. The change in allowance from prior year has been netted against charges for service revenue.

I. Inventories –

The City does not maintain significant inventories of materials and supplies in the governmental fund types, except for street department materials. Inventories of materials and supplies are maintained for the proprietary funds. The inventory of each fund is recorded at cost (first-in, first-out basis), which is lower than market.

J. Capital Assets and Depreciation –

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets are being depreciated using the straight-line method and depreciation expense for governmental assets is specifically identified by function with general assets being allocated based on a percentage of governmental functional expenditures over total governmental expenditures.

Depreciation expense for the proprietary funds is recorded in each respective proprietary fund. The following estimated useful lives are used for calculating depreciation expense:

	<u>Depreciable Life</u>
Infrastructure	15-40
Building & improvements	15-40
System	15-40
Vehicles	5-7
Heavy equipment	5-10
Office equipment	3-5

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources –

In addition to assets, the statement of financial position includes 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.

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 addition to net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Fund Balances –

Governmental Accounting Standards Board (GASB) Statement No. 54-*Fund Balance Reporting and Government Fund Type Definitions* establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

In the fund financial statements, governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the City Council through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the City Council. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in any other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

For the government-wide financial statements, net position are reported as restricted when constraints placed on net position are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

M. Net Position –

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the city-wide financial statements. Net positions are classified in the following categories:

Net investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Retirement Plan –

During the fiscal year 2002 the City elected to terminate its defined contribution retirement plan and began contributing to a defined benefit retirement plan. All plan costs are funded by the City on a current basis. See additional information in Note 9.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions –

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

B. Deficit Fund Balance or Fund Net Assets of Individual Funds –

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks that address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None		

NOTE 3 – CASH 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.

A. Cash Deposits –

At September 30, 2015, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$18,387,450 and the bank balance was \$18,455,752. The City's cash deposits at September 30, 2015, and during the year ended September 30, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

B. 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 address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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 that 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) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and commercial paper.

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

Investment	Carrying Amount	Market Value
Certificates of Deposit:		
American Express Centurion – 2.05%	\$13,892	\$14,152
American Express Centurion – 2.10%	2,500	2,521
BMW Bank – 1.9%	7,500	7,534
BMW Bank – 2.0%	5,000	5,029
Barclays Bank – 1% to 1.6%	5,000	4,983
Discover Bank -1.95%	10,000	10,085
GE Capital Retail Bank – 1.80%	5,000	5,064
GE Capital – 2.10%	10,000	10,163
Goldman Sachs Bank – 1.80%	7,500	7,598
Goldman Sachs Bank – 1.20%	15,000	14,881
Sallie Mae Bank – 2.15%	25,000	25,043
State Bank of India – 1.35%	5,000	4,973
First Liberty National Bank - #644706-16	504	504
First Liberty National Bank - #644706-27	27,406	27,406
Mutual Funds:		
American Funds Capital Income Builder	10,000	11,112
Franklin Templeton Income A	8,800	8,479
Franklin Templeton High Income	8,800	7,884
American Funds Income Fund of America A	10,000	11,918
Federated High Income Bond Fund A #317	8,498	6,135
Equity Funds:		
American Funds Capital World Growth & Income	9,069	9,392
Franklin Templeton Rising Dividends	7,058	10,092
Franklin Templeton Founding Allocation	7,125	6,809
American Funds Washington Mutual A	8,512	10,158
American Funds New Perspective A	8,897	10,069
	<u>\$226,061</u>	<u>\$231,984</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

C. 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:

1. 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. The following investments had the respective Morningstar Ratings (Morningstar 5 - highest to Morningstar 1 - lowest) at September 30, 2015.

At September 30, 2015, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

Investment	Credit Rating
Mutual Funds:	
American Funds Capital Income Builder	Morningstar Rating 3
Franklin Templeton Income A	Morningstar Rating 3
Franklin Templeton High Income	Morningstar Rating 2
American Funds Income Fund of America A	Morningstar Rating 3
Federated High Income Bond Fund A #317	Morningstar Rating 3
Equity Funds:	
American Funds Capital World Growth & Income	Morningstar Rating 3
Franklin Templeton Rising Dividends	Morningstar Rating 2
Franklin Templeton Founding Allocation	Morningstar Rating 2
American Funds Washington Mutual A	Morningstar Rating 4
American Funds New Perspective A	Morningstar Rating 4

2. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year-end, the City was not exposed to custodial credit risk.

3. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the City was not exposed to concentration of credit risk.

4. 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 was not exposed to interest rate risk.

5. 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.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4 – PROPERTY TAXES

Taxable property within the City is subject to assessment, levy and collection of ad valorem taxes necessary to provide for the payment of general obligation indebtedness, and to support the general governmental services provided. The City's Charter adopts the provisions of Article XI, Section 5 of the Texas Constitution, which limits the tax rate that the City can levy for all purposes to \$2.50 per \$100 valuation. The total tax rate for the fiscal year ended September 30, 2015, was \$0.5900 per \$100 assessed valuation based on the total net assessed value of \$585,353,780. This includes a debt service rate of \$0.2291 per \$100 assessed valuation and a maintenance and operations rate of \$0.3609 per \$100 assessed valuation.

Taxes are levied on October 1 of each year, and are payable without penalty or interest through the following January 31. The City recognizes property tax revenue when levied to the extent that it results in current receivables. Property taxes are collected and remitted to the City by the Liberty County Tax Assessor Collector's office.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes receivable of \$384,552 at September 30, 2015, are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE 5 – DUE TO/FROM OTHER FUNDS

As of September 30, 2015, interfund receivables and payables consisted of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Garbage Fund	\$2,407	Sales Tax Collection
General Fund	Electric Fund	262,727	Short term loan
General Fund-Fixed Asset Repl.	Electric Fund	219,544	Short term loan
General Fund	LCDC	88	Short term loan
General Fund	Cap Proj. (2012)	50,000	Short term loan
General Fund-Fixed Asset Repl.	Water & Wastewater	109,315	Short term loan
LCDC	Garbage	2,530	Sales Tax Collection
Debt Service	General Fund	59,753	Tax Collection
LCDC Debt Service	LCDC	9,379	Return of Deposit
Cap. Proj. (2010A)	General Fund	8,117	Short term loan
Airport	General Fund	2,878	Short term loan
Water & Wastewater	General Fund	562,237	Short term loan
		<u>\$1,288,975</u>	

All amounts due are scheduled to be repaid within one year.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6 – TRANSFERS BETWEEN FUNDS

Transfers between funds during 2015 consisted of the following:

<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$1,197,720
General Fund	Water & Wastewater Fund	731,714
General Fund	Garbage Fund	79,999
General Fund	LCDC	50,000
	Total	\$2,059,433

Electric	Cap Proj (2010A)	<u>\$12,200</u>
Water & Wastewater Fund	Capital Projects Fund (2010A)	<u>\$201,704</u>
Airport Fund	General Fund	<u>\$38,000</u>
Capital Projects (2012)	General Fund	<u>\$80,000</u>
Library Memorial Fund	Municipal Library Trust	<u>\$5,038</u>
LCDC Debt Service Fund	LCDC Fund	<u>\$234,038</u>
LCDC Capital Project Fund	LCDC Fund	<u>\$2,237,395</u>

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases & Transfers</u>	<u>Ending Balances</u>
<u>Governmental Activities:</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$1,306,722	\$11,000	-	\$1,317,722
Construction in Progress	4,318,626	4,464,660	-	8,783,286
Total Capital Assets Not Being Depreciated	<u>5,625,348</u>	<u>4,475,660</u>	<u>-</u>	<u>10,101,008</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	13,977,858	16,206	-	13,994,064
Infrastructure	47,220,046	14,771	-	47,234,817
Vehicles	2,009,356	102,729	\$(163,896)	1,948,189
Furniture and Equipment	3,691,952	143,948	(61,711)	3,774,189
Assets Held Under Capital Lease	365,000	-	-	365,000
Total Capital Assets Being Depreciated	<u>67,264,212</u>	<u>277,654</u>	<u>(225,607)</u>	<u>67,316,259</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	5,686,512	336,764	-	6,023,276
Infrastructure	38,925,899	245,036	-	39,170,935
Vehicles	1,168,533	177,188	(275,224)	1,070,497
Furniture and Equipment	2,804,806	251,313	49,617	3,105,736
Assets Held Under Capital Lease	42,583	24,333	-	66,916
Total Accumulated Depreciation	<u>48,628,333</u>	<u>1,034,634</u>	<u>(225,607)</u>	<u>49,437,360</u>
Total Capital Assets Being Depreciated, Net	<u>18,635,879</u>	<u>(756,980)</u>	<u>-</u>	<u>17,878,899</u>
Governmental Activities Capital Assets, Net	<u>\$24,261,227</u>	<u>\$3,718,680</u>	<u>\$-</u>	<u>\$27,979,907</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation was charged to functional expenditures as follows:

Governmental Activities:

Administration	\$37,206
Business and Support Services	23,791
Economic Development	13,184
Fire /EMS	327,997
Police	188,393
Municipal Court	5,935
Animal Control	4,569
Library	162,049
Streets	90,620
Maintenance	9,807
Parks & Recreation	38,080
Inspection Services	12,223
Airport Operations	120,780
Total Depreciation Expense	<u>\$1,034,634</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases & Transfers</u>	<u>Ending Balances</u>
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$2,568	-	-	\$2,568
Construction in Progress	12,579,598	\$224,654	\$(1,408,556)	11,395,696
Total Capital Assets Not Being Depreciated	<u>12,582,166</u>	<u>224,654</u>	<u>(1,408,556)</u>	<u>11,398,264</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	1,279,482	-	(230,000)	1,049,482
System Improvements	19,744,858	265,081	1,408,556	21,418,495
Vehicles	608,740	-	(225,635)	383,105
Furniture and Equipment	779,698	157,782	(234,535)	702,945
Assets Held Under Capital Lease	232,664	-	-	232,664
Total Capital Assets Being Depreciated	<u>22,645,442</u>	<u>422,863</u>	<u>718,386</u>	<u>23,786,691</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	517,131	24,874	(215,856)	326,149
System Improvements	10,587,182	488,361	-	11,075,543
Vehicles	551,397	29,062	(225,635)	354,824
Furniture and Equipment	716,173	33,685	(234,535)	515,323
Assets Held Under Capital Lease	188,348	33,238	-	221,586
Total Accumulated Depreciation	<u>12,560,231</u>	<u>609,220</u>	<u>(676,026)</u>	<u>12,493,425</u>
Total Capital Assets Being Depreciated, Net	<u>10,085,211</u>	<u>(186,357)</u>	<u>1,394,412</u>	<u>11,293,266</u>
Business-type Activities Capital Assets, Net	<u>\$22,667,377</u>	<u>\$38,297</u>	<u>\$(14,144)</u>	<u>\$22,691,530</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation was charged to functional expenditures as follows:

Business-type Activities	
Water & Wastewater	\$432,982
Electric	<u>176,238</u>
Total Depreciation Expense	<u>\$609,220</u>

NOTE 8 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2015 was as follows:

	Rate	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due in One Year
Governmental Activities:						
Bonds, Notes and Leases:						
General Obligation						
Refunding Bonds, Series 2010 (Maturing 3/1/16)	2.0-3.0%	\$1,030,000	-	\$(510,000)	\$520,000	\$520,000
Certificates of Obligation, Series 2010A (Maturing 3/1/2030)	2.0-4.0%	4,370,000	-	(105,000)	4,265,000	105,000
Tax & Revenue Certificates Of Obligation, Series 2012 (Maturing 3/1/2032)	2.0-4.0%	1,655,000	-	(60,000)	1,595,000	65,000
General Obligation						
Refunding Bonds, Series 2012 (Maturing 3/1/24)	2.0-2.5%	2,630,000	-	(240,000)	2,390,000	245,000
Note Payable, FLNB	3.25%	23,138	-	(23,138)	-	-
Capital Lease-Fire Truck		221,683	-	(40,243)	181,440	41,155
LCDC Sales Tax Bonds, Series 2014 (Maturing 3/1/2034)						
	3.0-4.0%	3,215,000	-	(115,000)	3,100,000	115,000
LCDC Note Payable ,HGAC	4.0%	490,289	-	(16,538)	473,751	17,212
Other Liabilities:						
Compensated Absences		419,970	\$270,258	(317,603)	372,625	372,625
Total Governmental Activities		<u>\$14,055,080</u>	<u>\$270,258</u>	<u>\$(1,427,522)</u>	<u>\$12,897,816</u>	<u>\$1,480,992</u>
Business-type Activities:						
Bonds, Notes and Leases:						
Tax & Revenue Certificates of Obligation, Series 2007 (Maturing 3/1/28)	1.9-2.55%	\$6,025,000	-	\$(370,000)	\$5,655,000	\$380,000
Tax & Revenue Certificates of Obligation, Series 2010 (Maturing 9/1/20)	5.5%	1,235,000	-	(180,000)	1,055,000	190,000
Capital Lease – W & VWW		53,371	-	(37,470)	15,901	15,901
Other Liabilities:						
Compensated Absences		39,184	\$30,917	(35,579)	34,522	34,522
Total Business-type Activities		<u>\$7,352,555</u>	<u>\$30,917</u>	<u>\$(623,049)</u>	<u>\$6,760,423</u>	<u>\$620,423</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8- LONG TERM LIABILITIES (CONTINUED)

Governmental Activity Bonds and Certificates of Obligation

General obligation bonds and certificates are serviced by the debt service fund. The amount of long-term debt that can be incurred by the City is not limited by state statute or the City's Home Rule Charter. The only limitation would be the overall tax rate limitation of \$2.50 per \$100 assessed valuation. Bond covenants for the general obligation bonds and certificates of obligation require the City to levy a tax sufficient to pay the current interest and principal of the debt. During the current year, the City was in compliance with these bond covenants. Principal and interest requirements to retire the City's general long-term bonds and certificates of obligation are as follows as of September 30, 2015:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2016	\$935,000	\$276,800	\$1,211,800
2017	555,000	257,625	812,625
2018	560,000	243,025	803,025
2019	585,000	226,425	811,425
2020	600,000	208,775	808,775
2021-2025	3,000,000	749,488	3,749,488
2026-2030	2,290,000	285,200	2,575,200
2031-2032	245,000	9,900	254,900
Total	\$8,770,000	\$2,257,238	\$11,027,238

In October, 2012, the City issued \$2.7 million General Obligation Refunding Bonds, Series 2012. The bonds were issued to effect an advance refunding of a substantial portion of the Certificates of Obligation, Series 2004. The proceeds from the issuance were placed with a trustee such that funds would be available to pay the debt on the refunding date. As such, the debt is considered defeased and is no longer considered a liability of the City. In accordance with GASB Statement No. 65, the amount placed with the trustee that represents interest on the refunded debt has been deferred in the governmental activities statement of net position and amortized to expense over the term of the new debt issued.

In April, 2012, the City issued \$1.75 million Tax and Revenue Certificates of Obligation, Series 2012. The funds will be utilized to construct, improve and equip certain municipal buildings including the police station, cultural center and public works. The bonds are to be paid from a tax levy on appraised property in the city. The bonds are further secured by surplus revenues of the water and sewer system of the City. The remaining proceeds of the debt issuance are reflected as restricted cash as of September 30, 2015.

In September, 2010, the City issued General Obligation Refunding Bonds, Series 2010 of \$3.1 million and refunded both the Tax Anticipation Notes of \$975 thousand that had been issued earlier in the year and the General Obligation Refunding Bonds, Series 1998. The interest rate on the Series 2010 bonds is lower than both of the debt issuances that were refunded. Additionally, in September, 2010, the City issued Certificates of Obligation, Series 2010A of \$4.7 million. The purpose of the Series 2010A issuance is to provide funding for the various capital needs of the City. The remaining proceeds of the debt issuances are reflected as restricted cash as of September 30, 2015.

In March, 2014, the LCDC issued Sales Tax Revenue Bonds, Series 2014 of \$3.215 million for a street construction project within the City of Liberty. The bonds will be paid from the one-half cent sales tax collected each year. Principal and interest requirements to retire LCDC's long-term bonds are as follows as of September 30, 2015:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2016	\$115,000	\$115,088	\$230,088
2017	120,000	111,563	231,563
2018	125,000	107,888	232,888
2019	130,000	104,063	234,063
2020	130,000	99,513	229,513
2021-2025	745,000	417,420	1,162,420
2026-2030	885,000	268,813	1,153,813
2031-2032	850,000	73,700	923,700
Total	\$3,100,000	\$1,298,048	\$4,398,048

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8- LONG TERM LIABILITIES (CONTINUED)

Governmental Activities Notes Payable

During January, 2012, the City financed the purchase of police cars by issuing a note payable to First Liberty National Bank. The note was paid in full during fiscal 2015.

During July, 2014, LCDC financed the purchase of a fire truck for the City of Liberty by issuing a note payable through Houston Galveston Area Council on Governments. The note will be paid back utilizing sales tax revenue of LCDC. The future debt service requirements on the note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2016	\$17,212	\$18,636	\$35,848
2017	17,913	17,935	35,848
2018	18,643	17,205	35,848
2019	19,402	16,446	35,848
2020	20,193	15,655	35,848
2021-2025	113,995	65,247	179,242
2026-2030	139,187	40,055	179,242
2031-2034	127,206	10,215	137,421
Total	\$473,751	\$201,394	\$675,145

Business-type Activities Bonds and Certificates of Obligation

The City also has debt obligations in the proprietary funds. That debt will be paid from the net revenues of the utility systems. Principal and interest requirements to retire the proprietary funds debt obligations are as follows:

<u>Fiscal Year</u>	<u>Water & Wastewater Fund Certificate of Obligation, Series 2007</u>		<u>Electric Fund Certificates of Obligation, Series 2010</u>		<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016	\$380,000	\$128,680	\$190,000	\$58,026	\$756,706
2017	385,000	120,743	200,000	47,576	753,319
2018	395,000	112,454	210,000	36,576	754,030
2019	405,000	103,651	220,000	25,026	753,677
2020	415,000	94,426	235,000	12,926	757,352
2021-2025	2,210,000	321,474	-	-	2,531,474
2026-2028	1,465,000	56,555	-	-	1,521,555
Total	\$5,655,000	\$937,983	\$1,055,000	\$180,130	\$7,828,113

In May, 2010, the City issued \$2.5 million Tax and Revenue Certificates of Obligation, Series 2010. The funds will be utilized for extensions and improvements to the electrical system of the City. The bonds will be paid from the revenues of the utility system. The remaining net proceeds from the debt issuance is reflected as restricted cash as of September 30, 2015.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8- LONG TERM LIABILITIES (CONTINUED)

Governmental Activities Capital Leases

During 2013, the City entered into a capital lease for the purchase of a fire truck. Property held under capital leases at September 30, 2015 totaled \$365,000. Future minimum lease payments for the capital lease as of September 30, 2015, are as follows:

<u>Year Ending September 30,</u>	
2016	\$44,893
2017	44,893
2018	44,893
2019	44,893
2020	4,258
Total	183,830
Amount Representing Interest	(2,390)
Total	<u>\$181,440</u>

Business-type Activities Capital Leases

During 2009, the City entered into capital leases for the purchase of certain equipment in the water and wastewater fund. Property held under the capital leases at September 30, 2015, totaled \$232,664 in the water and wastewater fund. Future minimum lease payments for the capital lease as of September 30, 2015, are as follows:

<u>Year Ending September 30,</u>	
2016	\$19,558
Total	19,558
Amount Representing Interest	(3,657)
Total	<u>\$15,901</u>

Compensated Absences

City employees are entitled to certain compensated absences based on the length of their employment. Sick leave may be carried from one year to the next year. Employees with more than five years of service with the City will be paid for unused sick leave upon separation of employment. The amount of leave is based on their length of service with the maximum amount paid between 20 days and 60 days. Compensation for vacation time may be carried from one year to the next year. Employees will be paid for unused vacation time up to two times their annual vacation days upon separation of employment. Unused accrued vacation in excess of these days will not be reimbursed. Additionally, employees can accumulate up to 40 hours per year in compensation time to be used as time off from work. Accrued compensated absences at September 30, 2015, were \$407,147.

NOTE 9 - RETIREMENT PLANS

A. Employee Pension Plan -

Substantially all full time employees of the City of Liberty were covered by the City of Liberty Employee Pension Plan, a qualified defined contribution retirement plan. During fiscal year 2002, the City terminated the plan. The plan was established by action of the City Council, and the City acts as plan administrator. The City funded all costs on a current basis through contributions equal to 10% of the qualifying gross salary of participating employees. No employee contributions were required for participation. The City did not incur any costs under the plan for the year ended September 30, 2015. Additionally, the City has no unfunded liabilities to the plan. Employees' interest are vested at the rate of 10% per year for the first four years of employment, and 20% per year for the next three years of employment, with 100% vesting after seven years. Due to the plan termination during 2002, the participants were allowed to rollover their vested amounts upon termination of the plan. A separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are presented in the accompanying financial statements.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 9 – RETIREMENT PLANS (CONTINUED)

B. TMRS Pension Plan –

1. Description of Plan –

The City participates as one of 860 plans in the non-traditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. The TMRS defined benefit pension plan is a tax-qualified plan under Section 401(1) of the Internal Revenue code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided -

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

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

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:

Deposit rate:	7%
Matching Ratio (City to Employee):	2 to 1
Vesting Period:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibility for the City, expressed as Age/ Years of Service is: "60/5, any age/20."

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

Inactive employees or beneficiaries currently receiving benefits	26
Inactive employees entitled to but not yet receiving benefits	97
Active employees	98
	<u>221</u>

3. Contributions –

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 earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.96% and 16.83% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$341,785 and were equal to the required contributions.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 9 – RETIREMENT PLANS (CONTINUED)

4. 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

	<u>12/31/14</u>
Investment rate of return	7.0%
Inflation	3%
Overall payroll growth	3%

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

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return (Arithmetic)</u>
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	<u>100.0%</u>	

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 9 – RETIREMENT PLANS (CONTINUED)

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 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.

	<u>Increase (Decrease)</u>		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2013	\$7,106,719	\$6,487,984	\$618,735
Changes for the year:			
Service cost	318,408	-	318,408
Interest	780,406	-	780,406
Change in benefit terms	4,030,494	-	4,030,494
Difference between expected and actual experience	325,260	-	325,260
Changes in assumptions	-	-	-
Contributions – employer	-	201,943	(201,943)
Contributions – employee	-	204,251	(204,251)
Net investment income	-	371,202	(371,202)
Benefit payments, including refunds of employee contributions	(295,510)	(295,510)	-
Administrative expense	-	(3,875)	3,875
Other changes	-	(319)	319
Net changes	5,159,058	477,692	4,681,366
Balance at 12/31/2014	\$12,265,777	\$6,965,676	\$5,300,101

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

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$7,040,058	\$5,300,101	\$3,862,404

Pension Plan Fiduciary Net Position

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

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 9 – RETIREMENT PLANS (CONTINUED)

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

For the year ended September 30, 2015, the City recognized pension expense of \$4,236,132. At yearend, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$307,390	\$-
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement Date	283,052	-
Total	<u>\$590,442</u>	<u>\$-</u>

\$283,052 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 of resources related to pensions will be recognized in pension expense as follows:

	<u>Net Deferred Outflows (Inflows)</u>
Year Ended September 30:	
2016	\$100,827
2017	100,827
2018	89,143
2019	16,593
Total	<u>\$307,390</u>

6. Deferred Compensation Plan –

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The group plan is basically available for all full-time employees on a strictly voluntary basis. No contributions are made by the City to this plan. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by Ing Life Insurance and Annuity Company. The plan assets are held in trust for the exclusive benefits of the participants and their beneficiaries. The plan assets are not included in the financial statements of the City.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 10 – ELECTRIC SYSTEM

The City owns and operates a municipal electric distribution system for the benefit of its citizens. The electric distribution system consists of distribution lines, two substations (which are owned and operated by Sam Rayburn Municipal Power Agency) and interconnected transmission lines of Entergy Gulf States, which supply power to the City's system. The City furnishes electric service to its customers solely within its City limits.

The City is one of three voting members (consisting of the Cities of Liberty, Livingston, and Jasper, Texas) of the Sam Rayburn Municipal Power Agency (SRMPA). The SRMPA is a political subdivision of the State of Texas and is governed by a board of six directors, two of which are appointed by each member city.

SRMPA was formed to undertake the planning, financing, development, acquisition and operation of projects for the generation and transmission of electric power to supply the present and future needs of the member cities and the Vinton (Louisiana) Public Power Agency (the Participants). Each Participant is required by contract with SRMPA, to purchase its electrical requirements from SRMPA, and to pay liabilities under such contract as an operating and maintenance expense to its electrical system. An integral part of the bond indenture for long-term debt of SRMPA, are covenants that SRMPA will establish rates for electric power to the Participants sufficient to pay all debt service requirements (including funding of required reserves), all operating and maintenance costs of repairs and improvements. The City, as a Participant, is required to establish rates to its customers sufficient to meet its obligations to SRMPA under the exclusive power sales contract. As a result of SRMPA restructuring its debts, the City continued to receive a rebate on power costs due to overfunded debt service accounts of \$1,095,366 during 2015. This rebate is being used to defray the cost of purchased power. (See special item discussion in Note 15)

NOTE 11 – LIBERTY COMMUNITY DEVELOPMENT CORPORATION

As indicated in Note 1, the Liberty Community Development Corporation (LCDC) is a non-profit industrial development corporation whose purpose is to promote economic development within the City of Liberty. Due to the control and financial dependence exerted by the City over the Corporation, that entity is considered a component unit of the City for financial reporting purposes, and its financial activity is included in the accompanying financial statements as a special revenue fund. The Corporation is funded by a one-half (1/2) cent sales tax which became effective as of October 1995. During 2014, LCDC issued \$3.2 million of sales tax revenue bonds for a street construction project. The accompanying financial statements include an LCDC capital project fund and an LCDC debt service fund associated with the bonds.

NOTE 12 – JOINT OPERATING AGREEMENT, PORT OF LIBERTY

Commencing in 1968, the City of Liberty entered into a joint operating agreement with the Chambers-Liberty Counties Navigation District (the District) which established certain terms with respect to the operation of the Port of Liberty (the Port). The Port facilities were constructed on land owned jointly by the City and the District, and the board of commissioners of the Port are appointed jointly by the City and the District, but neither entity can unilaterally appoint a majority of the board. The board of the Port is responsible for selection of management, development of a budget, and for continuing operations of the Port. The City does not account for revenues or expenditures for Port activities. The Port of Liberty has separate audited financial statements which may be obtained by contacting Port officials.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 13 – INTERGOVERNMENTAL REVENUES AND GRANTS

The City received funding from federal and state programs as well as private grants as follows:

General Fund:	
County Fire Aid	\$3,700
East Texas Gulf Coast Regional	5,953
Division of Emergency Management - Emergency Management	
Performance Grant	54,892
Indigent Defense Fee	1,745
Police – LEOSE	659
Total General Fund	<u>\$66,949</u>
Proprietary Funds:	
Water & Wastewater Fund – Community Development Block Grant	<u>\$2,855</u>
	<u>\$2,855</u>

NOTE 14 – RISK MANAGEMENT AND CONTINGENCIES

The City is exposed to various risks of losses related to torts; theft, damage, or destruction of assets; errors and omission; injuries to employees or others; and natural disasters. The City's primary risk management activity is to maintain various types of insurance coverage to cover any significant losses that might be incurred.

The City is contingently liable with respect to claims or litigation arising from the ordinary course of operations. The settlement of such claims would require budget appropriations of future revenues. City officials have asserted that they have no significant pending or threatened litigation, or claims against the City that would have a material adverse effect on the financial position of the City. Federal and State funds received during the current year and prior years through various grant programs are subject to audit by the applicable agencies. The City does not anticipate any substantial disallowance of project costs for any of the projects.

NOTE 15 – SPECIAL ITEMS

As discussed in Note 10, the City is a member of SRMPA for electrical power purposes. In 2012, SRMPA entered into supplemental agreements to sell excess electrical capacity to third parties. Such agreements were named the "Cambridge Project" and the activities are not commingled with the normal operation of SRMPA. During 2015, the City received \$4.0 million from SRMPA for Cambridge Project net profits.

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 2014, the City adopted new accounting guidance under GASB Statement No. 68, Accounting and Financial Reporting for Pensions. In accordance with the statement, pension liabilities are recorded as liabilities of the District. Changes in the pension liability are charged to pension expense each year. Additionally, certain pension related amounts are recorded as deferred inflows or outflows. As a result, the City has recorded a reduction in net position of \$473,527 for the cumulative effect of the change in accounting principle which represents the pension liability on the effective date.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LIBERTY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL (BUDGETARY BASIS) – GENERAL
AND MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED SEPTEMBER 30, 2015**

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES:				
Ad Valorem Taxes	\$2,235,000	\$2,235,000	\$2,118,639	\$(116,361)
Sales Tax	2,200,000	2,200,000	2,023,822	(176,178)
Other Taxes	200,000	200,000	205,123	5,123
Fines & Forfeitures	140,850	140,850	212,030	71,180
Investment Income	4,000	4,000	11,801	7,801
Licenses, Fees, & Rents	733,700	733,700	938,002	204,302
Intergovernmental Transfers & Grants	71,100	71,100	66,949	(4,151)
Other Revenues & Receipts	100,500	100,500	240,381	139,881
TOTAL REVENUES	5,685,150	5,685,150	5,816,747	131,597
EXPENDITURES:				
Administration & City Council	1,017,467	1,017,467	1,008,313	9,154
Business & Support Services	698,773	698,773	686,040	12,733
Public Health & Safety:				
Fire	1,997,200	1,997,200	1,979,890	17,310
Police	2,174,686	2,174,686	1,899,551	275,135
Municipal Court	165,649	165,649	171,142	(5,493)
Animal Control	138,182	138,182	131,741	6,441
Library	488,559	488,559	436,254	52,305
Streets	1,052,002	1,052,002	732,961	319,041
Maintenance	93,498	93,498	92,746	752
Parks & Recreation	336,546	336,546	282,727	53,819
Inspection Services	226,017	226,017	184,453	41,564
Capital Expenditures	156,933	156,933	394,797	(237,864)
Debt Service	-	-	68,818	(68,818)
TOTAL EXPENDITURES	8,545,512	8,545,512	8,069,433	476,079
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,860,362)	(2,860,362)	(2,252,686)	607,676
OTHER FINANCING SOURCES:				
Transfers from Other Funds	2,805,004	2,805,004	2,059,433	(745,571)
Transfers to Other Funds	-	-	(118,000)	(118,000)
TOTAL OTHER FINANCING SOURCES	2,805,004	2,805,004	1,941,433	(863,571)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	(55,358)	(55,358)	(311,253)	(255,895)
FUND BALANCES, BEGINNING OF YEAR	4,769,873	4,769,873	4,769,873	-
FUND BALANCES, END OF YEAR	\$4,714,515	\$4,714,515	\$4,458,620	\$(255,895)

(A) Budgetary information includes Fixed Asset Replacement Fund

Liberty Community Development Corporation			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	-
\$1,100,000	\$1,100,000	\$1,010,322	\$(89,678)
-	-	-	-
5,000	5,000	7,330	2,330
-	-	-	-
-	-	-	-
1,105,000	1,105,000	1,017,652	(87,348)
-	-	-	-
820,712	820,712	259,759	560,953
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
234,288	234,288	35,849	198,439
1,055,000	1,055,000	295,608	759,392
50,000	50,000	722,044	672,044
-	-	-	-
(2,237,395)	(2,237,395)	(2,521,433)	(284,038)
(2,237,395)	(2,237,395)	(2,521,433)	(284,038)
(2,187,395)	(2,187,395)	(1,799,389)	388,006
3,796,550	3,796,550	3,796,550	-
\$1,609,155	\$1,609,155	\$1,997,161	\$388,006

Debt Service			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
\$1,360,000	\$1,360,000	\$1,363,092	\$3,092
-	-	-	-
-	-	-	-
3,500	3,500	4,389	889
-	-	-	-
-	-	-	-
1,363,500	1,363,500	1,367,481	3,981
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,464,352	1,464,352	1,215,925	248,427
1,464,352	1,464,352	1,215,925	248,427
(100,852)	(100,852)	151,556	252,408
247,926	247,926	-	(247,926)
-	-	-	-
247,926	247,926	-	(247,926)
147,074	147,074	151,556	4,482
1,710,487	1,710,487	1,710,487	-
\$1,857,561	\$1,857,561	\$1,862,043	\$4,482

CITY OF LIBERTY, TEXAS**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2015**

	<u>2014</u>
Total Pension Liability	
Service Cost	\$318,408
Interest (on the Total Pension Liability)	780,406
Changes of Benefit Terms	4,030,494
Difference Between Expected and Actual Experience	325,260
Change of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(295,510)</u>
Net Change in Total Pension Liability	5,159,058
Total Pension Liability – Beginning	<u>7,106,719</u>
Total Pension Liability – Ending (a)	<u><u>\$12,265,777</u></u>
 Plan Fiduciary Net Position	
Contributions – Employer	\$201,943
Contributions – Employee	204,251
Net Investment Income	371,202
Benefit Payments, Including Refunds of Employee Contributions	(295,510)
Administrative Expense	(3,875)
Other	<u>(319)</u>
Net Change in Plan Fiduciary Net Position	477,692
Plan Fiduciary Net Position – Beginning	<u>6,487,984</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$6,965,676</u></u>
 Net Pension Liability – Ending (a) – (b)	<u><u>\$5,300,101</u></u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u><u>56.79%</u></u>
 Covered Employee Payroll	<u><u>\$4,085,010</u></u>
 Net Pension Liability as a Percentage of Covered Employee Payroll	<u><u>129.75%</u></u>

The accompanying Independent Auditor's Report should be read with this additional information.

CITY OF LIBERTY, TEXAS
SCHEDULE OF CONTRIBUTIONS -
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2015

	<u>9/30/2015</u>
Actuarially Determined Contribution	\$341,785
Contributions in Relation to the Actuarially Determined Contribution	<u>341,785</u>
Contribution Deficiency (Excess)	<u>-</u>
Covered Employee Payroll	<u>\$2,865,965</u>
Contributions as a Percentage of Covered Employee Payroll	<u>11.92%</u>

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January thirteen 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	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.5% 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.

Other Information:

- 1) Granted 100% ad hoc USC with transfer
- 2) Increased employee contribution rate from 5% to 7%

The accompanying Independent Auditor's Report should be read with this additional information.

SUPPLEMENTAL SECTION

CITY OF LIBERTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
<u>ASSETS</u>				
Cash & Cash Equivalents	\$7,752	\$9,110	-	\$41,345
Investments	-	-	-	-
Due from State	-	-	-	-
Interfund Receivable	-	-	\$2,878	-
TOTAL ASSETS	7,752	9,110	2,878	41,345
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$7,752	\$9,110	\$2,878	\$41,345
<u>LIABILITIES</u>				
Accounts Payable	\$309	-	\$2,673	-
Due to State	-	\$9,110	-	-
Interfund Payable	-	-	-	-
TOTAL LIABILITIES	309	9,110	2,673	-
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-	-
<u>FUND BALANCES</u>				
Committed Fund Balances	7,443	-	205	\$41,345
TOTAL FUND BALANCES	7,443	-	205	41,345
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$7,752	\$9,110	\$2,878	\$41,345

The accompanying Independent Auditor's Report should be read with this additional information.

Library Memorial Fund	Municipal Library Trust	Planning Grant Fund	Total Nonmajor Special Revenue Funds
\$51,729	\$4,145	-	\$114,081
-	226,061	-	226,061
-	-	\$55,000	55,000
-	-	-	2,878
<u>51,729</u>	<u>230,206</u>	<u>55,000</u>	<u>398,020</u>
-	-	-	-
<u>\$51,729</u>	<u>\$230,206</u>	<u>\$55,000</u>	<u>\$398,020</u>
-	-	\$55,000	\$57,982
-	-	-	9,110
-	-	-	-
-	-	<u>55,000</u>	<u>67,092</u>
-	-	-	-
<u>\$51,729</u>	<u>\$230,206</u>	<u>-</u>	<u>330,928</u>
<u>51,729</u>	<u>230,206</u>	<u>-</u>	<u>330,928</u>
<u>\$51,729</u>	<u>\$230,206</u>	<u>\$55,000</u>	<u>\$398,020</u>

CITY OF LIBERTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED SEPTEMBER 30, 2015

	Police Seizure Fund	Police Pre-Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
<u>REVENUES:</u>				
Other Taxes	-	-	-	\$42,006
Forfeiture	\$4,853	-	-	-
Investment Income	30	-	-	-
Rents	-	-	\$47,585	-
Intergovernmental Grants	-	-	-	-
Grants and Donations	-	-	-	10,125
Other Revenues & Receipts	-	-	203,113	42,662
TOTAL REVENUES	4,883	-	250,698	94,793
<u>EXPENDITURES:</u>				
Administration	-	-	-	-
Economic Development / Tourism	-	-	-	120,419
Public Health and Safety:				
Police	6,335	-	-	-
Library	-	-	-	-
Parks and Recreation	-	-	-	-
Airport	-	-	273,725	-
Capital Expenditure	-	-	14,861	-
TOTAL EXPENDITURES	6,335	-	288,586	120,419
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,452)	-	(37,888)	(25,626)
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	-	-	38,000	-
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	38,000	-
Net Change in Fund Balance	(1,452)	-	112	(25,626)
Fund Balances, Beginning of Year	8,895	-	93	66,971
Fund Balances, End of Year	\$7,443	\$ -	\$ 205	\$41,345

The accompanying Independent Auditor's Report should be read with this additional information.

Library Memorial Fund	Municipal Library Trust	Planning Grant Fund	Total Nonmajor Special Revenue Funds
-	-	-	\$42,006
-	-	-	4,853
\$38	\$7,971	-	8,039
-	-	-	47,585
-	-	-	-
22,415	-	-	32,540
-	-	-	245,775
<u>22,453</u>	<u>7,971</u>	<u>-</u>	<u>380,798</u>
-	-	-	-
-	-	-	120,419
-	-	-	6,335
33,483	-	-	33,483
-	-	-	-
-	-	-	273,725
-	-	-	14,861
<u>33,483</u>	<u>-</u>	<u>-</u>	<u>448,823</u>
<u>(11,030)</u>	<u>7,971</u>	<u>-</u>	<u>(68,025)</u>
5,038	-	-	43,038
-	(5,038)	-	(5,038)
<u>5,038</u>	<u>(5,038)</u>	<u>-</u>	<u>38,000</u>
(5,992)	2,933	-	(30,025)
57,721	227,273	-	360,953
<u>\$51,729</u>	<u>\$230,206</u>	<u>\$-</u>	<u>\$330,928</u>

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OTHER FINANCIAL AND STATISTICAL INFORMATION

CITY OF LIBERTY, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>
2005-2006	\$2,047,321	\$1,897,959	93%	\$74,092	\$1,972,051
2006-2007	2,014,798	1,899,836	94%	75,324	1,975,160
2007-2008	2,381,165	2,197,462	92%	91,040	2,288,502
2008-2009	2,606,051	2,467,774	95%	63,458	2,531,232
2009-2010	2,550,854	2,415,771	95%	67,867	2,483,638
2010-2011	2,686,971	2,505,852	93%	92,271	2,598,123
2011-2012	2,786,389	2,647,312	95%	116,076	2,763,388
2012-2013	3,007,120	2,922,853	97%	122,703	3,045,556
2013-2014	3,249,316	3,040,377	94%	110,391	3,150,768
2014-2015	3,352,700	3,065,321	92%	253,511	3,318,832

The accompanying Independent Auditor's Report should be read with this additional information.

<u>Total Collections As Percent of Current Levy</u>	<u>Tax Adjustments</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Percent</u>
96.3%	\$(30,368)	\$613,205	30.0%
98.0%	(7,750)	660,593	32.8%
96.1%	(80,484)	672,772	28.3%
97.1%	(25,906)	721,683	27.7%
97.4%	(2,414)	786,485	30.8%
96.7%	(41,366)	833,965	31.0%
99.2%	(19,506)	837,460	30.0%
101.3%	(32,539)	836,666	27.8%
97.0%	(11,524)	923,690	28.4%
99.0%	3,332	960,890	28.7%

CITY OF LIBERTY, TEXAS
GENERAL FUND REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Ad Valorem and Other Taxes</u>	<u>Sales Tax</u>	<u>Electric Fund In Lieu of Taxes</u>	<u>Inter-Governmental Transfers and Grants</u>
2005-2006	\$1,222,505	\$1,578,549	\$353,533	\$863,748(a)
2006-2007	1,169,252	1,986,525	467,000	118,909
2007-2008	1,618,734	2,139,083	467,000	1,929,222(b)
2008-2009	1,706,446	2,121,447	467,000	2,279,206(c)
2009-2010	1,627,973	1,756,434	311,333	164,722
2010-2011	1,701,344	2,052,692	(d)	112,083
2011-2012	1,727,048	2,002,343	(d)	193,121
2012-2013	2,026,426	2,056,737	(d)	54,208
2013-2014	2,116,727	2,302,566	(d)	233,216
2014-2015	2,323,762	2,023,822	(d)	66,949

(a) Includes \$676,596 of recovery from FEMA for hurricane disaster costs.

(b) Includes \$1,829,109 of recovery from FEMA for Hurricane Ike disaster costs in 2008.

(c) Includes \$1,775,501 of recovery from FEMA for Hurricane Ike disaster costs in 2009.

(d) Beginning in 2011, all interfund transfers were recorded as other financing sources.

<u>Fines & Forfeitures</u>	<u>License, Fees and Rents</u>	<u>Other Revenue</u>	<u>Total</u>
\$75,572	\$338,974	\$522,887	\$4,955,768
85,482	386,410	274,364	4,487,942
111,674	372,033	324,948	6,962,694
119,562	361,679	258,154	7,313,494
59,651	557,029	209,843	4,686,985
73,196	654,497	60,202	4,654,014
84,790	710,399	325,475	5,043,176
128,188	769,441	260,639	5,295,639
186,588	793,362	306,148	5,938,607
212,030	938,002	252,182	5,816,747

CITY OF LIBERTY, TEXAS
GENERAL FUND EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Administration</u>	<u>Street</u>	<u>Fire and Emergency Services</u>	<u>Municipal Court</u>	<u>Cultural Center Library</u>
2005-2006	\$670,682	\$869,828	\$1,212,687	\$73,117	\$338,682
2006-2007	540,825	751,412	1,266,515	64,760	351,024
2007-2008	745,772	860,017	1,328,445	87,177	386,576
2008-2009	876,717	798,955	1,698,984	127,684	372,898
2009-2010	787,919	819,612	1,591,511	113,063	449,802
2010-2011	804,830	661,439	1,368,132	104,603	397,841
2011-2012	878,208	685,418	1,457,042	95,137	418,470
2012-2013	903,017	668,383	1,438,913	143,024	431,771
2013-2014	971,667	663,206	1,601,881	158,924	440,912
2014-2015	1,008,313	732,961	1,979,890	171,142	436,254

- (a) Includes \$1,872,994 of hurricane disaster recovery costs.
- (b) Includes \$1,254,864 of hurricane disaster recovery costs.
- (c) Includes \$83,234 of hurricane disaster recovery costs.

<u>Parks and Recreation</u>	<u>Maintenance</u>	<u>Police</u>	<u>Other</u>	<u>Totals</u>
\$190,970	\$335,295	\$1,175,940	\$569,731	\$5,436,932
223,563	315,258	1,593,222	394,239	5,500,818
225,145	357,272	1,700,790	2,393,026(a)	8,084,220
221,411	386,255	1,794,747	1,719,877(b)	7,997,528
303,873	261,769	1,822,230	273,556(c)	6,423,335
259,119	69,569	1,580,218	769,329	6,015,080
229,486	100,003	1,718,548	1,360,662	6,942,974
232,114	79,702	1,723,889	1,340,978	6,961,791
272,721	80,105	1,758,414	1,893,209	7,841,039
282,727	92,746	1,899,551	1,465,849	8,069,433

CITY OF LIBERTY, TEXAS
ELECTRIC FUND REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Service Sales (a)</u>	<u>Interest Earned</u>	<u>Fees and Other Income</u>	<u>Total Income</u>
2005-2006	\$9,409,166	\$38,717	\$289,499	\$9,737,382
2006-2007	9,551,743	33,864	275,366	9,860,973
2007-2008	10,230,518	17,997	267,087	10,515,602
2008-2009	10,383,546	5,166	63,506	10,452,218
2009-2010	10,968,231	10,453	184,122	11,162,806
2010-2011	16,956,294	21,448	2,518	16,980,260
2011-2012	17,679,763	11,602	20,357	17,711,722
2012-2013	16,894,645	9,625	2,151	16,906,421
2013-2014	17,913,089	7,137	8,214	17,928,440
2014-2015	17,348,117	13,276	5,135	17,366,528

(a) Net of change in allowance for doubtful accounts.

CITY OF LIBERTY, TEXAS
ELECTRIC FUND EXPENSES
LAST TEN FISCAL YEARS

Operating Expenses

<u>Fiscal Year</u>	<u>Power Purchases</u>	<u>Others</u>	<u>Total Operating</u>	<u>Depreciation</u>	<u>Total Expenses</u>
2005-2006	\$8,808,630(a)	\$817,858	\$9,626,488	\$70,429	\$9,696,917
2006-2007	8,512,192(a)	846,680	9,358,872	76,085	9,434,957
2007-2008	8,420,189(a)	940,625	9,360,814	81,281	9,442,095
2008-2009	9,127,166(a)	1,212,199	10,339,365	86,211	10,425,576
2009-2010	9,710,848(a)	1,108,574	10,819,422	114,332	10,933,754
2010-2011(b)	13,853,970(a)	815,192	14,669,162	136,565	14,805,727
2011-2012	15,004,801(a)	911,161	15,915,962	144,964	16,060,926
2012-2013	14,190,481(a)	788,269	14,978,750	131,506	15,110,256
2013-2014	15,838,927(a)	673,499	16,512,426	127,957	16,640,383
2014-2015	14,644,277(a)	891,610	15,535,887	176,238	15,712,125

(a) net of rebate

(b) The City added an industrial customer in 2011.

CITY OF LIBERTY, TEXAS
WATER AND WASTEWATER FUND
REVENUES BY SOURCE AND EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

Revenues				
<u>Fiscal Year</u>	<u>Water Service (a)</u>	<u>Wastewater Service</u>	<u>Other Income</u>	<u>Total Income</u>
2005-2006	\$960,192	\$776,562	\$142,340	\$1,879,094
2006-2007	883,838	809,046	89,362	1,782,246
2007-2008	1,106,527	996,597	194,346	2,297,470
2008-2009	1,450,431	1,232,737	101,491	2,784,659
2009-2010	1,390,220	1,192,060	56,948	2,639,228
2010-2011	1,608,260	1,217,131	60,644	2,886,035
2011-2012	1,586,210	1,205,708	16,941	2,808,859
2012-2013	1,624,944	1,201,261	15,837	2,842,042
2013-2014	1,628,574	1,212,803	20,791	2,862,168
2014-2015	1,610,083	1,319,268	13,512	2,942,863

(a) Net of change in allowance for doubtful accounts.

Expenses		
<u>Operating Expenses</u>	<u>Depreciation</u>	<u>Total Expenses</u>
\$1,336,657	\$253,036	\$1,589,693
1,571,947	267,179	1,839,126
1,637,672	275,036	1,912,708
1,702,213	296,399	1,998,612
1,722,595	315,707	2,038,302
1,271,264	314,826	1,586,090
1,353,264	326,402	1,679,666
1,446,388	362,535	1,808,923
1,416,297	358,746	1,775,043
1,605,232	432,982	2,038,214

CITY OF LIBERTY, TEXAS
GARBAGE FUND
REVENUES AND EXPENSES
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Operating Expenses</u>
2005-2006	\$990,555	\$922,005
2006-2007	1,018,798	988,199
2007-2008	1,006,295	1,061,637
2008-2009	1,095,685	1,108,617
2009-2010	1,077,723	1,052,082
2010-2011	655,041	439,926
2011-2012	631,769	473,439
2012-2013	656,313	492,041
2013-2014	711,385	541,861
2014-2015	727,637	560,293

FEDERAL AWARDS SECTION

SWAIM, BRENTS & ASSOCIATES, P.C.
2804 Jefferson Drive
Liberty, Texas 77575
(936) 336-7205

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

Honorable Mayor and Members of the City Council
City of Liberty, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Liberty, Texas (the City), 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 and have issued our report thereon dated January 19, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Swaim, Brents & Associates, P.C.

Swaim, Brents & Associates, P.C.
Liberty, Texas
January 19, 2016

CITY OF LIBERTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit finds disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
None	

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF LIBERTY, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None		

CITY OF LIBERTY, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Not Applicable

CITY OF LIBERTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURE
<u>U.S. Department of Homeland Security</u>			
Passed through the Texas Department of Public Safety's Division of Emergency Management:			
Emergency Management Performance Grants	97.042	14TX-EMPG-00011	\$ 31,681
	97.042	15TX-EMPG-0407	23,211
Total U.S. Department of Homeland Security			\$ 54,892
<u>U. S. Department of Housing and Urban Development</u>			
Passed through the Texas Department of Agriculture:			
ARRA - Community Development Block Grant	14.228	712191	\$ 2,855
Total Passed through Texas Department of Agriculture			\$ 2,855
Total U.S. Department of Housing and Urban Development			\$ 2,855
<u>U.S. Environmental Protection Agency</u>			
Passed through the Texas Water Development Board:			
ARRA - Clean Water State Revolving Fund	66.458		\$ 74,300
Total U.S. Environmental Protection Agency			\$ 74,300
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 132,047

CITY OF LIBERTY, TEXAS

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

- A. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Liberty, Texas, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.
- B. In October, 2007, the City issued \$8.1 million Tax and Revenue Certificates of Obligation, Series 2007. The bonds were issued through the Texas Water Development Board, Clean Water Revolving Fund. The funds will be utilized for sewer system and wastewater treatment plant rehabilitation. As of September 30, 2015, \$0.3 million remained unexpended.

