

**CITY OF LIBERTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As described in Note 16 to the financial statements, the City allocated the net pension liability and related deferred outflows to the respective funds. There was no effect on the overall financial position of the City. 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 20, 2017, 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 20, 2017

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, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

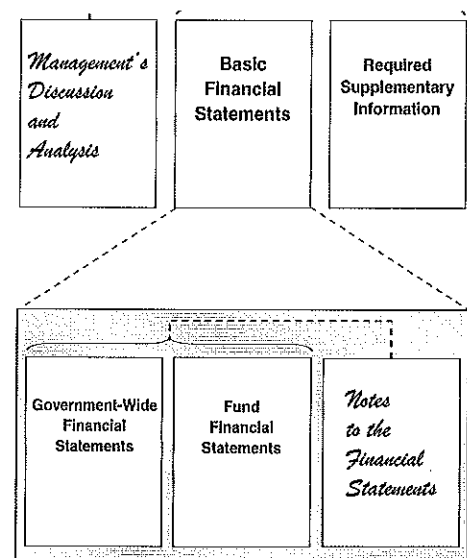
- The City's total combined net position was \$52.9 million at September 30, 2016, compared to \$45.6 million at September 30, 2015.
- Revenues for 2016 were \$25.1 million compared to \$29.7 million in 2015. Charges for electrical services decreased \$3.2 million primarily as a result of lower demands for power by a major industrial customer. Water and wastewater revenues declined \$0.7 million primarily due to inclement weather in the summer months causing lower demand. Additionally, property tax revenues decreased \$0.2 million due to lower appraised values.
- During the year ended September 30, 2016, the City's total expenses were \$26.8 million compared to \$32.3 million in 2015. Expenses in 2015 included \$4.2 million as a result of the change in accounting for pensions and changes in pension benefit terms in that year.
- The general fund reported a fund balance of \$3.7 million at September 30, 2016, a \$0.8 million decrease from September 30, 2015.
- During 2016, the City continued with various construction projects from the prior year and began new construction projects. Those projects included sewer system and wastewater treatment plant rehabilitation, electrical improvements, and street improvements.
- As of September 30, 2016, the City has \$3.1 million in restricted cash for debt service and \$1.7 million in restricted cash remaining from the debt issuances to fund capital projects.
- During 2016, the City received \$6.5 million from SRMPA for Cambridge Project net profits, compared to \$4.0 million in 2015. This is presented as a special item in the electric fund.
- Effective for fiscal year 2016, the City allocated pension expense, pension liabilities and related deferred items by function. As a result, a prior period adjustment was recorded to reflect this allocation between governmental activities and business-type activities as of the beginning of the year. The adjustment increased the net position of the governmental activities and decreased the business-type activities net position by \$0.8 million. There was no change in the overall net position of the City.

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.

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



- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *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 \$52.9 million at September 30, 2016, compared to \$45.6 million at September 30, 2015. (See Table A-1).

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	2016-2015
Assets:							
Cash	\$5,725.5	\$6,083.7	\$13,293.5	\$8,393.3	\$19,019.0	\$14,477.0	31.4%
Cash – Restricted	2,331.9	2,914.6	2,436.3	995.8	4,768.2	3,910.4	21.9%
Investments	227.3	226.1	-	-	227.3	226.1	0.5%
Accounts Receivable	2.6	29.1	2,021.0	2,117.1	2,023.6	2,146.2	-5.7%
Taxes Receivable, Net	448.9	576.3	-	-	448.9	576.3	-22.1%
Due from State/Federal Agencies	461.6	566.5	-	-	461.6	566.5	-18.5%
Due from Other Governments	7.1	5.6	-	-	7.1	5.6	26.8%
Inventory	90.2	34.5	322.4	377.0	412.6	411.5	0.3%
Internal Balances	570.8	34.3	(570.8)	(34.3)	-	-	-
Capital Assets, Net	27,836.4	27,979.9	24,908.6	22,691.5	52,745.0	50,671.4	4.1%
Total Assets	37,702.3	38,450.6	42,411.0	34,540.4	80,113.3	72,991.0	9.8%
Deferred Outflows of Resources(1)	1,409.7	707.7	267.4	-	1,677.1	707.7	137.0%
Liabilities:							
Accounts Payable	364.0	199.8	2,107.7	2,104.6	2,471.7	2,304.4	7.3%
Customer Overpayments	-	-	47.0	27.2	47.0	27.2	72.8%
Payable from Restricted Assets Due to State/Federal	-	-	3.1	-	3.1	-	100.0%
Agencies	15.8	26.2	36.4	40.0	52.2	66.2	-21.1%
Accrued Interest Payable	31.1	32.3	12.2	15.1	43.3	47.4	-8.6%
Service Deposits	-	-	331.5	319.5	331.5	319.5	3.8%
Long-Term Liabilities:							
Due Within One Year	1,100.9	1,481.0	818.6	620.4	1,919.5	2,101.4	-8.7%
Due in More Than One Year(1)	16,157.5	11,416.8	7,781.6	6,140.0	23,939.1	17,556.8	36.4%
Total Liabilities	17,669.3	18,791.2	11,138.1	9,266.8	28,807.4	28,058.0	2.7%
Net Position:							
Net Investment in Capital Assets	16,414.5	16,181.7	18,917.5	16,231.2	35,332.0	32,412.9	9.0%
Restricted for Debt Service	2,445.8	2,386.2	869.1	719.7	3,314.9	3,105.9	6.7%
Restricted for Building Security and Technology	60.5	53.4	-	-	60.5	53.4	13.3%
Unrestricted	2,521.9	1,745.8	11,753.7	8,322.7	14,275.6	10,068.5	41.8%
Total Net Position	\$21,442.7	\$20,367.1	\$31,540.3	\$25,273.6	\$52,983.0	\$45,640.7	16.1%

(1) Pension liabilities and related deferred outflows were allocated between governmental activities and business-type activities beginning in 2016.

As of September 30, 2016, the City had invested \$35.3 million in capital assets, net of related debt. Approximately \$3.3 million of the City's net position are restricted for debt service. Additionally, approximately \$1.7 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 \$14.3 million represents resources available to fund the programs of the City next year.

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 was \$10.1 million.

Changes in Net Position

The City's total revenues for 2016 were \$25.1 million compared to \$29.7 million in 2015. A significant portion, 73 percent, of the City's revenue comes from charges for services. (See Figure A-3.) Other revenue sources include property taxes (13 percent), sales tax (13 percent), and grants and contributions (1 percent). The total cost of all programs and services was \$26.7 million; 52 percent of these costs are electric services, 3 percent are for streets and general maintenance and 8 percent are for water and wastewater services. Police department expenses and fire department expenses accounted for 8 percent and 9 percent, respectively, of total expenses.

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.

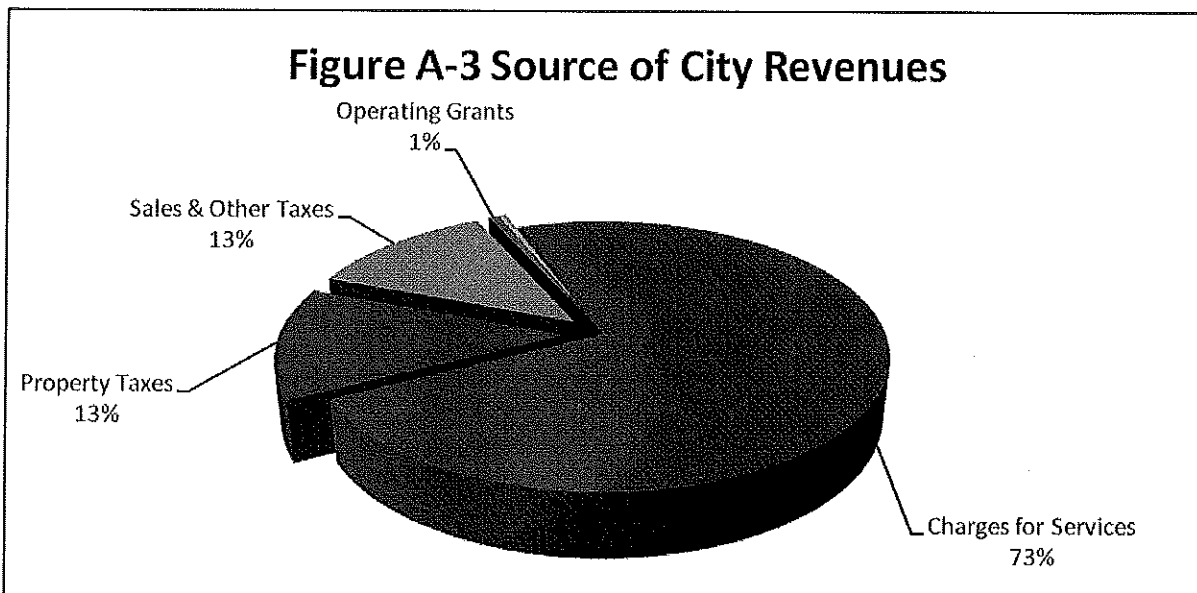


Table A-2
Changes in the City's Net Position
(In thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2016	2015	2016	2015	2016	2015	2016-2015
Program Revenues:							
Charges for Services -							
Governmental Activities	\$1,524.4	\$1,448.2	-	-	\$1,524.4	\$1,448.2	5.3%
Electric	-	-	\$14,102.2	\$17,353.3	14,102.2	17,353.3	-18.7%
Water and Wastewater	-	-	2,184.1	2,935.9	2,184.1	2,935.9	-25.6%
Garbage	-	-	566.5	726.7	566.5	726.7	-22.0%
Operating Grants and Contributions	141.4	233.0	9.2	2.8	150.6	235.8	-36.1%
Capital Grants and Contributions	-	-	-	-	-	-	-
General Revenues:							
Property Taxes	3,362.3	3,550.5	-	-	3,362.3	3,550.5	-5.3%
Sales and Other Taxes	3,116.9	3,281.2	-	-	3,116.9	3,281.2	-5.0%
Gain/(Loss) on Sale of Assets	2.9	20.8	-	5.7	2.9	26.5	-89.1%
Investment Earnings	38.2	35.8	50.5	18.3	88.7	54.1	64.0%
Other	35.8	86.1	-	-	35.8	86.1	-58.4%
Total Revenues	\$8,221.9	\$8,655.6	\$16,912.5	\$21,042.7	\$25,134.4	\$29,698.3	-15.4%

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2016-2015
	<u>2016 (2)</u>	<u>2015</u>	<u>2016 (2)</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
Expenses by Functions/ Programs							
Administration and City Business and Support Services	\$1,093.3	\$1,054.5	-	-	\$1,093.3	\$1,054.5	3.7%
Economic Development	766.8	710.1	-	-	766.8	710.1	8.0%
Public Health and Safety:	130.0	393.4	-	-	130.0	393.4	-67.0%
Fire/ Emergency Medical	2,325.9	2,273.2	-	-	2,325.9	2,273.2	2.3%
Police and Court	2,495.0	2,264.6	-	-	2,495.0	2,264.6	10.2%
Animal Control	146.4	137.9	-	-	146.4	137.9	6.2%
Library	855.7	636.8	-	-	855.7	636.8	34.4%
Streets and General	846.7	907.0	-	-	846.7	907.0	-6.6%
Parks and Recreation	343.7	320.8	-	-	343.7	320.8	7.1%
Inspection Services	189.4	197.6	-	-	189.4	197.6	-4.1%
Airport Operations	326.7	391.0	-	-	326.7	391.0	-16.4%
Interest on Long-Term	402.8	429.7	-	-	402.8	429.7	-6.3%
Pension Expense (1)	-	4,236.1	-	-	-	4,236.1	-100.0%
Electric	-	-	\$14,102.2	\$15,712.1	14,102.2	15,712.1	-10.2%
Water and Wastewater	-	-	2,100.8	2,038.2	2,100.8	2,038.2	3.1%
Garbage	-	-	566.5	560.3	566.5	560.3	1.1%
Total Expenses	<u>9,922.3</u>	<u>13,952.7</u>	<u>16,769.5</u>	<u>18,310.6</u>	<u>26,691.8</u>	<u>32,263.3</u>	-17.0%
Change in Net Position Before Items & Transfer	(1,700.6)	(5,297.1)	2,542.9	2,732.1	842.3	(2,565.0)	-136.1%
Special Items	-	-	6,500.0	4,000.0	6,500.0	4,000.0	62.5%
Transfers	<u>1,975.5</u>	<u>1,795.5</u>	<u>(1,975.5)</u>	<u>(1,795.5)</u>	-	-	-
Change in Net Position	<u>275.0</u>	<u>(3,501.6)</u>	<u>7,067.3</u>	<u>4,936.6</u>	<u>7,342.3</u>	<u>1,435.0</u>	411.7%
Net Position – Beginning	20,367.1	24,342.2	25,273.6	20,337.0	45,640.7	44,679.2	2.2%
Prior Period Adjustment (3)	800.6	-	(800.6)	-	-	-	-
Cumulative Effect of Change in Accounting Principle (1)	-	(473.5)	-	-	-	(473.5)	-100.0%
Net Position – Ending	<u>\$21,442.7</u>	<u>\$20,367.1</u>	<u>\$31,540.3</u>	<u>\$25,273.6</u>	<u>\$52,983.0</u>	<u>\$45,640.7</u>	16.1%

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

(2) Pension expense is reflected by function in governmental activities and business-type activities.

(3) Prior period adjustment related to allocation of net pension liability and related deferred items between governmental activities and business-type activities.

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 \$9.9 million.
- The amount that our taxpayers paid for these activities was \$3.4 million in property taxes and \$3.1 million in sales and other taxes.
- The remaining funding came primarily from charges for services (\$1.5 million) and transfers from business-type activities (\$2.0 million).

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

	Total Cost of Services			Net Cost of Services		
	2016	2015	% Change 2016-2015	2016	2015	% Change 2016-2015
Administration and City Council	\$1,093.3	\$1,054.5	3.7%	\$1,030.7	\$1,044.4	-1.3%
Business and Support Services	766.8	710.1	8.0%	766.8	710.1	8.0%
Economic Development/Tourism	130.0	393.4	-67.0%	88.7	340.6	-74.0%
Public Health and Safety:						
Fire/ Emergency Medical Services	2,325.9	2,273.2	2.3%	1,376.0	1,369.3	0.5%
Police and Municipal Court	2,495.0	2,264.6	10.2%	2,195.9	2,044.6	7.4%
Animal Control	146.4	137.9	6.2%	136.1	131.3	3.7%
Library	855.7	636.8	34.4%	824.3	502.4	64.1%
Streets and General Maintenance	846.7	907.0	-6.6%	846.6	907.0	-6.7%
Parks and Recreation	343.7	320.8	7.1%	330.6	273.5	20.9%
Inspection Services	189.4	197.6	-4.1%	148.1	142.1	4.2%
Airport Operations	326.7	391.0	-16.4%	110.0	140.3	-21.6%
Interest on Long-Term Debt	402.8	429.7	-6.3%	402.8	429.7	-6.3%
Pension Expense	-	4,236.1	-100.0%	-	4,236.1	-100.0%
Total	<u>\$9,922.4</u>	<u>\$13,952.7</u>	-28.9%	<u>\$8,256.6</u>	<u>\$12,271.4</u>	-32.7%

Business-type Activities

Revenues of the City's business-type activities decreased \$4.1 million from 2015 to \$16.9 million, and expenses decreased \$1.5 million to \$16.8 million compared to 2015. The electric fund had lower revenues and expenses due to lower power demand primarily from an industrial customer. Water and Wastewater revenues also declines due to lower demand caused by inclement weather in the summer months. The electric fund received \$6.5 million in nonoperating revenue from the Cambridge Project. Additionally, business-type activities transferred out \$2.0 million to governmental activities. Overall, net position increased \$2.2 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$8.4 million, a decrease of \$0.2 million from 2015. Expenditures for the governmental funds were lower than prior year amounts by \$3.6 million. The decrease in expenditures was primarily due to lower capital expenditures by \$3.8 million, offset by increases in police and library costs.

General Fund Budgetary Highlights

The City revises its budget as needed to meet the needs of the City. General fund revenues were \$0.3 million (5%) higher than budgeted primarily due to higher tax revenues and fees than expected. Expenditures exceeded appropriation by \$0.2 million (2%) primarily due to higher library building professional services than expected. Other financing sources from transfers from other funds were \$0.9 million lower than expected. Overall, the general fund ended the year with expenditures exceeding revenues by \$0.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had invested \$116.3 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 \$3.7 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 2016-2015
	2016	2015	2016	2015	2016	2015	
Land	\$1,317.7	\$1,317.7	\$2.6	\$2.6	\$1,320.3	\$1,320.3	0.0%
Buildings and Improvements	14,058.4	13,994.1	\$1,049.5	\$1,049.5	15,107.9	15,043.6	0.4%
Construction in Progress	3,743.9	8,783.3	13,048.4	11,395.7	16,792.3	20,179.0	-16.8%
Infrastructure	52,638.2	47,234.8	-	-	52,638.2	47,234.8	11.4%
Utility Systems	-	-	22,472.1	21,418.5	22,472.1	21,418.5	4.9%
Vehicles	2,046.0	1,948.2	383.1	383.1	2,429.1	2,331.3	4.2%
Furniture and Equipment	4,169.0	3,774.2	1,014.1	702.9	5,183.1	4,477.1	15.8%
Assets Held Under Capital Lease	365.0	365.0	-	232.7	365.0	597.7	-38.9%
Totals at Historical Cost	78,338.2	77,417.3	37,970.8	35,185.0	116,309.0	112,602.3	3.3%
Total Accumulated Depreciation	(50,501.8)	(49,437.4)	(13,061.2)	(12,493.5)	(63,563.0)	(61,930.9)	2.6%
Net Capital Assets	\$27,836.4	\$27,979.9	\$24,908.6	\$22,691.5	\$52,745.0	\$50,671.4	4.1%

Long Term Debt

At yearend, the City had \$25.9 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 "AA-" 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 2016-2015
	2016	2015	2016	2015	2016	2015	
Capital Lease Obligations	\$140.3	\$181.5	-	\$15.9	\$140.3	\$197.4	-28.9%
Bonds Payable, 2007 Series	-	-	\$5,275.0	5,655.0	5,275.0	5,655.0	-6.7%
Bonds Payable, 2010 Series	-	520.0	-	-	-	520.0	-100%
Certificates of Obligation, 2010A	4,160.0	4,265.0	-	-	4,160.0	4,265.0	-2.5%
Certificates of Obligation, 2010	-	-	455.0	1,055.0	455.0	1,055.0	-56.9%
Certificates of Obligation, 2012	1,530.0	1,595.0	-	-	1,530.0	1,595.0	-4.1%
Refunding Bonds, 2012	2,145.0	2,390.0	-	-	2,145.0	2,390.0	-10.3%
Utility System Bonds 2016A	-	-	900.0	-	900.0	-	100.0%
Utility System Bonds 2016B	-	-	915.0	-	915.0	-	100.0%
LCDC Sales Tax Bonds	2,985.0	3,100.0	-	-	2,985.0	3,100.0	-3.7%
Bond Premium	309.4	-	-	-	309.4	-	100.0%
Bond Discount	-	-	(36.5)	-	(36.5)	-	100.0%
LCDC Note Payable	456.5	473.7	-	-	456.5	473.7	-3.6%
Compensated Absences	365.9	372.6	33.6	34.5	399.5	407.1	-1.9%
Net Pension Liability	5,166.2	-	1,058.1	-	6,224.3	-	100.0%
Total Long Term Debt	\$17,258.4	\$12,897.8	\$8,600.2	\$6,760.4	\$25,858.6	\$19,658.2	31.5%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2017 budget preparation increased 6% over the amounts used in 2016. The combined tax rate for Maintenance and Operations and Interest and Sinking is budgeted to increase 2 cents per \$100 valuation to 61 cents. As a result, property taxes are expected to increase approximately 10% over prior year. Overall general fund revenues are expected to increase 3.4% over 2016 levels.
- General operating fund spending in the 2017 budget is expected to be \$8.5 million, a 3.4% increase over budgeted amounts for 2016.

These indicators were taken into account when adopting the general fund budget for 2017. The 2017 budget is essentially a balanced budget. As a result fund balance in the general fund is expected to remain constant.

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, 2016

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash	\$5,725,466	\$13,293,529	\$19,018,995
Cash – Restricted	2,331,885	2,436,287	4,768,172
Investments	227,288	-	227,288
Accounts Receivable, Net	2,658	2,021,000	2,023,658
Taxes Receivable, Net	448,894	-	448,894
Due From State	461,565	-	461,565
Due from Other Governments	7,073	-	7,073
Inventory	90,246	322,428	412,674
Internal Balances	570,818	(570,818)	-
Capital Assets, Net	27,836,438	24,908,644	52,745,082
TOTAL ASSETS	37,702,331	42,411,070	80,113,401
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Interest on Refunded Debt	104,235	-	104,235
Deferred Outflows Related to Pensions	1,305,430	267,377	1,572,807
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,409,665	267,377	1,677,042
<u>LIABILITIES</u>			
Accounts Payable	364,028	2,107,690	2,471,718
Customer Overpayments Payable	-	46,956	46,956
Payable from Restricted Assets	-	3,135	3,135
Due to State/Federal Agencies	15,795	36,414	52,209
Accrued Interest Payable	31,042	12,201	43,243
Service Deposits	-	331,445	331,445
Long-term Liabilities:			
Due Within One Year	1,100,939	818,638	1,919,577
Due In More Than One Year	16,157,444	7,781,649	23,939,093
TOTAL LIABILITIES	17,669,248	11,138,128	28,807,376
<u>DEFERRED INFLOWS OF RESOURCES</u>			
	-	-	-
<u>NET POSITION</u>			
Net Investment in Capital Assets	16,414,533	18,917,447	35,331,980
Restricted for Debt Service	2,445,836	869,136	3,314,972
Restricted for Building Security and Technology	60,446	-	60,446
Unrestricted	2,521,933	11,753,736	14,275,669
TOTAL NET POSITION	\$21,442,748	\$31,540,319	\$52,983,067

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, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Government Activities:				
Administration	\$1,093,250	\$31,128	\$31,418	-
Business and Support Services	766,834	-	-	-
Economic Development/Tourism	129,891	33,912	7,250	-
Public Health and Safety:				
Fire/EMS	2,325,890	879,574	70,346	-
Police	2,341,380	62,163	2,282	-
Municipal Court	153,651	232,841	1,920	-
Animal Control	146,432	8,750	1,600	-
Library	855,743	14,995	16,457	-
Streets	744,909	-	80	-
Maintenance	101,791	-	-	-
Parks and Recreation	343,668	13,035	-	-
Inspection Services	189,360	41,275	-	-
Airport Operations	326,700	206,687	10,045	-
Interest on Long-term Debt	402,842	-	-	-
Total Governmental Activities	9,922,341	1,524,360	141,398	-
Business-Type Activities:				
Electric	14,102,182	15,472,175	9,201	-
Water and Wastewater	2,267,418	3,210,319	-	-
Garbage	566,548	736,780	-	-
Total Business-Type Activities	16,936,148	19,419,274	9,201	-
Totals	\$26,858,489	\$20,943,634	\$150,599	-

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
Prior Period Adjustment - Pensions
Net Position, Beginning of Year (Restated)

Net Position, End of Year

The accompanying notes are an integral part of this statement.

<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$(1,030,704)	-	\$(1,030,704)
(766,834)	-	(766,834)
(88,729)	-	(88,729)
(1,375,970)	-	(1,375,970)
(2,276,935)	-	(2,276,935)
81,110	-	81,110
(136,082)	-	(136,082)
(824,291)	-	(824,291)
(744,829)	-	(744,829)
(101,791)	-	(101,791)
(330,633)	-	(330,633)
(148,085)	-	(148,085)
(109,968)	-	(109,968)
(402,842)	-	(402,842)
(8,256,583)	-	(8,256,583)
-	\$1,379,194	1,379,194
-	942,901	942,901
-	170,232	170,232
-	2,492,327	2,492,327
(8,256,583)	2,492,327	(5,764,256)
2,142,951	-	2,142,951
1,219,356	-	1,219,356
2,863,584	-	2,863,584
253,357	-	253,357
2,856	-	2,856
35,776	-	35,776
38,150	50,521	88,671
6,556,030	50,521	6,606,551
-	6,500,000	6,500,000
1,975,519	(1,975,519)	-
274,966	7,067,329	7,342,295
20,367,141	25,273,631	45,640,772
800,641	(800,641)	-
21,167,782	24,472,990	45,640,772
\$21,442,748	\$31,540,319	\$52,983,067

CITY OF LIBERTY, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Liberty Community Development Corporation	Debt Service Funds	
			City of Liberty	LCDC
<u>ASSETS</u>				
Cash	\$3,003,861	\$2,619,179	-	-
Cash – Restricted	60,446	-	\$1,964,055	\$302,334
Investments	-	-	-	-
Accounts Receivable, Net	2,658	-	-	-
Taxes Receivable – Delinquent	477,103	-	370,033	-
Less: Allowance for Uncollectible Taxes	(224,288)	-	(173,954)	-
Due from State/Federal Agencies	307,710	153,855	-	-
Due from Other Governments	7,073	-	-	-
Inventory	90,246	-	-	-
Interfund Receivable	567,845	2,973	14,410	-
TOTAL ASSETS	4,292,654	2,776,007	2,174,544	302,334
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$4,292,654	\$2,776,007	\$2,174,544	\$302,334
<u>LIABILITIES</u>				
Accounts Payable	\$360,965	\$170	-	-
Due to State/Federal Agencies	15,795	-	-	-
Interfund Payable	14,410	-	-	-
TOTAL LIABILITIES	391,170	170	-	-
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred Taxes Revenue	239,257	-	\$191,493	-
TOTAL DEFERRED INFLOWS OF RESOURCES	239,257	-	191,493	-
<u>FUND BALANCES</u>				
Restricted Fund Balances:				
Debt Service	-	-	1,983,051	\$302,334
Capital Projects	-	-	-	-
Building Security and Technology	60,446	-	-	-
Committed Fund Balance	70,249	2,775,837	-	-
Assigned	785,902	-	-	-
Unassigned	2,745,630	-	-	-
TOTAL FUND BALANCES	3,662,227	2,775,837	1,983,051	302,334
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$4,292,654	\$2,776,007	\$2,174,544	\$302,334

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$102,426	\$5,725,466
5,050	2,331,885
227,288	227,288
-	2,658
-	847,136
-	(398,242)
-	461,565
-	7,073
-	90,246
-	585,228
334,764	9,880,303
-	-
\$334,764	\$9,880,303
\$2,893	\$364,028
-	15,795
-	14,410
2,893	394,233
-	430,750
-	430,750
-	2,285,385
5,050	5,050
-	60,446
326,821	3,172,907
-	785,902
-	2,745,630
331,871	9,055,320
\$334,764	\$9,880,303

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CITY OF LIBERTY, TEXAS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES
SEPTEMBER 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$9,055,320
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.	27,836,438
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	430,750
Payables for debt principal which was not due in the current period are not reported in the funds.	(11,782,792)
Payables for debt interest which are not due in the current period are not reported in the funds.	(31,042)
The premium paid for bond issuance is income in the funds when incurred but are deferred and amortized in the SNP.	(309,423)
Liability for pension obligation is not reported in the funds.	(5,166,168)
Deferred outflows of resources related to pensions is not reported in the funds.	1,305,430
Interest on advance refunding of debt is expensed in the funds but deferred and amortized in the SNP.	<u>104,235</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$21,442,748</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, 2016

		Liberty Community Development Corporation	Debt Service Funds	
	<u>General</u>		<u>City of Liberty</u>	<u>LCDC</u>
<u>REVENUES:</u>				
Ad Valorem Taxes	\$2,161,898	-	\$1,327,852	-
Sales Tax	1,909,135	\$954,449	-	-
Other Taxes	209,187	-	-	-
Fines & Forfeitures	232,841	-	-	-
Investment Income	14,600	7,471	6,706	\$1,019
Licenses, Fees & Rents	989,017	-	-	-
Intergovernmental Transfers & Grants	105,513	-	-	-
Donations	12,278	-	-	-
Sale of Assets	4,240	-	-	-
Other Revenues & Receipts	91,375	-	-	-
TOTAL REVENUES	5,730,084	961,920	1,334,558	1,019
<u>EXPENDITURES:</u>				
Administration	1,057,252	-	-	-
Business & Support Services	744,408	-	-	-
Economic Development / Tourism	-	20,823	-	-
Public Health & Safety:				
Fire/EMS	1,993,663	-	-	-
Police	2,124,228	-	-	-
Municipal Court	148,170	-	-	-
Animal Control	141,713	-	-	-
Library	729,185	-	-	-
Streets	647,239	-	-	-
Maintenance	93,679	-	-	-
Parks & Recreation	294,029	-	-	-
Inspection Services	183,767	-	-	-
Airport Operations	-	-	-	-
Capital Expenditures	327,864	-	-	-
Debt Service: Principal	41,125	17,212	935,000	115,000
Interest & Fees	3,807	18,637	278,550	115,588
TOTAL EXPENDITURES	8,530,129	56,672	1,213,550	230,588
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,800,045)	905,248	121,008	(229,569)
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	2,025,519	247,604	-	221,209
Operating Transfers Out	(21,867)	(374,176)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,003,652	(126,572)	-	221,209
Net Change In Fund Balances	(796,393)	778,676	121,008	(8,360)
Fund Balances, Beginning of Year	4,458,620	1,997,161	1,862,043	310,694
Fund Balances, End of Year	\$3,662,227	\$2,775,837	\$1,983,051	\$302,334

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
-	\$3,489,750
-	2,863,584
\$44,170	253,357
6,303	239,144
8,354	38,150
57,074	1,046,091
10,045	115,558
13,562	25,840
-	4,240
183,525	274,900
323,033	8,350,614
-	1,057,252
-	744,408
104,149	124,972
-	1,993,663
3,817	2,128,045
-	148,170
-	141,713
10,115	739,300
-	647,239
-	93,679
-	294,029
-	183,767
207,907	207,907
600,372	928,236
-	1,108,337
-	416,582
926,360	10,957,299
(603,327)	(2,606,685)
130,036	2,624,368
(252,806)	(648,849)
(122,770)	1,975,519
(726,097)	(631,166)
1,057,968	9,686,486
\$331,871	\$9,055,320

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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, 2016**

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$(631,166)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	928,236
Loss on disposition of capital assets in the SOA is not reported in the funds.	(1,384)
The depreciation of capital assets used in the governmental activities are not reported in the funds.	(1,070,321)
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 inflows in the funds. This is the change in these amounts this year.	(127,443)
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.	1,227
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.	6,688
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	1,108,337
Change in net pension obligation and deferred outflows related to pensions are not reported as expenses in the SOA.	<u>48,279</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$274,966</u>

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2016

	Business-Type Activities – Enterprise Funds			
	Electric	Water and Wastewater	Garbage	Total
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	\$11,262,520	\$1,557,829	\$473,180	\$13,293,529
Cash – Restricted	11,591	2,424,696	-	2,436,287
Accounts Receivable, Net	1,639,996	326,927	54,077	2,021,000
Inventory	218,506	103,922	-	322,428
Due from Other Funds	-	-	-	-
TOTAL CURRENT ASSETS	13,132,613	4,413,374	527,257	18,073,244
Property, Plant and Equipment	10,965,301	27,004,562	-	37,969,863
Less: Allowance For Depreciation	(3,986,748)	(9,074,471)	-	(13,061,219)
Net Property, Plant and Equipment	6,978,553	17,930,091	-	24,908,644
TOTAL ASSETS	20,111,166	22,343,465	527,257	42,981,888
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows Related to Pensions	110,096	157,281	-	267,377
TOTAL DEFERRED OUTFLOWS OF RESOURCES	110,096	157,281	-	267,377
LIABILITIES				
CURRENT LIABILITIES:				
Accounts Payable	2,034,601	32,867	40,222	2,107,690
Customer Overpayments Payable	46,956	-	-	46,956
Payable from Restricted Assets	-	3,135	-	3,135
Due to State/Federal Agencies	31,371	-	5,043	36,414
Due to Other Funds	472,647	93,315	4,856	570,818
Accrued Interest Payable	1,988	10,213	-	12,201
Service Deposits	288,157	42,838	450	331,445
Current Maturities of Long-term Debt	234,448	584,190	-	818,638
TOTAL CURRENT LIABILITIES	3,110,168	766,558	50,571	3,927,297
Long-term Debt, net of Current Portion	670,701	7,110,948	-	7,781,649
TOTAL LIABILITIES	3,780,869	7,877,506	50,571	11,708,946
DEFERRED INFLOWS OF RESOURCES				
	-	-	-	-
NET POSITION				
Net Investment in Capital Assets	6,535,144	12,382,303	-	18,917,447
Restricted for Debt Service	-	869,136	-	869,136
Unrestricted (Deficit)	9,905,249	1,371,801	476,686	11,753,736
TOTAL NET POSITION	\$16,440,393	\$14,623,240	\$476,686	\$31,540,319

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, 2016

	Business-Type Activities – Enterprise Funds			
	Electric	Water and Wastewater	Garbage	Total
<u>OPERATING REVENUES:</u>				
Charges for Services, Net	\$15,472,175	\$3,210,319	\$736,780	\$19,419,274
Investment Income	39,944	8,842	1,735	50,521
Grant Income	9,201	-	-	9,201
TOTAL OPERATING REVENUES	15,521,320	3,219,161	738,515	19,478,996
<u>OPERATING EXPENSES:</u>				
Power Purchases	14,186,300	-	-	14,186,300
Purchased Power Rebate	(1,405,895)	-	-	(1,405,895)
Personnel Costs	449,682	610,840	-	1,060,522
Distribution Supplies and Contracts	13,534	76,778	566,548	656,860
Maintenance and Repairs	607,109	553,563	-	1,160,672
Other Charges and Services	28,124	392,932	-	421,056
Interest Expense	45,347	138,767	-	184,114
TOTAL OPERATING EXPENSES	13,924,201	1,772,880	566,548	16,263,629
NET OPERATING INCOME (LOSS) BEFORE DEPRECIATION	1,597,119	1,446,281	171,967	3,215,367
LESS: Depreciation and Amortization	(177,981)	(411,213)	-	(589,194)
NET OPERATING INCOME (LOSS)	1,419,138	1,035,068	171,967	2,626,173
<u>NONOPERATING REVENUES (EXPENSES):</u>				
SRMPA - Cambridge Distribution	6,500,000	-	-	6,500,000
Bond Issuance Cost Expense	-	(83,325)	-	(83,325)
TOTAL NONOPERATING REVENUES (EXPENSES)	6,500,000	(83,325)	-	6,416,675
INCOME BEFORE TRANSFERS	7,919,138	951,743	171,967	9,042,848
Operating Transfers In	-	1,301,293	-	1,301,293
Operating Transfers Out	(2,754,466)	(442,346)	(80,000)	(3,276,812)
CHANGES IN NET POSITION	5,164,672	1,810,690	91,967	7,067,329
NET POSITION, BEGINNING OF YEAR	11,605,397	13,283,515	384,719	25,273,631
Prior Period Adjustment - Pensions	(329,676)	(470,965)	-	(800,641)
Net Position, Beginning of Year (Restated)	11,275,721	12,812,550	384,719	24,472,990
NET POSITION, END OF YEAR	\$16,440,393	\$14,623,240	\$476,686	\$31,540,319

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	Business-Type Activities – Enterprise Funds			
	Electric	Water & Wastewater	Garbage	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Cash Received from Customers	\$15,737,008	\$3,074,520	\$735,581	\$19,547,109
Cash Received from Suppliers for Rebate	1,405,895	-	-	1,405,895
Cash Paid to Suppliers for Goods and Services	(14,844,563)	(414,618)	(571,966)	(15,831,147)
Cash Paid to Employees for Services	(452,172)	(619,121)	-	(1,071,293)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,846,168	2,040,781	163,615	4,050,564
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>				
Operating Transfers, In (Out)	(1,301,293)	1,301,293	-	-
Transfers to General Fund	(1,453,173)	(442,346)	(80,000)	(1,975,519)
Grant Income	9,201	-	-	9,201
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(2,745,265)	858,947	(80,000)	(1,966,318)
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>				
Interest on Debt Paid	(47,970)	(139,053)	-	(187,023)
Principal Payments on Debts	(600,000)	(395,901)	-	(995,901)
Proceeds from Issuance of Debt	-	1,815,000	-	1,815,000
Acquisition of Capital Assets	(1,142,198)	(1,664,109)	-	(2,806,307)
Debt Issuance Costs	-	(83,325)	-	(83,325)
Bond Discount	-	(36,483)	-	(36,483)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,790,168)	(503,871)	-	(2,294,039)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Cambridge Revenue	6,500,000	-	-	6,500,000
Interest on Cash and Investments	39,944	8,842	1,735	50,521
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	6,539,944	8,842	1,735	6,550,521
NET INCREASE (DECREASE) IN CASH	3,850,679	2,404,699	85,350	6,340,728
CASH & TIME DEPOSITS, BEGINNING OF YEAR	7,423,432	1,577,826	387,830	9,389,088
<u>CASH & TIME DEPOSITS, END OF YEAR</u>	\$11,274,111	\$3,982,525	\$473,180	\$15,729,816

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016

Reconciliation of Income before Transfers to Net Cash Provided (Used) by Operating Activities:

Income Before Transfers	\$7,919,138	\$951,743	\$171,967	\$9,042,848
Adjustments to Reconcile Net Income to Net Cash				
Provided (Used) by Operating Activities -				
Depreciation and Amortization	177,981	411,213	-	589,194
Nonoperating Income	(6,500,000)	-	-	(6,500,000)
Investment Income	(39,944)	(8,842)	(1,735)	(50,521)
Grant Income	(9,201)	-	-	(9,201)
Interest Expense	45,347	138,767	-	184,114
Bond Issuance Costs	-	83,325	-	83,325
(Increase) Decrease in:				
Accounts Receivable	230,424	(133,162)	(1,149)	96,113
Inventory	4,881	49,649	-	54,530
Due from Other Funds	-	562,237	-	562,237
Due from State/Federal Agencies	-	-	-	-
Increase (Decrease) in:				
Accounts Payable	(1,097)	12,768	(5,446)	6,225
Customer Overpayments	19,775	-	-	19,775
Due to State/Federal Agencies	(3,656)	-	109	(3,547)
Due to Other Funds	(9,624)	(16,000)	(81)	(25,705)
Service Deposits	14,634	(2,637)	(50)	11,947
Compensated Absences Payable	1,581	(5,816)	-	(4,235)
Pension Items	(4,071)	(2,464)	-	(6,535)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$1,846,168	\$2,040,781	\$163,615	\$4,050,564

The accompanying notes are an integral part of this statement.

CITY OF LIBERTY, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2016

<u>ASSETS</u>	Employees Pension <u>Trust Fund</u>
Investments, at Fair Value:	
Growth & Income Fund	\$27,268
Money Market Fund	112
Bond Fund	229
Balanced Fund	882
Fixed Income Account	47,728
Foreign Equity Portfolio Fund	13,123
Equity – Income Portfolio Fund	1,612
Growth Portfolio Fund	<u>28,457</u>
TOTAL ASSETS	<u>\$119,411</u>
<u>NET POSITION</u>	
Net Position of Assets Held In Trust For Pension Benefits	<u>\$119,411</u>
TOTAL NET POSITION	<u>\$119,411</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, 2016

	Employees Pension Trust Fund
<u>ADDITIONS:</u>	
Investment Income (Loss), Including Appreciation or Depreciation in Fair Value of Investments	<u>\$7,260</u>
TOTAL	<u>7,260</u>
<u>DEDUCTIONS:</u>	
Withdrawals	<u>(843)</u>
TOTAL	<u>(843)</u>
CHANGE IN NET POSITION	6,417
Net Position – Beginning of Year	<u>112,994</u>
Net Position – End of Year	<u>\$119,411</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, 2016

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, 2016

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, 2016

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, 2016, the City had cash restricted as follows:

	Balances September 30, 2016
Cash Restricted for Debt Service – City Governmental	\$1,964,055
Cash Restricted for Debt Service – LCDRC Governmental	302,334
Cash Restricted for Debt Service – Proprietary Funds	879,349
Cash Restricted for Building Security & Technology	60,446
Cash from Certificates of Obligation, Series 2012, Restricted for Capital Improvements	5,050
Cash from Certificates of Obligation, Series 2010, Restricted for Electrical Capital Project	11,591
Cash from Bonds Payable, Series 2007, Restricted for Water and Wastewater Capital Project	248,972
Cash from Bonds Payable, Series 2016 A, Restricted for Water and Wastewater Capital Projects	466,785
Cash from Bonds Payable, Series 2016 B, Restricted for Water and Wastewater Capital Projects	829,590
Total Restricted Cash	<u>\$4,768,172</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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 \$27,833 at September 30, 2016. 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, 2016

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, 2016

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.

O. Pensions –

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

NOTE 2 – 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, 2016, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$23,787,167 and the bank balance was \$24,013,421. The City's cash deposits at September 30, 2016, and during the year ended September 30, 2016, 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, 2016

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, 2016, are shown below:

Investment	Carrying Amount	Market Value
Certificates of Deposit:		
American Express Centurion – 2.05%	\$13,892	\$14,295
American Express Centurion – 2.10%	2,500	2,552
BMW Bank – 1.9%	7,500	7,632
BMW Bank – 2.0%	5,000	5,109
Barclays Bank – 1% to 1.6%	5,000	5,051
Discover Bank -1.95%	10,000	10,190
GE Capital Retail Bank – 1.80%	5,000	5,045
GE Capital – 2.10%	10,000	10,032
Goldman Sachs Bank – 1.80%	7,500	7,559
Goldman Sachs Bank – 1.20%	15,000	15,078
Sallie Mae Bank – 2.15%	25,000	25,734
State Bank of India – 1.35%	5,000	5,039
First Liberty National Bank - #644706-16	31	31
First Liberty National Bank - #644706-27	27,341	27,341
Mutual Funds:		
American Funds Capital Income Builder A	10,000	11,913
Franklin Income A	8,800	9,084
Franklin High Income A	8,800	8,289
American Funds Income Fund of America A	10,222	13,148
Federated High Income Bond Fund A #317	8,498	6,426
Equity Funds:		
American Funds Capital World Growth & Income	9,226	10,180
Franklin Templeton Rising Dividends	7,468	11,925
Franklin Templeton Founding Allocation A	7,125	7,339
American Funds Washington Mutual A	8,940	11,458
American Funds New Perspective A	9,445	11,091
	<u>\$227,288</u>	<u>\$241,541</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016.

At September 30, 2016, 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:

<u>Investment</u>	<u>Credit Rating</u>
Mutual Funds:	
American Funds Capital Income Builder	Morningstar Rating 4
Franklin Templeton Income A	Morningstar Rating 4
Franklin Templeton High Income	Morningstar Rating 2
American Funds Income Fund of America A	Morningstar Rating 5
Federated High Income Bond Fund A #317	Morningstar Rating 4
Equity Funds:	
American Funds Capital World Growth & Income	Morningstar Rating 4
Franklin Templeton Rising Dividends	Morningstar Rating 3
Franklin Templeton Founding Allocation	Morningstar Rating 2
American Funds Washington Mutual A	Morningstar Rating 4
American Funds New Perspective A	Morningstar Rating 5

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, 2016

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 \$579,907,812. This includes a debt service rate of \$0.2242 per \$100 assessed valuation and a maintenance and operations rate of \$0.3658 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 \$398,242 at September 30, 2016, 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, 2016, 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	\$1,883	Sales Tax Collection
General Fund	Electric Fund	253,103	Short term loan
General Fund-Fixed Asset Repl.	Electric Fund	219,544	Short term loan
General Fund-Fixed Asset Repl.	Water & Wastewater	93,315	Short term loan
LCDC	Garbage	2,973	Sales Tax Collection
Debt Service	General Fund	14,410	Tax Collection
		<u>\$585,228</u>	

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

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 6 – TRANSFERS BETWEEN FUNDS

Transfers between funds during 2016 consisted of the following:

<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$1,453,173
General Fund	Water & Wastewater Fund	442,346
General Fund	Garbage Fund	80,000
General Fund	LCDC	50,000
	Total	<u>\$2,025,519</u>
Water & Wastewater Fund	Electric Fund	<u>\$1,301,293</u>
Airport Fund	LCDC Fund	<u>\$102,967</u>
Capital Projects (2010A)	General Fund	<u>\$21,867</u>
Library Memorial Fund	Municipal Library Trust	<u>\$5,202</u>
LCDC Debt Service Fund	LCDC Fund	<u>\$221,209</u>
LCDC Fund	LCDC Capital Project Fund	<u>\$247,604</u>

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Capital asset activity for the year ended September 30, 2016, 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	\$1,317,722	-	-	\$1,317,722
Construction in Progress	8,783,286	\$600,235	\$(5,639,566)	3,743,955
Total Capital Assets Not Being Depreciated	<u>10,101,008</u>	<u>600,235</u>	<u>(5,639,566)</u>	<u>5,061,677</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings and Improvements	13,994,064	64,342	-	14,058,406
Infrastructure	47,234,817	30,801	5,372,571	52,638,189
Vehicles	1,948,189	97,823	-	2,046,012
Furniture and Equipment	3,774,189	135,035	259,723	4,168,947
Assets Held Under Capital Lease	365,000	-	-	365,000
Total Capital Assets Being Depreciated	<u>67,316,259</u>	<u>328,001</u>	<u>5,632,294</u>	<u>73,276,554</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,023,276	353,803	-	6,377,079
Infrastructure	39,170,934	275,516	-	39,446,450
Vehicles	1,070,497	183,322	-	1,253,819
Furniture and Equipment	3,105,736	233,347	(5,887)	3,333,196
Assets Held Under Capital Lease	66,916	24,333	-	91,249
Total Accumulated Depreciation	<u>49,437,359</u>	<u>1,070,321</u>	<u>(5,887)</u>	<u>50,501,793</u>
Total Capital Assets Being Depreciated, Net	<u>17,878,900</u>	<u>(742,320)</u>	<u>5,638,181</u>	<u>22,774,761</u>
Governmental Activities Capital Assets, Net	<u>\$27,979,908</u>	<u>\$(142,085)</u>	<u>\$(1,385)</u>	<u>\$27,836,438</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation was charged to functional expenditures as follows:

Governmental Activities:

Administration	\$46,650
Business and Support Services	29,302
Economic Development	4,919
Fire /EMS	333,459
Police	226,890
Municipal Court	6,268
Animal Control	5,578
Library	131,324
Streets	94,711
Maintenance	10,496
Parks & Recreation	50,314
Inspection Services	9,140
Airport Operations	121,270
Total Depreciation Expense	<u>\$1,070,321</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases & Transfers</u>	<u>Ending Balances</u>
<u>Business-Type Activities:</u>				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$2,568	-	-	\$2,568
Construction in Progress	11,395,696	\$1,680,175	\$(27,449)	13,048,422
Total Capital Assets Not Being Depreciated	<u>11,398,264</u>	<u>1,680,175</u>	<u>(27,449)</u>	<u>13,050,990</u>
<u>Capital Assets Being Depreciated:</u>				
Buildings and Improvements	1,049,482	-	-	1,049,482
System Improvements	21,418,495	1,053,644	-	22,472,139
Vehicles	383,105	-	-	383,105
Furniture and Equipment	702,945	72,489	238,713	1,014,147
Assets Held Under Capital Lease	232,664	-	(232,664)	-
Total Capital Assets Being Depreciated	<u>23,786,691</u>	<u>1,126,133</u>	<u>6,049</u>	<u>24,918,873</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	326,149	24,876	-	351,025
System Improvements	11,075,543	489,290	-	11,564,833
Vehicles	354,824	26,096	-	380,920
Furniture and Equipment	515,323	37,853	211,265	764,441
Assets Held Under Capital Lease	221,586	11,079	(232,665)	-
Total Accumulated Depreciation	<u>12,493,425</u>	<u>589,194</u>	<u>(21,400)</u>	<u>13,061,219</u>
Total Capital Assets Being Depreciated, Net	<u>11,293,266</u>	<u>536,939</u>	<u>27,449</u>	<u>11,857,654</u>
Business-type Activities Capital Assets, Net	<u>\$22,691,530</u>	<u>\$2,217,114</u>	<u>\$-</u>	<u>\$24,908,644</u>

Depreciation was charged to functional expenditures as follows:

Business-type Activities

Water & Wastewater	\$411,213
Electric	177,981
Total Depreciation Expense	<u>\$589,194</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2016 was as follows:

	Rate	Beginning Balance	Increases	Decreases	Ending Balance	Amount Due in One Year
<u>Governmental Activities:</u>						
Bonds:						
General Obligation Refunding Bonds, Series 2010 (Maturing 3/1/16)	2.0-3.0%	\$520,000	-	\$(520,000)	-	-
Certificates of Obligation, Series 2010A (Maturing 3/1/2030)	2.0-4.0%	4,265,000	-	(105,000)	\$4,160,000	\$230,000
Tax & Revenue Certificates Of Obligation, Series 2012 (Maturing 3/1/2032)	2.0-4.0%	1,595,000	-	(65,000)	1,530,000	75,000
General Obligation Refunding Bonds, Series 2012 (Maturing 3/1/24)	2.0-2.5%	2,390,000	-	(245,000)	2,145,000	250,000
LCDC Sales Tax Bonds, Series 2014 (Maturing 3/1/2034)	3.0- 4.0%	3,100,000	-	(115,000)	2,985,000	120,000
Bond Premium		334,965	-	(25,542)	309,423	-
Total Bonds		12,204,965	-	(1,075,542)	11,129,423	675,000
Capital Lease-Fire Truck		181,440	-	(41,125)	140,315	42,089
LCDC Note Payable	4.0%	473,752	-	(17,212)	456,540	17,913
Other Liabilities:						
Compensated Absences		372,625	\$324,478	(331,166)	365,937	365,937
Net Pension Liability		4,399,084	767,084	-	5,166,168	-
Total Governmental Activities		\$17,631,866	\$1,091,562	\$(1,465,045)	\$17,258,383	\$1,100,939
<u>Business-type Activities:</u>						
Bonds:						
Tax & Revenue Certificates of Obligation, Series 2007 (Maturing 3/1/28)	1.9- 2.55%	\$5,655,000	-	\$(380,000)	\$5,275,000	\$385,000
Utility System Revenue Bonds, Series 2016A (Maturing 3/1/26)	0.0- 0.94%	-	\$900,000	-	900,000	90,000
Utility System Revenue Bonds, Series 2016B (Maturing 3/1/26)	0.0- 0.89%	-	915,000	-	915,000	90,000
Tax & Revenue Certificates of Obligation, Series 2010 (Maturing 9/1/20)	5.5%	1,055,000	-	(600,000)	455,000	220,000
Bond Discount		-	(36,482)	-	(36,482)	-
		6,710,000	1,778,518	(980,000)	7,508,518	785,000
Capital Lease – W & WW		15,901	-	(15,901)	-	-
Other Liabilities:						
Compensated Absences		34,522	40,431	(41,315)	33,638	33,638
Net Pension Liability		901,017	157,114	-	1,058,131	-
Total Business-type Activities		\$7,661,440	\$1,976,063	\$(1,037,216)	\$8,600,287	\$818,638

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
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	620,000	190,550	810,550
2022-2026	2,805,000	651,838	3,456,838
2027-2031	1,985,000	199,700	2,184,700
2032	125,000	2,500	127,500
Total	<u>\$7,835,000</u>	<u>\$1,980,438</u>	<u>\$9,815,438</u>

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, 2016.

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.

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, 2016:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
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	135,000	94,213	229,213
2022-2026	775,000	390,520	1,165,520
2027-2031	920,000	233,125	1,153,125
2032-2034	650,000	42,075	692,075
Total	<u>\$2,985,000</u>	<u>\$1,182,960</u>	<u>\$4,167,960</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 8 – LONG TERM LIABILITIES (CONTINUED)

Governmental Activities Notes Payable

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</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
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	21,015	14,833	35,848
2022-2026	118,639	60,603	179,242
2027-2031	144,858	34,384	179,242
2032-2034	95,877	5,695	101,572
Total	\$456,540	\$182,756	\$639,296

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>Water & Wastewater Fund</u>			
<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2017	\$565,000	\$125,830	\$690,830
2018	575,000	117,541	692,541
2019	585,000	108,739	693,739
2020	595,000	99,514	694,514
2021	600,000	90,015	690,015
2022-2026	3,180,000	284,174	3,464,174
2027-2028	990,000	25,372	1,015,372
Total	\$7,090,000	\$851,185	\$7,941,185

<u>Electric Fund</u>			
<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2017	\$220,000	\$25,026	\$245,026
2018	235,000	12,926	247,926
Total	\$455,000	\$37,952	\$492,952

In April, 2016, the City issued Utility System Revenue Bonds of \$1.8 million. The Utility System Revenue Bonds, Series 2016A (\$900,000) and Series 2016B (\$915,000) were issued to fund improvements to the wastewater and water systems of the City, respectfully. 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, 2016.

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, 2016.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016 totaled \$365,000. Future minimum lease payments for the capital lease as of September 30, 2016, are as follows:

<u>Year Ending September 30,</u>	
2017	\$44,893
2018	44,893
2019	44,893
2020	<u>11,223</u>
Total	145,902
Amount Representing Interest	<u>(5,587)</u>
Total	<u>\$140,315</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. The capital leases were paid in full during fiscal year 2016.

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, 2016, were \$399,575.

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, 2016. 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, 2016

NOTE 9 – RETIREMENT PLANS (CONTINUED)

B. TMRS Pension Plan –

1. Description of Plan –

The City participates as one of 866 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(a) of the Internal Revenue code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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

Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled to but not yet receiving benefits	110
Active employees	<u>91</u>
	<u>237</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 16.83% and 17.74% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$744,092 and were equal to the required contributions.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 9 – RETIREMENT PLANS (CONTINUED)

4. Net Pension Liability –

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

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Assumptions

	<u>12/31/15</u>
Investment rate of return	6.75%
Inflation	2.5%
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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 9-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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

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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 9 – RETIREMENT PLANS (CONTINUED)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease)	
		Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2014	\$12,265,777	\$6,965,676	\$5,300,101
Changes for the year:			
Service cost	517,416	-	517,416
Interest	863,571	-	863,571
Change in benefit terms	-	-	-
Difference between expected and actual experience	53,707	-	53,707
Changes in assumptions	530,215	-	530,215
Contributions – employer	-	732,389	(732,389)
Contributions – employee	-	304,618	(304,618)
Net investment income	-	10,273	(10,273)
Benefit payments, including refunds of employee contributions	(375,511)	(375,511)	-
Administrative expense	-	(6,261)	6,261
Other changes	-	(308)	308
Net changes	1,589,398	665,200	924,198
Balance at 12/31/2015	\$13,855,175	\$7,630,876	\$6,224,299

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 9 – RETIREMENT PLANS (CONTINUED)

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$8,151,997	\$6,224,299	\$4,637,841

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.

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

For the year ended September 30, 2016, the City recognized pension expense of \$685,925. At yearend, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$245,715	\$-
Changes in actuarial assumptions	386,525	-
Difference between projected and actual investment earnings	381,859	-
Contributions subsequent to the measurement date	558,708	-
Total	<u>\$1,572,807</u>	<u>\$-</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$558,708 will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows)
Year Ended September 30:	
2017	\$354,537
2018	342,853
2019	221,245
2020	95,464
Total	<u>\$1,014,099</u>

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 9 – RETIREMENT PLANS (CONTINUED)

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.

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 \$1,405,895 during 2016. 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, 2016

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	\$7,500
East Texas Gulf Coast Regional	12,244
Division of Emergency Management - Emergency Management	
Performance Grant	30,837
Indigent Defense Fee	1,920
Police – LEOSE	1,829
Fire- LEOSE	665
FEMA- Severe Storms	31,418
Texas A&M Forest Service Grant	19,100
Total General Fund	<u>\$105,513</u>
Proprietary Funds:	
Electric Fund -- FEMA Severe Storms	<u>\$9,201</u>
Special Revenue Funds:	
Airport – TX DOT Ramp Grant	<u>\$10,045</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 2016, the City received \$6.5 million from SRMPA for Cambridge Project net profits.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The City recorded a prior period adjustment in order to reflect the net pension liability and related deferred items for the proprietary funds on those funds at the beginning of the year. As a result, the net position for the governmental activities was increased \$800,641 and the business type activities net position had a corresponding decrease.

CITY OF LIBERTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 17 – SUBSEQUENT EVENT

In October, 2016, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2016 of \$7.655 million. The funds will be utilized to construct, improve and repair various fixed assets of the City. 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. As a result of the subsequent debt issuance, principal and interest requirements to retire the City's general obligation bonds are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2017	\$870,000	\$418,040	\$1,288,040
2018	860,000	414,905	1,274,905
2019	895,000	390,655	1,285,655
2020	920,000	363,555	1,283,555
2021	950,000	335,580	1,285,580
2022-2026	4,605,000	1,222,138	5,827,138
2027-2031	4,015,000	544,417	4,559,417
2032-2036	2,375,000	122,725	2,497,725
Total	<u>\$15,490,000</u>	<u>\$3,812,015</u>	<u>\$19,302,015</u>

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, 2016**

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES:				
Ad Valorem Taxes	\$2,002,500	\$2,002,500	\$2,161,898	\$159,398
Sales Tax	2,000,000	2,000,000	1,909,135	(90,865)
Other Taxes	200,000	200,000	209,187	9,187
Fines & Forfeitures	165,500	165,500	232,841	67,341
Investment Income	6,000	6,000	14,600	8,600
Licenses, Fees, & Rents	878,800	878,800	989,017	110,217
Intergovernmental Transfers & Grants	107,800	107,800	105,513	(2,287)
Other Revenues & Receipts	95,100	95,100	107,893	12,793
TOTAL REVENUES	5,455,700	5,455,700	5,730,084	274,384
EXPENDITURES:				
Administration & City Council	1,117,583	1,117,583	1,057,252	60,331
Business & Support Services	726,366	726,366	744,408	(18,042)
Economic Development/Tourism	-	-	-	-
Public Health & Safety:				
Fire	1,864,116	1,864,116	1,993,663	(129,547)
Police	2,202,467	2,202,467	2,124,228	78,239
Municipal Court	167,270	167,270	148,170	19,100
Animal Control	137,816	137,816	141,713	(3,897)
Library	443,494	443,494	729,185	(285,691)
Streets	1,000,095	1,000,095	647,239	352,856
Maintenance	94,490	94,490	93,679	811
Parks & Recreation	308,321	308,321	294,029	14,292
Inspection Services	168,652	168,652	183,767	(15,115)
Capital Expenditures	138,025	138,025	327,864	(189,839)
Debt Service	-	-	44,932	(44,932)
TOTAL EXPENDITURES	8,368,695	8,368,695	8,530,129	(161,434)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(2,912,995)	(2,912,995)	(2,800,045)	112,950
OTHER FINANCING SOURCES:				
Transfers from Other Funds	2,912,995	2,912,995	2,025,523	(887,472)
Transfers to Other Funds	-	-	(21,871)	(21,871)
TOTAL OTHER FINANCING SOURCES	2,912,995	2,912,995	2,003,652	(909,343)
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	-	-	(796,393)	(796,393)
FUND BALANCES, BEGINNING OF YEAR	4,458,620	4,458,620	4,458,620	-
FUND BALANCES, END OF YEAR	\$4,458,620	\$4,458,620	\$3,662,227	\$(796,393)

(A) General Fund Budgetary information includes Fixed Asset Replacement Fund

(B) LCDC Budgetary information includes LCDC debt service

(C) General Fund expenditures exceeded appropriations primarily due to Library building professional services

Liberty Community Development Corporation			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	-
\$1,000,000	\$1,000,000	\$954,449	\$(45,551)
-	-	-	-
5,000	5,000	8,490	3,490
-	-	-	-
-	-	-	-
1,005,000	1,005,000	962,939	(42,061)
-	-	-	-
720,712	720,712	20,823	699,889
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
234,288	234,288	266,437	(32,149)
955,000	955,000	287,260	667,740
50,000	50,000	675,679	625,679
-	-	247,604	247,604
(50,000)	(50,000)	(152,967)	(102,967)
(50,000)	(50,000)	94,637	144,637
-	-	770,316	770,316
2,307,855	2,307,855	2,307,855	-
\$2,307,855	\$2,307,855	\$3,078,171	\$770,316

Debt Service			
Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
\$1,280,000	\$1,280,000	\$1,327,852	\$47,852
-	-	-	-
-	-	-	-
5,000	5,000	6,706	1,706
-	-	-	-
-	-	-	-
1,285,000	1,285,000	1,334,558	49,558
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,457,777	1,457,777	1,213,550	244,227
1,457,777	1,457,777	1,213,550	244,227
(172,777)	(172,777)	121,008	293,785
242,976	242,976	-	(242,976)
-	-	-	-
242,976	242,976	-	(242,976)
70,199	70,199	121,008	50,809
1,862,043	1,862,043	1,862,043	-
\$1,932,242	\$1,932,242	\$1,983,051	\$50,809

CITY OF LIBERTY, TEXAS**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS –
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2016**

	2015	2014
Total Pension Liability		
Service Cost	\$517,416	\$318,408
Interest (on the Total Pension Liability)	863,571	780,406
Changes of Benefit Terms	-	4,030,494
Difference Between Expected and Actual Experience	53,707	325,260
Change of Assumptions	530,215	-
Benefit Payments, Including Refunds of Employee Contributions	(375,511)	(295,510)
Net Change in Total Pension Liability	1,589,398	5,159,058
Total Pension Liability – Beginning	12,265,777	7,106,719
Total Pension Liability – Ending (a)	\$13,855,175	\$12,265,777
Plan Fiduciary Net Position		
Contributions – Employer	\$732,389	\$201,943
Contributions – Employee	304,618	204,251
Net Investment Income	10,273	371,202
Benefit Payments, Including Refunds of Employee Contributions	(375,511)	(295,510)
Administrative Expense	(6,261)	(3,875)
Other	(308)	(319)
Net Change in Plan Fiduciary Net Position	665,200	477,692
Plan Fiduciary Net Position – Beginning	6,965,676	6,487,984
Plan Fiduciary Net Position – Ending (b)	\$7,630,876	\$6,965,676
Net Pension Liability – Ending (a) – (b)	\$6,224,299	\$5,300,101
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	55.08%	56.79%
Covered Employee Payroll	\$4,351,691	\$4,085,010
Net Pension Liability as a Percentage of Covered Employee Payroll	143.03%	129.75%

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

CITY OF LIBERTY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS -
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2016

	<u>9/30/2016</u>	<u>9/30/2015</u>
Actuarially Determined Contribution	\$744,092	\$605,241
Contributions in Relation to the Actuarially Determined Contribution	<u>744,092</u>	<u>605,241</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>
Covered Employee Payroll	<u>\$4,253,975</u>	<u>\$4,424,680</u>
Contributions as a Percentage of Covered Employee Payroll	<u>17.49%</u>	<u>13.68%</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	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the Period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes 1) There were no benefit changes during the year.

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, 2016

	Police Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
<u>ASSETS</u>			
Cash & Cash Equivalents	\$10,083	\$11,809	\$22,528
Cash - Restricted	-	-	-
Investments	-	-	-
Due from State	-	-	-
Interfund Receivable	-	-	-
TOTAL ASSETS	10,083	11,809	22,528
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$10,083	\$11,809	\$22,528
<u>LIABILITIES</u>			
Accounts Payable	-	\$2,893	-
Due to State	-	-	-
Interfund Payable	-	-	-
TOTAL LIABILITIES	-	2,893	-
<u>DEFERRED INFLOWS OF RESOURCES</u>	-	-	-
<u>FUND BALANCES</u>			
Restricted- Capital Projects	-	-	-
Committed Fund Balances	\$10,083	8,916	\$22,528
TOTAL FUND BALANCES	10,083	8,916	22,528
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$10,083	\$11,809	\$22,528

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

Library Memorial Fund	Municipal Library Trust	Capital Projects Fund (CO 2010 A)	Capital Projects Fund (CO 2012)	Capital Projects Fund (LCDC)	Total Nonmajor Special Revenue Funds
\$53,155	\$4,851	-	-	-	\$102,426
-	-	-	\$5,050	-	5,050
-	227,288	-	-	-	227,288
-	-	-	-	-	-
-	-	-	-	-	-
53,155	232,139	-	5,050	-	334,764
-	-	-	-	-	-
\$53,155	\$232,139	-	\$5,050	-	\$334,764
-	-	-	-	-	\$2,893
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	2,893
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	\$5,050	-	5,050
\$53,155	\$232,139	-	-	-	326,821
53,155	232,139	-	5,050	-	331,871
\$53,155	\$232,139	-	\$5,050	-	\$334,764

CITY OF LIBERTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2016

	Police Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund
REVENUES:			
Other Taxes	-	-	\$44,170
Forfeiture	\$6,303	-	-
Investment Income	154	-	-
Rents	-	\$57,074	-
Intergovernmental Grants	-	10,045	-
Grants and Donations	-	-	7,250
Other Revenues & Receipts	-	149,613	33,912
TOTAL REVENUES	6,457	216,732	85,332
EXPENDITURES:			
Economic Development / Tourism	-	-	104,149
Public Health and Safety:			
Police	3,817	-	-
Library	-	-	-
Airport	-	207,907	-
Capital Expenditure	-	103,081	-
TOTAL EXPENDITURES	3,817	310,988	104,149
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,640	(94,256)	(18,817)
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	-	102,967	-
Operating Transfers Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	102,967	-
Net Change in Fund Balance	2,640	8,711	(18,817)
Fund Balances, Beginning of Year	7,443	205	41,345
Fund Balances, End of Year	\$10,083	\$ 8,916	\$22,528

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

Library Memorial Fund	Municipal Library Trust	Capital Projects Fund (CO 2010A)	Capital Projects Fund (CO 2012)	Capital Projects Fund (LCDC)	Total Nonmajor Special Revenue Funds
-	-	-	-	-	\$44,170
-	-	-	-	-	6,303
\$27	\$7,135	\$158	\$41	\$839	8,354
-	-	-	-	-	57,074
-	-	-	-	-	10,045
6,312	-	-	-	-	13,562
-	-	-	-	-	183,525
6,339	7,135	158	41	839	323,033
-	-	-	-	-	104,149
-	-	-	-	-	3,817
10,115	-	-	-	-	10,115
-	-	-	-	-	207,907
-	-	141,948	6,777	348,566	600,372
10,115	-	141,948	6,777	348,566	926,360
(3,776)	7,135	(141,790)	(6,736)	(347,727)	(603,327)
5,202	-	21,867	-	-	130,036
-	(5,202)	-	-	(247,604)	(252,806)
5,202	(5,202)	21,867	-	(247,604)	(122,770)
1,426	1,933	(119,923)	(6,736)	(595,331)	(726,097)
51,729	230,206	119,923	11,786	595,331	1,057,968
\$53,155	\$232,139	-	\$5,050	-	\$331,871

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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>
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
2015-2016	3,330,057	3,149,898	95%	228,260	3,378,158

<u>Total Collections As Percent of Current Levy</u>	<u>Tax Adjustments</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Percent</u>
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%
101.4%	(65,654)	847,136	25.4%

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>
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(a)
2008-2009	1,706,446	2,121,447	467,000	2,279,206(b)
2009-2010	1,627,973	1,756,434	311,333	164,722
2010-2011	1,701,344	2,052,692	(c)	112,083
2011-2012	1,727,048	2,002,343	(c)	193,121
2012-2013	2,026,426	2,056,737	(c)	54,208
2013-2014	2,116,727	2,302,566	(c)	233,216
2014-2015	2,323,762	2,023,822	(c)	66,949
2015-2016	2,371,085	1,909,135	(c)	105,513

- (a) Includes \$1,829,109 of recovery from FEMA for Hurricane Ike disaster costs in 2008.
(b) Includes \$1,775,501 of recovery from FEMA for Hurricane Ike disaster costs in 2009.
(c) 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>
\$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
232,841	989,017	122,493	5,730,084

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>
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
2015-2016	1,057,252	647,239	1,993,663	148,170	647,239

- (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>
\$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
294,029	93,679	2,124,228	1,524,630	8,530,129

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>Other Income</u>	<u>Total Income</u>
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
2015-2016	15,472,175	39,944	9,201	15,521,320

(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>
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
2015-2016	12,780,405(a)	1,143,796	13,924,201	177,981	14,102,182

(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>
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
2015-2016	1,640,900	1,564,119	14,142	3,219,161

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

Expenses

<u>Operating Expenses</u>	<u>Depreciation</u>	<u>Total Expenses</u>
\$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
1,772,880	411,213	2,184,093

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

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Operating Expenses</u>
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
2015-2016	738,515	566,548

FEDERAL AWARDS SECTION

SWAIM, BRENTS & ASSOCIATES, P.C.
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(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, 2016, 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 20, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

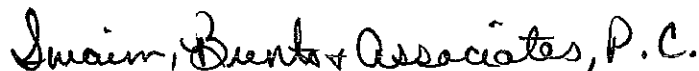
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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.
Liberty, Texas
January 20, 2017

