

the comprehensive annual
financial report of the
City of Hudson Oaks, TX
for the fiscal year ending
September 30, 2016



Branch Out.

CITY OF HUDSON OAKS, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Prepared by the Finance Department

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CITY OF HUDSON OAKS, TEXAS
 Comprehensive Annual Financial Report
 For the Year Ended September 30, 2016

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INTRODUCTORY SECTION

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February 13, 2017

Honorable Mayor and City Council
City of Hudson Oaks, TX

Dear Mayor and City Council:

The City Administrator's Office is pleased to present the Comprehensive Annual Financial Report for the City of Hudson Oaks, Texas, for the fiscal year ended September 30, 2016.

This report is published to provide the City Council, residents, bondholders, City staff and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief the enclosed data are accurate in all respects, and are organized in a manner designed to fairly present the financial position and results of City operations, which are measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

THE REPORT

The reporting model issued by the Governmental Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). We believe our presentation provides better information to use the comprehensive annual financial report. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Hudson Oaks' MD&A can be found immediately following the independent auditor's report.

CITY PROFILE

Location

Hudson Oaks is located in Parker County, just 20 miles west of Fort Worth. Hudson Oaks is home to approximately 2,160 people, and serves as a prime location for residents who desire a short commute time with the luxury of living in a city with no property tax. There are currently 2.6 square miles of land within the City's boundaries.

Government Structure

Founded in 1978, Hudson Oaks is a Type A General Law Municipality that operates under a Council-Manager form of government. The City Council is comprised of a mayor and five at-large council members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing members of various statutory and advisory boards, the

City Administrator, City Attorney, the City Secretary and the Municipal Judge. The City Administrator is responsible for the enforcement of laws and ordinances, the appointment and supervision of the directors and department heads, and the performance of functions within the municipal organization.

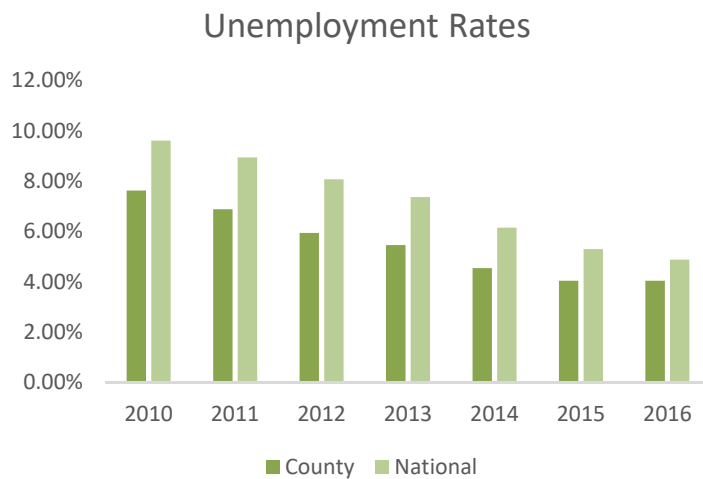
Services Provided

The City provides services that are meant to be necessary and meaningful to the City, while maintaining a low cost to the citizens, including the benefit of no property tax. Major services provided under the general government and enterprise functions are: police, water and wastewater utility services, park facilities, streets, and administrative services.

ECONOMIC CONDITIONS AND OUTLOOK

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Regional Economy

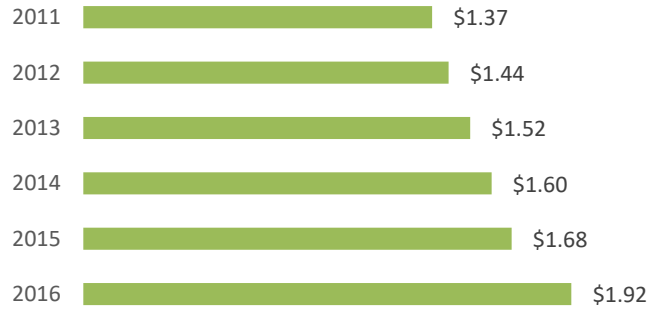


Hudson Oaks is 20 miles west of downtown Fort Worth, which makes it an ideal location for people to live and commute. Hudson Oaks has had strong economic growth over the past years, thriving on commercial development as a sales tax dependent City. Unemployment rates have dropped, while City and County sales tax receipts continue to increase.

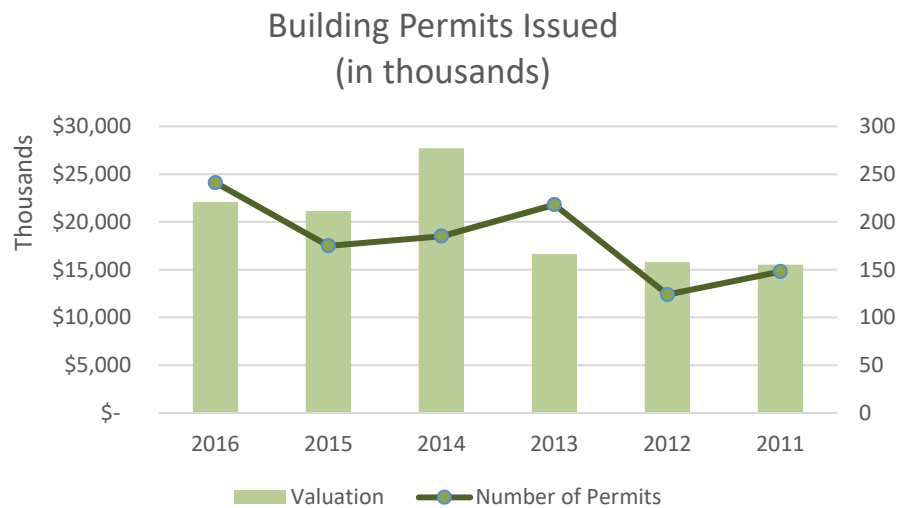
Local Economy

Hudson Oaks is a thriving economy between Weatherford and Fort Worth. Customers come from all over to shop in Hudson Oaks. Approximately 70,000 vehicles a day travel through Hudson Oaks, which makes it an ideal place to do business. The stability of the local Wal-Mart combined with the vast amount of car dealerships consistently brings consumers to the area. These establishments, along with other retail stores and restaurants, provide outlets to meet the needs of area residents as well as a solid and growing retail base for the City. Sales tax collections are up 14% compared to the prior year. The sales tax revenue for 2016-2017 has been conservatively budgeted even though future growth is likely due to new businesses coming into the city.

Sales Tax Collections (in millions)



New residential developments continue to grow the city’s population in the Red Eagle subdivision and a planned future mixed-use development, Creekside at Hudson Oaks. The value and number of permits increased slightly from the previous year due to an increase in commercial development within the City.



FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City’s accounting records for general governmental operations are maintained on a modified accrual basis, revenues are recorded when available and measurable, and expenditures are recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City’s utilities are maintained on the accrual basis.

In developing and maintaining the City’s accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but no absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City Charter provides that the City Council shall adopt the annual budget prepared by the City Administrator. This budget is reviewed by the City Council and is formally adopted by the passage of a budget ordinance. The City Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgetary control has been established at the individual fund and department level. Financial reports are produced showing budget and actual expenditures by line item, and are distributed monthly to City department management and to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item. Revenue budgets are reviewed monthly.

In addition, the City has implemented a five-year strategic plan process that projects full line-item and capital expenditure detail for all departments. The first year of this strategic plan is utilized as a starting basis for the annual budget.

Cash Management

As of October 1, 2014, the City's depository contract is with First Financial Bank, N.A. It is a three-year relationship period with two one-year extension options, set to expire on September 30, 2017.

The remaining idle cash is invested in government securities and government investment pools as allowed by the State of Texas Statutes and by the City's investment policy.

The ending balance of the City's investment portfolio for Fiscal Year 2015-2016 was approximately \$4,546,680. The overall portfolio provided \$2,161 in investment income, representing interest revenue net of realized gains, unrealized gains and losses and investment expenses.

It is the City's policy that all demand deposits and time deposits will have a collateralization level of not less than 102% of market value of principal and accrued interest, less an amount of \$250,000, which represents insurance by the FDIC or FSLIC on certain types of bank deposits. Evidence of pledged collateral shall be documented by safekeeping or a master repurchase agreement with the collateral pledged clearly listed in the agreement and safekeeping confirmations. Collateral is monitored monthly to ensure that the market value of the pledged securities equals or exceeds the related deposit of investment balance.

All investments transacted by the City are purchased using the delivery versus payment method. That is, funds are not wired or paid until verification has been made that the correct security has been received by the Custodian. Securities are held in the name of the City of held on behalf of the City. The original copy of the safekeeping statements is delivered to the City.

The City will not accept as depository collateral any security that is not specifically allowed to be held as a direct investment by the City's portfolio, and the maximum maturity of the collateral securities may be no greater than five years. Collateral is held by an independent third party with whom the depository bank has a custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) is supplied to the City and retained. The safekeeping institution will be the Federal Reserve Bank, Federal Home Loan Bank, or an institution not affiliated with the depository bank or the broker/dealer pledging the security. The safekeeping agreement includes the authorized signatories of the City and the depository bank.

All collateral shall be subject to verification and audit by the Financial Analyst or the City's independent auditors.

Long-Term Financing

The City intends that the length of any long-term financing matches the life of assets purchased with the financing. The City will generally use lease-purchase options of larger pieces of equipment with an expected useful life of at least five years. Certificates of Obligation or bonded indebtedness are issued for projects and other significant capital improvements with longer useful lives.

Long-Term Financial Planning

The City develops a multi-year blueprint annually for planning the City's future capital expenditures, which coordinates and integrates community planning, development and financial capacity. This blueprint is the Capital Improvement Plan (CIP). The CIP's goal is to implement necessary infrastructure and facility issues related to city growth and increased service demands and improve efficiency in the city. This strategic capital plan ensures that infrastructure needs projected over the next several years are identified, prioritized and properly funded.

Transparency

During the year, the City entered into a contract with OpenGov to improve the transparency with the public. Multiple reports are now available via the City's website to allow the user to locate information about the City's finances.

OTHER INFORMATION

Independent Audit

Section 7.13 of the City Charter requires the City Council to direct that an independent annual audit be made of all accounts of the City. This requirement has been complied with, and the independent auditor's report has been included in this report.

It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that, in their opinion, the statements herein present fairly, in all material aspects, the financial position of the City at September 30, 2016, and the results of its operations and the cash flows of its proprietary fund type for the year ended in conformity with accounting principles generally accepted in the United States of America.

Certificate of Achievement

The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hudson Oaks for its comprehensive annual financial report for the fiscal year ended September 30, 2015. This was the first year that the government has achieved this prestigious award.

To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been accomplished without the full support and involvement of the City Administrator and staff that provided information and analyses contained within this document. In addition, we acknowledge the thorough, professional, and timely way our independent auditors, George, Morgan and Sneed, P.C., conducted the audit. Finally, we express appreciation to the Mayor and City Council for their continued support for maintaining the highest standard and professionalism of the management of the City's finances.

Sincerely,



Patrick Lawler
City Administrator

CITY OF HUDSON OAKS, TEXAS

MAYOR

Pat Deen

MAYOR PRO-TEM

Tom Fitzpatrick

COUNCIL MEMBERS

Place 1 – Tom Marquardt

Place 2 – Brian Lixey

Place 3 – Marty Schrantz

Place 5 – Marc Povero

CITY ADMINISTRATOR

Patrick Lawler

ASSISTANT CITY ADMINISTRATOR

Chad Janicek

DEPARTMENT DIRECTORS

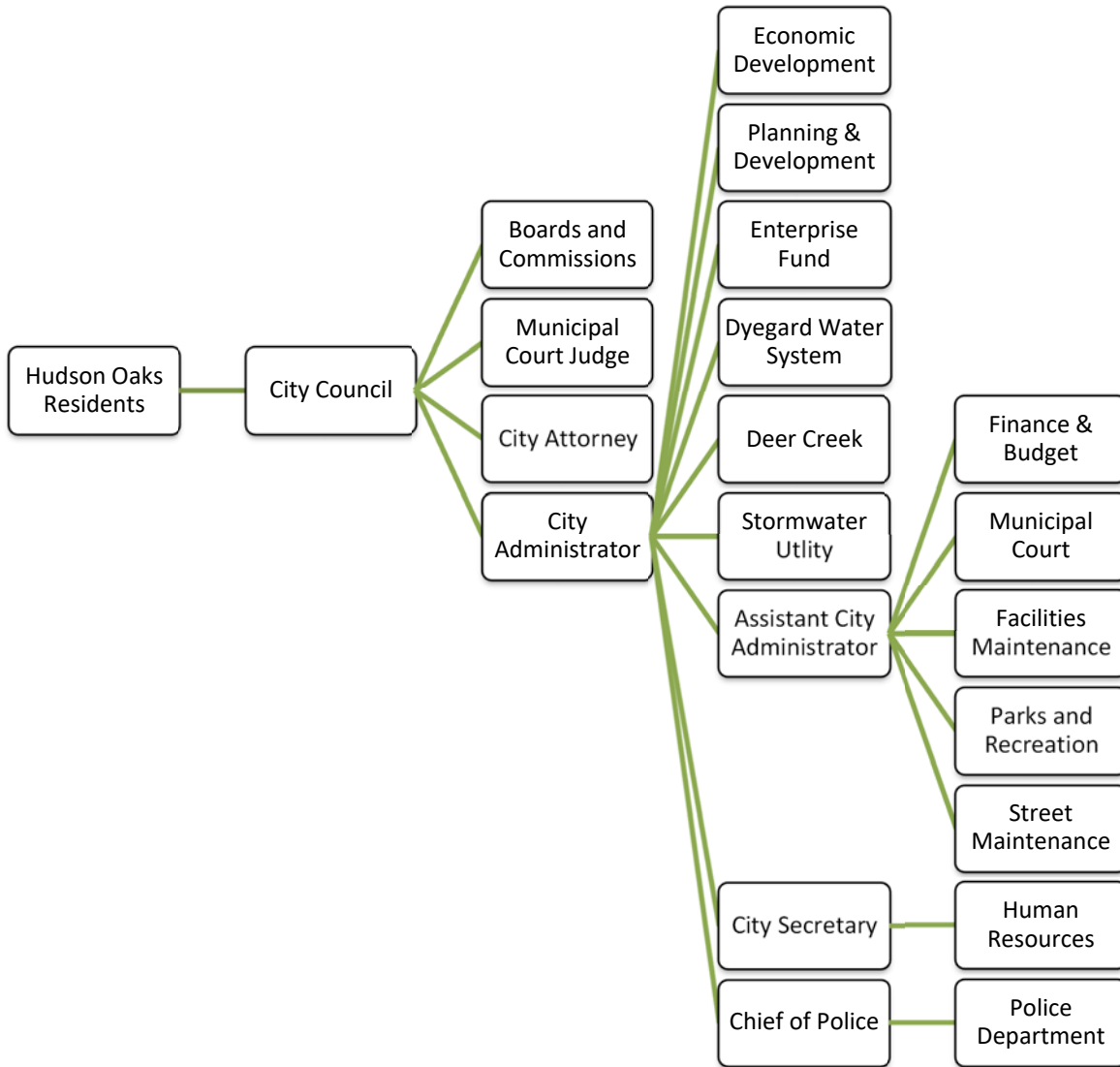
Ricky King – Public Works

Danny Woolery – Parks & Recreation

Shelley Major – City Secretary

Paul Conner – Municipal Court Judge

ORGANIZATIONAL CHART





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Hudson Oaks
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hudson Oaks, 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 Hudson Oaks, 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 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-14 and budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions and related ratios on pages 53 – 57 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The introductory section, enterprise fund supplementary information and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2017, on our consideration of the City of Hudson Oaks, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 of Hudson Oaks, Texas' internal control over financial reporting and compliance.

George Morgan Fines, P.C.

Weatherford, Texas
February 13, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The City of Hudson Oaks, Texas, we offer readers of The City of Hudson Oaks' financial statements this narrative overview and analysis of the financial activities of The City of Hudson Oaks for the year ended September 30, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the City of Hudson Oaks exceeded its liabilities at the close of the most recent fiscal year by \$12,532,040 (*net position*) compared to \$11,766,651 for the prior year. Of this amount, \$3,570,951 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$840,389. The City's operations increased the governmental activities and business-type activities by \$592,422 and \$247,967, respectively. Net position was decreased by a \$75,000 prior period adjustment as a result of a reclassification of a receivable previously not recorded. See note 14 to the financial statements for a description of the prior period adjustment.
- As of the close of the current fiscal year, the City of Hudson Oaks' governmental funds reported combined ending fund balances of \$6,887,934 compared to \$1,586,481 for the prior year. 18% is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,273,229, or 56% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Hudson Oaks' basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and fees).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are

intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets and parks and planning and development. The business-type activities of the City include waterworks, wastewater and stormwater.

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

The City maintains eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and General Capital Projects Fund, which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Proprietary funds. The City maintains two types of proprietary funds. The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and wastewater. The Stormwater fund is used to account for stormwater operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for reimbursements for employee health care costs. Because this service predominately benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater and stormwater utility funds.

The basic proprietary fund financial statements can be found on Exhibits 7 through 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-52 of this report.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on Exhibit A-1 through A-3.

The combining and individual nonmajor governmental funds and enterprise fund statements and schedules are presented immediately following the required supplementary information. These statements can be found on Exhibits B-1 through B-2 and Schedules 1 through 3 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$12,532,040 as of September 30, 2016. Below is a summary of the City’s Statement of Net Position.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 7,622,343	\$ 2,187,250	\$ 3,250,710	\$ 2,301,308	\$ 10,873,053	\$ 4,488,558
Capital assets	7,868,664	7,050,862	9,983,983	10,370,024	17,852,647	17,420,886
Total Assets	15,491,007	9,238,112	13,234,693	12,671,332	28,725,700	21,909,444
Deferred Outflow of Resources	211,426	93,957	92,780	41,701	304,206	135,658
Total Deferred Outflow of Resources	211,426	93,957	92,780	41,701	304,206	135,658
Current liabilities	257,174	116,967	157,561	188,851	414,735	305,818
Long-term liabilities	9,023,685	3,391,338	6,986,923	6,516,817	16,010,608	9,908,155
Total liabilities	9,280,859	3,508,305	7,144,484	6,705,668	16,425,343	10,213,973
Deferred Inflow of Resources	50,310	44,922	22,213	19,556	72,523	64,478
Total Deferred Inflow of Resources	50,310	44,922	22,213	19,556	72,523	64,478
Net Position:						
Invested in capital assets net of related debt	4,788,635	4,525,800	3,371,107	4,087,015	8,159,742	8,612,815
Restricted Net Position (expendable)	50,298	44,541	751,048	138,725	801,346	183,266
Unrestricted Net Position	1,532,331	1,208,501	2,038,621	1,762,069	3,570,952	2,970,570
Total Net Position	\$ 6,371,264	\$ 5,778,842	\$ 6,160,776	\$ 5,987,809	\$ 12,532,040	\$ 11,766,651

The largest portion of the City’s net position (65%) reflects its investment in capital assets (e.g. land, buildings, equipment, automobiles, improvements, infrastructure and construction in progress); less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City’s net position (6%) represents resources that are subject

to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$3,570,951 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City can report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The following is a summary of the City's Statement of Activities.

Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 441,274	\$ 423,587	\$ 2,035,354	\$ 2,016,359	\$ 2,476,628	\$ 2,439,946
Operating grants and contributions	12,242	-	116,571	-	128,813	-
Capital grants and contributions	149,528	375,567	640,475	188,161	790,003	563,728
General revenues:						
Sales taxes	1,940,291	1,703,568	-	-	1,940,291	1,703,568
Franchise taxes	177,958	193,272	-	-	177,958	193,272
Investment earnings	63,084	3,478	2,192	898	65,276	4,376
Gain (Loss) on sale of capital assets	-	8,200	-	-	-	8,200
Other Revenue	438,764	96,822	-	-	438,764	96,822
Total revenues	3,223,141	2,804,494	2,794,592	2,205,418	6,017,733	5,009,912
Expenses						
General government	666,538	705,554	-	-	666,538	705,554
Public safety	1,277,695	1,140,082	-	-	1,277,695	1,140,082
Highways and streets and parks	368,670	292,149	-	-	368,670	292,149
Planning and development	146,778	165,319	-	-	146,778	165,319
Interest and fiscal charges	122,302	91,412	-	-	122,302	91,412
Bond insurance costs	184,986	-	-	-	184,986	-
Waterworks	-	-	1,547,911	1,054,715	1,547,911	1,054,715
Dyegard Water System	-	-	215,052	297,909	215,052	297,909
Deercreek Management	-	-	117,217	111,352	117,217	111,352
Stormwater	-	-	223,515	-	223,515	-
Wastewater	-	-	306,680	258,116	306,680	258,116
Total expenses	2,766,969	2,394,516	2,410,375	1,722,092	5,177,344	4,116,608
Increase (decrease) in net position before transfers	456,172	409,978	384,217	483,326	840,389	893,304
Transfers	136,250	187,536	(136,250)	(187,536)	-	-
Increase (decrease) in net position	592,422	597,514	247,967	295,790	840,389	893,304
Net Position, Beginning	5,778,842	5,584,696	5,987,809	5,867,388	11,766,651	11,452,084
Prior Period Adjustment	-	(403,368)	(75,000)	(175,369)	(75,000)	(578,737)
Net Position, Ending	\$ 6,371,264	\$ 5,778,842	\$ 6,160,776	\$ 5,987,809	\$ 12,532,040	\$ 11,766,651

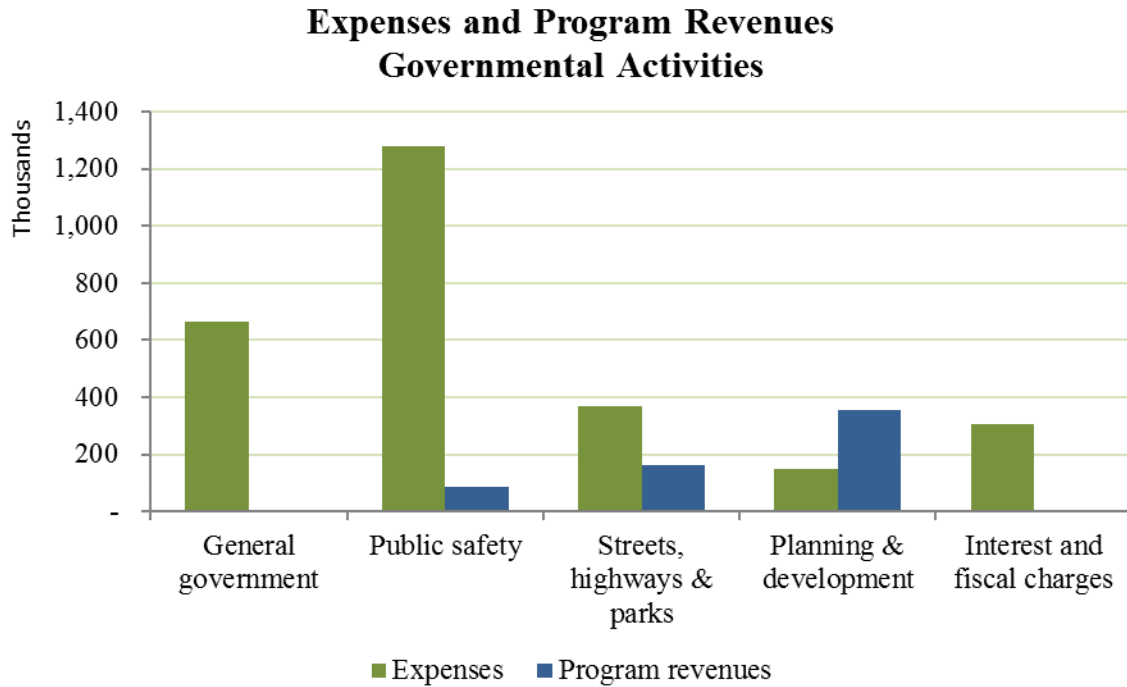
Governmental Activities. Governmental activities increased the City's net position by \$592,422. Key elements are as follows.

- Revenues increased \$418,647. Investment income increased by \$59,606 due to the purchase of a property that's value was increased to fair value. Sales tax increased approximately \$236,723 due to the continued growth in the City and new business development. Capital grants and contributions decreased due to a \$226,039 grant from the Texas Department of Transportation for

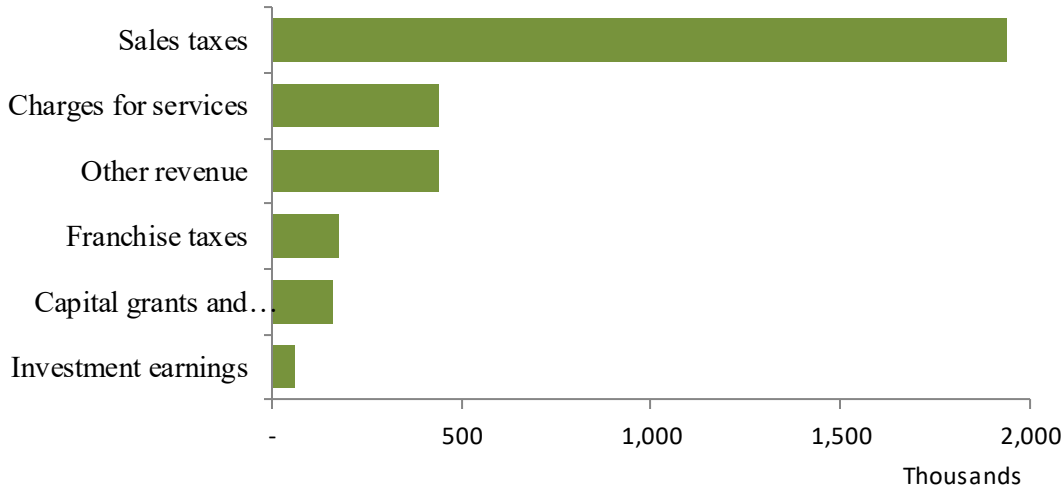
the Lakeshore Bridge project in the prior year. Other revenue increased \$341,942 due the inclusion of the internal service fund revenues in governmental activities and an increase in the special events fund miscellaneous revenue for events the City hosts for the public.

- Expenses increased \$372,453. Bond issuance costs increased the expenses by \$184,986 for new bonds the City issued during the year. Interest charges on bonds also increased \$30,890 from the prior year. Public safety expenses increased \$137,613 due to an increase in salaries and overtime over the previous year. Dispatch services through the County also increased public safety expenses by approximately \$23,000.

Below are two graphs summarizing governmental revenue and expense:



Revenues by Source Governmental Activities

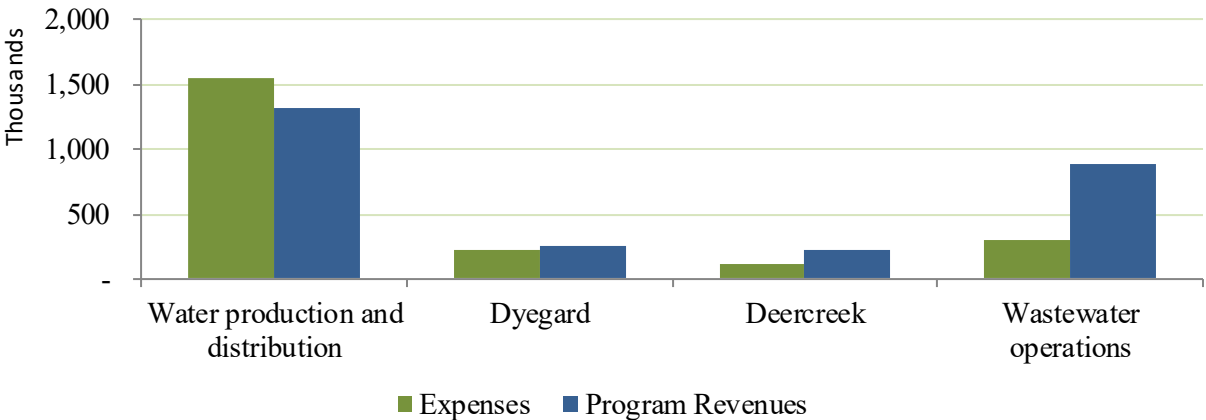


Business-type activities. Business-type activities increased the City’s net position by \$247,967. Key elements are as follows.

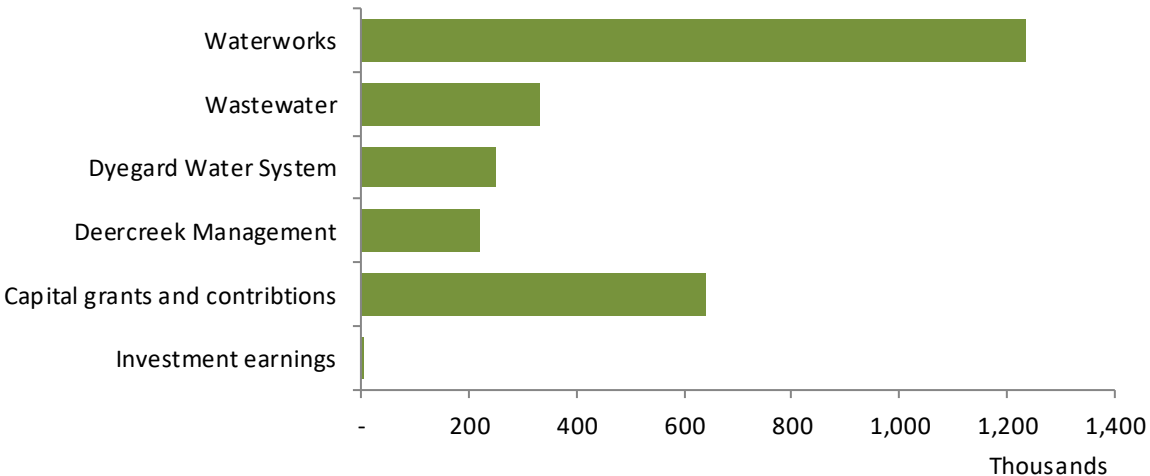
- Revenues increased \$589,174. Operating grants and contributions increased \$116,571 due to the City receiving a Bureau of Reclamation grant for the stormwater utility rate study. Capital contributions consisting of developer contributions of water and wastewater system improvements increased \$452,314 due to a wastewater assessment fee charged to certain customer after the completion of a new wastewater line.
- Expenses increased \$688,283. Waterworks expenses increased \$493,196 due primarily to an increase in water purchased and demand charges from the City of Weatherford as well as personnel costs and utility costs. Stormwater expenses were \$223,515 for a rate study for the new stormwater fee implemented by City Council beginning in fiscal year 2017.

Below are two graphs summarizing business-type activities revenue and expense:

Expenses and Program Revenues Business-type Activities



Revenues by source Business-type Activities



Financial Analysis of the Government’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At year end, the City’s governmental funds reported combined ending fund balances of \$6,887,934. (18%) of the ending fund balance constitutes unassigned fund balance, which is available for spending at the government’s discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,273,229. During the current fiscal year, the fund balance of the City’s general fund increased by \$220,550. Key factors in this growth are as follows:

- Revenues increased \$269,688. Sales tax increased \$239,632 due to a growing retail base in the City. Licenses and permits increased \$16,608 due to a increase in the number and value of permits issued. Interest revenue increased due to the recognition of fair value on a property purchase.
- Total expenditures increased \$58,662. General government expenditures declined due to economic development agreements and a city hall remodel in the prior year. Public safety expenditures increased due to salaries and overtime costs, the purchase of two new police vehicles as well as dispatch costs. Highways, streets and parks increased due to the additional maintenance on roads this year.

Below is a comparison of the general fund's net change in fund balance for the fiscal year ended September 30, 2016 and September 30, 2015.

	2016	2015	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Taxes				
Sales and use	\$ 1,927,350	\$1,687,718	\$ 239,632	14%
Franchise	180,364	183,415	(3,051)	-2%
Licenses and permits	355,804	339,196	16,608	5%
Charges for services	755	751	4	1%
Municipal court fines	81,094	109,521	(28,427)	-26%
Interest	56,222	1,951	54,271	2782%
Intergovernmental	12,242	-	12,242	0%
Miscellaneous	69,390	90,981	(21,591)	-24%
Total revenues	<u>2,683,221</u>	<u>2,413,533</u>	<u>269,688</u>	<u>11%</u>
Expenditures:				
Current:				
General government	474,243	719,191	(244,948)	-34%
Public safety	1,262,618	1,063,555	199,063	19%
Highways and streets and parks	309,874	176,048	133,826	76%
Planning and development	146,778	165,319	(18,541)	-11%
Debt service				
Principal	80,148	90,177	(10,029)	-11%
Interest and fiscal charges	817	1,526	(709)	-46%
Total expenditures	<u>2,274,478</u>	<u>2,215,816</u>	<u>58,662</u>	<u>3%</u>
Other financing sources (uses):				
Transfers In	68,750	218,128	(149,378)	-68%
Transfers Out	(295,380)	(312,858)	17,478	-6%
Proceeds from capital lease	38,437	-	38,437	0%
Proceeds from sale of capital	-	185,000	(185,000)	100%
Net change in fund balance	<u>\$ 220,550</u>	<u>\$ 287,987</u>	<u>\$ (67,437)</u>	<u>-23%</u>

The fund balance of the General Capital Projects fund increased \$5,094,382 due to new bonds issued during the year. 100% of the fund balance is restricted for various City construction projects.

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

Unrestricted net position of the Proprietary Fund at the end of the fiscal year amounted to \$2,038,621. The change in net position was a \$247,967 increase. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City amended the general fund budget once during fiscal year 2016. Budgeted revenues and transfers in were increased \$257,475 and \$68,750 respectively. Budgeted expenditures were increased \$314,827. The most significant changes were to increase building and permit revenues which consequently increased planning and development expenditures due to the increase in building permits. Budgeted sales tax revenues were increased due to the increase in business throughout the City. Public safety expenditure budget was increased due to salary and overtime increases. Highways, streets and parks were increased due to additional road maintenance planned throughout the year.

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2016, amounts to \$17,852,647 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and wastewater systems, improvements, equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- \$149,528 developer contribution of infrastructure improvements.
- \$758,915 for construction and engineering on the Hudson Oaks Bridge Project, Oykey development and the landscape enhancements on I-20.
- \$69,352 for two new police vehicles.
- \$105,662 for street improvements throughout the City.

Business-type activities:

- \$151,793 developer contributions of water and wastewater system improvements.
- \$54,974 for construction of Lakeshore I-20 Sanitary and Sewer Lift Station, which was complete during the fiscal year.
- \$304,528 for the purchase of land for a future water plant addition.
- \$675,206 decrease in intangible assets related to a prior period adjustment for the sale of buy-in rights to the City of Weatherford.
- \$5,775 for a new wastewater pump.
- \$57,190 for a new wastewater line for new business development.

**The City of Hudson Oaks Capital Assets
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 460,487	\$ 460,487	\$ 559,867	\$ 255,339	\$ 1,020,354	\$ 715,826
Buildings	1,819,000	1,877,298	34,755	35,943	1,853,755	1,913,241
Water plant	-	-	2,849,483	2,975,534	2,849,483	2,975,534
Water distribution systems	-	-	2,980,191	3,077,061	2,980,191	3,077,061
Automobiles	-	-	2,861,763	1,556,224	2,861,763	1,556,224
Intangible Assets	92,454	53,637	22,452	36,525	114,906	90,162
Equipment	-	-	576,875	1,090,916	576,875	1,090,916
Improvements	2,668	4,003	74,263	87,553	76,931	91,556
Infrastructure	142,580	155,814	-	-	142,580	155,814
Construction in progress	2,647,933	2,554,996	-	-	2,647,933	2,554,996
Total	<u>\$ 7,868,664</u>	<u>\$ 7,050,862</u>	<u>\$ 9,983,983</u>	<u>\$ 10,370,024</u>	<u>\$ 17,852,647</u>	<u>\$ 17,420,886</u>

Additional information on the City's capital assets can be found in note 3 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City of Hudson Oaks had total bonded debt, notes payable and capital leases payable of \$15,016,040.

City of Hudson Oaks' Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Capital leases	\$ 50,211	\$ 23,172	\$ -	\$ -	\$ 50,211	\$ 23,172
Certificates of Obligation	7,829,044	1,981,381	6,079,854	5,743,611	13,908,898	7,724,992
General Obligation bonds	444,412	740,587	612,519	539,398	1,056,931	1,279,985
Notes Payable	-	68,750	-	-	-	68,750
Total	<u>\$ 8,323,667</u>	<u>\$ 2,813,890</u>	<u>\$ 6,692,373</u>	<u>\$ 6,283,009</u>	<u>\$ 15,016,040</u>	<u>\$ 9,096,899</u>

More detailed information about the City's debt is presented in note 5 to the financial statements.

Economic factors and the Next Year's Budgets and Rates

The City of Hudson Oaks realized significant positive growth in a number of areas during fiscal year 2016. Sales and use tax revenue increased 14% over fiscal year 2015. License and permit revenue continues to increase and the City expects the increase to continue to 2017. General fund revenues for fiscal year 2016 of \$2,683,221 exceeded fiscal year 2015 revenues of \$2,413,533 by \$269,688 or 11%.

Fiscal year 2016 was a busy year which will set the stage for plenty of new commercial development to impact the City's future. Phase 2 of the Shops in Hudson Oaks is currently under construction; a new apartment complex, Creekside at Hudson Oaks, is set to begin in fiscal year 2017; Red Eagle Phase 4 is currently under way bringing additional homes for future residents; The Oykey Corridor development engineering is underway bringing additional office space, retail and restaurant options. In addition to these projects, the Lakeshore Bridge project is nearing completion, allowing for better transportation

along IH-20 and US-180. I-20 landscape enhancements will be coming in the spring of 2017, planting numerous trees along I-20 funded with a green ribbon grant. The City issued bonds in 2016 to bring fiber internet to connect the various locations across the City using fiber.

The fiscal year 2017 general fund budget continues the City's conservative approach to fiscal matters. The budget includes additional funds for street maintenance, police protection, and employee retention while holding sales tax projections related to the aforementioned developments to a minimum. This will allow the City to more easily absorb expected debt service costs in fiscal year 2017 related to the IH-20/Center Point Bridge project and the fiber internet project.

Request for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, 210 Hudson /Oaks Drive, Hudson Oaks, Texas 76087.

BASIC FINANCIAL STATEMENTS

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CITY OF HUDSON OAKS, TEXAS
Statement of Net Position
September 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 2,910,033	\$ 1,022,899	\$ 3,932,932
Investments	4,557,828	87,852	4,645,680
Receivables (Net of allowances for uncollectibles)			
Accounts	-	321,653	321,653
Sales tax	327,530	-	327,530
Franchise taxes	84,519	-	84,519
Fines	137,922	-	137,922
Miscellaneous receivables	160,572	741,107	901,679
Prepaid items	14,729	8,875	23,604
Internal Balances	(570,790)	570,790	-
Restricted assets:			
Cash and cash equivalents	-	497,534	497,534
Capital assets (net of accumulated depreciation):			
Nondepreciable	3,164,029	584,201	3,748,230
Depreciable, net of accumulated depreciation	4,704,635	9,399,782	14,104,417
Total Assets	<u>15,491,007</u>	<u>13,234,693</u>	<u>28,725,700</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pensions	211,426	92,780	304,206
Total Deferred Outflow of Resources	<u>211,426</u>	<u>92,780</u>	<u>304,206</u>
LIABILITIES:			
Accounts Payable	174,225	115,634	289,859
Accrued payroll	14,381	5,603	19,984
Accrued interest payable	68,568	36,324	104,892
Noncurrent liabilities:			
Due within one year	509,020	423,523	932,543
Due in more than one year	8,514,665	6,563,400	15,078,065
Total Liabilities	<u>9,280,859</u>	<u>7,144,484</u>	<u>16,425,343</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pensions	50,310	22,213	72,523
Total Deferred Inflow of Resources	<u>50,310</u>	<u>22,213</u>	<u>72,523</u>
NET POSITION:			
Investments in Capital Assets, Net of Debt	4,788,635	3,371,107	8,159,742
Restricted Net Position - Public Safety	15,637	-	15,637
Restricted Net Position - Debt Service	17,171	6,501	23,672
Restricted Net Position - Impact Fees	-	118,793	118,793
Restricted Net Position - Other	17,490	625,754	643,244
Unrestricted Net Position	1,532,331	2,038,621	3,570,952
Total Net Position	<u>\$ 6,371,264</u>	<u>\$ 6,160,776</u>	<u>\$ 12,532,040</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Activities
For the Year Ended September, 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 666,538	\$ 755	\$ -	\$ -
Public safety	1,277,695	84,715	-	-
Highways and streets and parks	368,670	-	12,242	149,528
Planning & Development	146,778	355,804	-	-
Interest and fiscal charges	122,302	-	-	-
Bond issuance costs	184,986	-	-	-
Total governmental activities	<u>2,766,969</u>	<u>441,274</u>	<u>12,242</u>	<u>149,528</u>
Business-type activities:				
Water	1,547,911	1,234,755	-	81,961
Wastewater	306,680	332,193	-	558,514
Dyegard Water System	215,052	249,016	-	-
Deercreek Management	117,217	219,390	-	-
Stormwater utility system	223,515	-	116,571	-
Total business-type activities	<u>2,410,375</u>	<u>2,035,354</u>	<u>116,571</u>	<u>640,475</u>
Total primary government	<u>\$ 5,177,344</u>	<u>\$ 2,476,628</u>	<u>\$ 128,813</u>	<u>\$ 790,003</u>

General Revenues:

Taxes:

Sales Taxes

Franchise Taxes

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1

Prior Period Adjustment

Net Position September 30

The notes to the financial statements are an integral part of this statement.

Exhibit 2

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (665,783)	\$ -	\$ (665,783)
(1,192,980)	-	(1,192,980)
(206,900)	-	(206,900)
209,026	-	209,026
(122,302)	-	(122,302)
(184,986)	-	(184,986)
<u>(2,163,925)</u>	<u>-</u>	<u>(2,163,925)</u>
-	(231,195)	(231,195)
-	584,027	584,027
-	33,964	33,964
-	102,173	102,173
-	(106,944)	(106,944)
<u>-</u>	<u>382,025</u>	<u>382,025</u>
<u>\$ (2,163,925)</u>	<u>\$ 382,025</u>	<u>\$ (1,781,900)</u>
1,940,291	-	1,940,291
177,958	-	177,958
63,084	2,192	65,276
438,764	-	438,764
136,250	(136,250)	-
<u>2,756,347</u>	<u>(134,058)</u>	<u>2,622,289</u>
592,422	247,967	840,389
5,778,842	5,987,809	11,766,651
-	(75,000)	(75,000)
<u>\$ 6,371,264</u>	<u>\$ 6,160,776</u>	<u>\$ 12,532,040</u>

CITY OF HUDSON OAKS, TEXAS
Balance Sheet
Governmental Funds
September 30, 2016

	General	General Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets:				
Cash	\$ 884,428	\$ 1,969,098	\$ 37,767	\$ 2,891,293
Investments	556,734	4,001,094	-	4,557,828
Receivables				
Sales Tax	327,530	-	-	327,530
Franchise Tax	84,519	-	-	84,519
Fines and fees	137,922	-	-	137,922
Miscellaneous	-	139,572	21,000	160,572
Prepaid items	12,196	-	2,532	14,728
Due from other funds	120,929	-	24,615	145,544
Total assets	\$ 2,124,258	\$ 6,109,764	\$ 85,914	\$ 8,319,936
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	89,431	82,652	2,142	174,225
Accrued payroll	14,381	-	-	14,381
Accrued interest payable	-	-	17,074	17,074
Due to Other Funds	24,615	643,901	47,818	716,334
Total liabilities	128,427	726,553	67,034	922,014
Deferred inflows of resources:				
Deferred revenue	370,416	139,572	-	509,988
Fund balances:				
Nonspendable	12,196	-	2,532	14,728
Restricted fund balance				
Public, educational, and government access fees	4,990	-	-	4,990
Public Safety	-	-	15,637	15,637
Parks	-	-	12,500	12,500
Capital Projects	-	5,243,639	-	5,243,639
Debt Service	-	-	17,171	17,171
Assigned fund balance				
Construction Projects	185,000	-	-	185,000
Subsequent year budget deficit	150,000	-	-	150,000
Unassigned fund balance	1,273,229	-	(28,960)	1,244,269
Total fund balances	1,625,415	5,243,639	18,880	6,887,934
Total liabilities, deferred inflows and fund balances	\$ 2,124,258	\$ 6,109,764	\$ 85,914	\$ 8,319,936

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
September 30, 2016

Total Fund Balances - Governmental Funds	\$	6,887,934
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$10,974,574 and the accumulated depreciation was \$3,105,910.		7,868,664
Long-term liabilities, including \$8,273,457 bonds payable, \$50,211 of capital leases payable, and \$106,016 compensated absences payable are not due and payable in the current period, and, therefore are not reported as a liability in the fund financial statements.		(8,429,684)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.		(51,494)
Franchise taxes receivable, sales tax receivable, and fines and fees receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.		509,988
Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$594,001, a deferred resource inflow related to pensions of \$50,310 and a deferred resource outflow related to pensions in the amount of \$211,426. This resulted in a decrease to net position.		(432,885)
The City uses an internal service fund to charge costs of reimbursements to employees for health care costs above deductible amounts. The adjustment is to reflect the consolidation of the internal service fund activities related to governmental activities.		18,741
Net Position of Governmental Activities	<u>\$</u>	<u>6,371,264</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2016

	General	General Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes				
Sales and Use	\$ 1,927,350	\$ -	\$ -	\$ 1,927,350
Franchise	180,364	-	-	180,364
Licenses and permits	355,804	-	-	355,804
Charges for services	755	-	-	755
Municipal court fines	81,094	-	3,208	84,302
Interest	56,222	6,587	222	63,031
Intergovernmental	12,242	-	-	12,242
Miscellaneous	69,390	-	116,766	186,156
Total revenues	<u>2,683,221</u>	<u>6,587</u>	<u>120,196</u>	<u>2,810,004</u>
EXPENDITURES:				
Current:				
General government	474,243	-	133,753	607,996
Public safety	1,262,618	-	2,366	1,264,984
Highways and streets and parks	309,874	-	-	309,874
Planning & development	146,778	-	-	146,778
Capital outlay	-	758,915	-	758,915
Debt service				
Principal	80,148	-	202,400	282,548
Interest and fiscal charges	817	-	90,537	91,354
Bond issuance costs	-	184,986	-	184,986
Total expenditures	<u>2,274,478</u>	<u>943,901</u>	<u>429,056</u>	<u>3,647,435</u>
Excess (deficiency) of revenues over (under) expenditures	<u>408,743</u>	<u>(937,314)</u>	<u>(308,860)</u>	<u>(837,431)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	68,750	67,500	295,380	431,630
Transfers Out	(295,380)	-	-	(295,380)
Proceeds from capital lease	38,437	-	-	38,437
Proceeds of bonds	-	5,735,000	-	5,735,000
Premium on refunding bonds	-	229,197	-	229,197
Total other financing sources (uses):	<u>(188,193)</u>	<u>6,031,697</u>	<u>295,380</u>	<u>6,138,884</u>
Net change in fund balance	220,550	5,094,383	(13,480)	5,301,453
Fund balance, October 1	<u>1,404,865</u>	<u>149,256</u>	<u>32,360</u>	<u>1,586,481</u>
Fund balance, September 30	<u>\$ 1,625,415</u>	<u>\$ 5,243,639</u>	<u>\$ 18,880</u>	<u>\$ 6,887,934</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of
The Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 5,301,453
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$933,929 of capital outlays, \$149,528 of donated assets and \$282,548 of debt principal payments is to increase net position.	1,366,005
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(265,655)
Current year issuance of bonds payable are other financing sources in the fund financial statements. The effect of \$5,964,196 increase in bonds payable and bond premiums is a decrease in net position.	(5,964,197)
Current year issuance of capital leases payables are other financing sources in the fund financial statements. The effect of \$38,437 increase in capital lease payable is a decrease in net position.	(38,437)
Current year interest payable and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements. The net effect of the \$36,256 increase in interest payable, \$7,907 decrease in compensated absences payable and \$5,308 amortization of deferred charges, premiums and discounts is to decrease net position.	(23,041)
Sales tax, franchise tax and fines and fees revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the fund statements.	10,948
GASB required the City to recognize their net pension liability, deferred resource inflow related to pensions and deferred resource outflow related to pensions. The changes in these balances decreased net position.	(18,395)
Reclassification of bond debt from business-type activities to government-wide statement of activities resulted in a \$205,000 increase to net position.	205,000
The City uses an internal service fund to charge the costs of health costs reimbursable to employees to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	18,741
Change in Net Position of Governmental Activities	<u><u>\$ 592,422</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Net Position
Proprietary Fund
September 30, 2016

	Business-type Activities			Governmental Activities
	Water & Wastewater	Stormwater Utility	Total Enterprise Funds	Internal Service Funds
Assets				
Current Assets:				
Cash	\$ 1,022,899	\$ -	\$ 1,022,899	\$ 18,741
Investments	87,852	-	87,852	-
Accounts receivable (net of allowance for doubtful accounts)	290,787	30,866	321,653	-
Miscellaneous receivables	741,107	-	741,107	-
Due from other funds	134,721	570,790	705,511	-
Prepaid expense	8,875	-	8,875	-
Restricted Assets - Cash	497,534	-	497,534	-
Total current assets	<u>2,783,775</u>	<u>601,656</u>	<u>3,385,431</u>	<u>18,741</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	584,201	-	584,201	-
Depreciable, net of accumulated depreciation	9,399,782	-	9,399,782	-
Total noncurrent assets	<u>9,983,983</u>	<u>-</u>	<u>9,983,983</u>	<u>-</u>
Total assets	<u>12,767,758</u>	<u>601,656</u>	<u>13,369,414</u>	<u>18,741</u>
Deferred Outflow of Resources				
Deferred Outflow Related to Pensions	92,780	-	92,780	-
Total deferred outflow of resources	<u>92,780</u>	<u>-</u>	<u>92,780</u>	<u>-</u>
Liabilities				
Current Liabilities:				
Accounts payable	115,634	-	115,634	-
Accrued payroll	5,603	-	5,603	-
Compensated absences payable	32,273	-	32,273	-
Due to other funds	-	134,721	134,721	-
Current liabilities payable from restricted assets:				
Current portion of long-term debt	391,250	-	391,250	-
Accrued interest payable	32,975	3,349	36,324	-
Total current liabilities	<u>577,735</u>	<u>138,070</u>	<u>715,805</u>	<u>-</u>
Noncurrent Liabilities:				
Net pension liability	262,277	-	262,277	-
Certificates of obligation	5,730,593	570,530	6,301,123	-
Total noncurrent liabilities	<u>5,992,870</u>	<u>570,530</u>	<u>6,563,400</u>	<u>-</u>
Total liabilities	<u>6,570,605</u>	<u>708,600</u>	<u>7,279,205</u>	<u>-</u>
Deferred Inflow of Resources				
Deferred Inflow Related to Pensions	22,213	-	22,213	-
Total deferred outflow of resources	<u>22,213</u>	<u>-</u>	<u>22,213</u>	<u>-</u>
Net Position				
Investment in capital assets, net of debt	3,371,107	-	3,371,107	-
Restricted for debt service (expendable)	6,501	-	6,501	-
Restricted for capital projects (expendable)	625,754	-	625,754	-
Restricted for impact fees (expendable)	118,793	-	118,793	-
Unrestricted	2,145,565	(106,944)	2,038,621	18,741
Total net position	<u>\$ 6,267,720</u>	<u>\$ (106,944)</u>	<u>\$ 6,160,776</u>	<u>\$ 18,741</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended September 30, 2016

	Business-type Activities			Governmental Activities
	Water & Wastewater	Stormwater Utility	Total Enterprise Funds	Internal Service Funds
Operating revenues:				
Water, wastewater and stormwater	\$ 1,695,966	\$ -	\$ 1,695,966	\$ -
Management contract charges	219,390	-	219,390	-
Late payment charges	13,615	-	13,615	-
Tap Fees	26,500	-	26,500	-
Impact fees	24,317	-	24,317	-
Customer assessment fees	10,638	-	10,638	-
Intergovernmental	-	116,571	116,571	-
Miscellaneous fees and charges	44,928	-	44,928	47,608
Total operating revenues	<u>2,035,354</u>	<u>116,571</u>	<u>2,151,925</u>	<u>47,608</u>
Operating expenses:				
Personnel services	524,401	-	524,401	-
Supplies	67,819	-	67,819	-
Contractual Services	635,658	220,425	856,083	28,920
Well utilities	81,603	-	81,603	-
Depreciation	474,809	-	474,809	-
Total operating expenses	<u>1,784,290</u>	<u>220,425</u>	<u>2,004,715</u>	<u>28,920</u>
Operating income (loss)	<u>251,064</u>	<u>(103,854)</u>	<u>147,210</u>	<u>18,688</u>
Nonoperating revenues (expenses)				
Interest income	2,192	-	2,192	53
Interest expense	(197,570)	(3,090)	(200,660)	-
Nonoperating expense	(205,000)	-	(205,000)	-
Total nonoperating revenues (expenses)	<u>(400,378)</u>	<u>(3,090)</u>	<u>(403,468)</u>	<u>53</u>
	<u>(149,314)</u>	<u>(106,944)</u>	<u>(256,258)</u>	<u>18,741</u>
Contributions and transfers:				
Capital contribution	640,475	-	640,475	-
Transfer in	-	-	-	-
Transfer out	(136,250)	-	(136,250)	-
Change in net position	354,911	(106,944)	247,967	18,741
Net Position, October 1	5,987,809	-	5,987,809	-
Prior Period Adjustment	(75,000)	-	(75,000)	-
Net Position, September 30	<u>\$ 6,267,720</u>	<u>\$ (106,944)</u>	<u>\$ 6,160,776</u>	<u>\$ 18,741</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2016

	Business-type Activities			Governmental Activities
	Water & Wastewater	Stormwater Utility	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:				
Cash received from customers and users	\$ 2,049,646	\$ 85,705	\$ 2,135,351	\$ 47,608
Cash paid to suppliers	(822,244)	(220,425)	(1,042,669)	-
Cash paid to employees	(509,853)	-	(509,853)	(28,920)
Net cash provided (used) by operating activities	<u>717,549</u>	<u>(134,720)</u>	<u>582,829</u>	<u>18,688</u>
Cash flow from noncapital financing activities:				
Due to other funds	(1,650)	134,721	133,071	-
Due from other funds	(134,721)	(570,790)	(705,511)	-
Transfers in (out)	(136,250)	-	(136,250)	-
Net cash provided (used) by noncapital financing activities	<u>(272,621)</u>	<u>(436,069)</u>	<u>(708,690)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Principal payments - certificates of obligation	(357,600)	-	(357,600)	-
Principal payments - loans payable	-	-	-	-
Special assessments	21,174	-	21,174	-
(Increase) decrease in miscellaneous receivables	156,898	-	156,898	-
Purchase of property, plant and equipment	(422,467)	-	(422,467)	-
Proceeds from bond issuance	-	570,530	570,530	-
Interest payments	(205,840)	259	(205,581)	-
Net cash flows provided by (used in) capital and related financing activities	<u>(807,835)</u>	<u>570,789</u>	<u>(237,046)</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	2,192	-	2,192	53
(Purchase) sale of investments	(252)	-	(252)	-
Net cash provided by (used in) investing activities	<u>1,940</u>	<u>-</u>	<u>1,940</u>	<u>53</u>
Net increase (decrease) in cash	<u>(360,967)</u>	<u>-</u>	<u>(360,967)</u>	<u>18,741</u>
Cash, October 1	<u>1,881,400</u>	<u>-</u>	<u>1,881,400</u>	<u>-</u>
Cash, September 30	<u>\$ 1,520,433</u>	<u>\$ -</u>	<u>\$ 1,520,433</u>	<u>\$ 18,741</u>
Reconciliation of income from operations to net cash provided by operating activities:				
Income (loss) from operations	\$ 251,064	\$ (103,854)	\$ 147,210	\$ 18,688
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities				
Depreciation	474,809	-	474,809	-
(Increase) decrease in accounts receivable	14,292	(30,866)	(16,574)	-
(Increase) decrease in deferred outflow of resources	(51,079)	-	(51,079)	-
Increase (decrease) in accounts payable	(37,164)	-	(37,164)	-
Increase (decrease) in accrued payroll	2,228	-	2,228	-
Increase (decrease) in compensated absences	255	-	255	-
Increase (decrease) in net pension liability	60,487	-	60,487	-
Increase (decrease) in deferred inflow of resources	2,657	-	2,657	-
Net adjustments	<u>466,485</u>	<u>(30,866)</u>	<u>435,619</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 717,549</u>	<u>\$ (134,720)</u>	<u>\$ 582,829</u>	<u>\$ 18,688</u>
Noncash Investing, Capital and Financing Activities				
Contributions of capital assets	<u>\$ 151,793</u>	<u>\$ -</u>	<u>\$ 151,793</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Hudson Oaks (the “City”) is a General Law Type A city which adopted a council-administrator form of government by ordinance in 2007. The City provides the following services as authorized by the State of Texas Local Government Code: public safety, public works, water, and wastewater services.

The accounting and reporting policies of the City relating to the funds are included in the accompanying financial statements and conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City’s financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City’s reporting entity, as set forth in Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization’s board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Hudson Oaks has no component units.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the primary government, the internal service fund and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are 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. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when the government receives payment.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

The City reports the following major governmental funds:

The *general fund* is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax receipts and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The *general capital projects fund* is used to account for the acquisition and construction of the government's major capital facilities and equipment, other than those financed by proprietary funds.

The City reports the following major proprietary funds:

The *water and wastewater fund* is used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Combining schedules can be found on page 60 - 62 of the financial statements, under enterprise fund supplementary information. There are no external parties that require separate segment reporting for the supplementary information.

The *stormwater utility fund* accounts for the operation of the Stormwater Utility and provides funding for storm drainage capital improvements and enhanced maintenance of the storm drainage system in order to reduce stormwater related pollutants from entering the City's waterways. The fund also accounts for the accumulation of resources for and the payment of long-term principal and interest for the stormwater debt.

Additionally, the government reports the follow fund types:

The *internal service fund* accounts for health insurance reimbursements and health card advancements to employees of the government. The internal service fund charges various other funds containing personnel to provide these services for employees. Because these services predominately benefit the governmental rather than the business-type functions, they have been included within governmental activities in the government-wide financial statements.

Amounts reported as program revenues include 1) charges for customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds, distinguish operating revenue and expense from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water, wastewater and stormwater funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Assets, Liabilities and Net Position or Equity

1) Deposits and Investments

Cash and cash equivalents - For the purposes of the statement of cash flows for the proprietary fund, investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less when purchased. The City does not include cash in broker accounts pending investment or amounts invested in TexPool or TexStar as cash equivalents.

2) Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as Due To/From Other Funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are presented net of allowance for uncollectible accounts. Water, dyegard, and wastewater fund accounts receivable with final status comprise the allowance for uncollectible accounts of \$13,833. In the governmental activities, the fines and fees receivable is reported net of an allowance of \$168,573 which is 55% of the outstanding receivable.

3) Unbilled Services

Utility operating revenues (water and wastewater) are billed on monthly cycles. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year. \$115,784 of unbilled services is reported with accounts receivable in the proprietary fund.

4) Restricted Assets

The City has established Interest and Sinking fund in the utility capital projects account. The use of these accounts is limited by bond ordinances and other legal restrictions.

5) Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in the proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the proprietary fund during the current year was \$200,660. Of this amount, \$0 was included as part of the cost of capital assets under construction in connection with water and wastewater construction projects.

Property, plant and equipment of the primary government and proprietary funds are depreciated using the straight-line method over the following estimated useful lives.

Buildings	40 years
Water plant	7-25 years
Distribution system	30 years
Office equipment	5-7 years
Automobiles and trucks	3-5 years

6) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one items that qualifies in this category. Deferred outflows related to pensions reported in the government-wide statement of net position and proprietary funds statement of net position.

In addition to liabilities, the statement of financial position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has two types of items in this category. Unavailable revenues for governmental funds and deferred inflows related to pensions in the government-wide statement of net position and proprietary funds statements are reported as deferred inflows of resources. At the end of the fiscal year the components of deferred inflows in the governmental funds were as follows:



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue	
Franchise Taxes	\$ 79,322
Sales Taxes	153,171
Court Fines	137,923
Intergovernmental	139,572
Total	<u>\$ 509,988</u>

7) Compensated Absences

The City allows vacation leave with pay for all regular full time employees after one full year of employment. Employees may carry no more than one-half of their earned vacations to the following year up to a maximum of thirty days (240 hours). Upon termination, an employee may be allowed payment for accumulated vacation pay. Employees who terminate employment in good standing and who have not been terminated for disciplinary reasons are eligible to receive compensation for a portion of their accrued sick leave after their accrued hours exceed 100. All vacation and sick pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for vacation and sick pay is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8) 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.

9) Long-term Obligations

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



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10) Fund Balances – Governmental Funds

The City implemented GASB No. 54, *Fund Balance and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance.

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to formal action by City Council, the City's highest level of decision making authority. Commitments may be established, modified, or rescinded only through formal action of City Council.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. City Council has designated the City Administrator the authority to assign fund balance.

Unassigned – all amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 17). When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been first spent out of committed funds, then assigned, and finally unassigned as needed. The City's financial goal is to have sufficient balance in the General Fund with sufficient working capital and margin of safety to address local and regional emergencies without borrowing. The City strives to maintain a General Fund Balance of 30% of the City's general fund annual operating expenditures.

11) Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12) Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

13) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS:

The City is authorized within the guidelines provided by the Public Funds Investment Act, Texas Government Code Chapter 2256 and local ordinances to invest (1) in obligations of the United States, its agencies, and instrumentalities, (2) direct obligations of the State of Texas or its agencies, (3) collateralized mortgage obligations issued and guaranteed by an agency or instrumentality of the United States, (4) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality of not less than "A" or its equivalent by a nationally-recognized investment firm, (5) certificates of deposit issued by state or national banks domiciled in the State of Texas, insured by the Federal Deposit Insurance Corporation or secured by obligations described in (1) through (4) above that have a market value of not less than the principal amount of the certificates, (6) investment pools authorized by the Act and (7) fully collateralized repurchase agreements.

In compliance with the Public Funds Investment Act, the government has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are with the Texas Local Government Investment Pool ("TexPool"), the Texas Short-Term Asset Reserve Investment Pool ("TexStar"), and in certificates of deposit.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Audited financial statements of the Pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office. The reported value of the pool is the same as the fair value of the pool shares.



CITY OF HUDSON OAKS, TEXAS
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September 30, 2016

TexStar is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with First Southwest Asset Management, Inc. TexStar invests in treasury and agency securities and repurchase agreements fully collateralized by government securities. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. The reported value of the pool is the same as the fair value of the pool shares.

Credit Risk - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. It is the government's policy to limit its investments to those investments rated at least AAAM. The credit quality rating for both TexPool and TexStar at year end was AAAM by Standard & Poor's.

Interest Rate Risk- This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The maximum allowable maturity for operating funds is five years and two years for debt service funds. The weighted average maturity for the government's investment in external investment pools is less than 60 days.

Custodial credit risk – deposits, is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Consistent with the requirements of State law, it is the policy of the City to require full collateralization of all City deposits. An appropriate third party safekeeping agent, as designated by the City, shall maintain collateral on deposits. This policy applies to any deposits held in an approved depository in excess on the amount protected by Federal Deposit Insurance Corporation insurance. The City's deposits were fully insured or collateralized as required by the state statutes at September 30, 2016. The collateral is held by Frost National Bank in the City's name under a joint safekeeping agreement with First Financial Bank N.A.

The City invests in the Texas Short Term Asset Reserve Fund (TexSTAR), which is a public funds investment pool. TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. All securities in TexSTAR are marked to market daily using the fair value method, amortized cost, which generally approximates the market value of the securities, has been deemed to be a proxy for fair value. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured by TexSTAR.

The City invests idle funds in the Texas Local Government Investment Pool (TexPool). TexPool is a local government investment pool organized under the authority of the Interlocal Cooperation Act Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. All investments of the Pool are stated at amortized cost, which in most cases approximates the market value of the securities. The objective of TexPool is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by the State of Texas.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

The City controls credit risk by limiting investments to those investments authorized by both the Public Funds Investment Act and by its investment policy.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of September 30, 2016:

- Property acquisitions valued at \$99,000 within City limits for economic development purposes using property brokers opinion from sales and purchases around the area (Level 3 input).

The City's investments consisted of the following at September 30, 2016.

Description	Amount	Value	Percentage of Total Investments	Standard & Poor's	Weighted Average Maturity	Fair Value Measurements Using
TexPool	\$ 345,514	\$ 345,514	7.44%	AAAm	45 days	Amortized Cost
TexStar Pool	\$ 4,201,166	\$ 4,201,166	90.43%	AAAm	43 days	Amortized Cost
Land	\$ 50,577	\$ 99,000	2.13%			Level 3
	<u>\$ 4,597,257</u>	<u>\$ 4,645,680</u>	<u>100.00%</u>			



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 3 - CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u> <u>09/30/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/2016</u>
Non-depreciable Assets:				
Land	\$ 460,487	\$ -	\$ -	\$ 460,487
Construction in progress	1,944,627	758,915	-	2,703,542
Total non-depreciable assets	<u>2,405,114</u>	<u>758,915</u>	<u>-</u>	<u>3,164,029</u>
Depreciable Assets:				
Equipment	304,374	-	-	304,374
Automobiles	148,939	69,352	-	218,291
Buildings	2,329,801	-	-	2,329,801
Improvements	267,429	-	-	267,429
Infrastructure	4,435,460	255,190	-	4,690,650
Total depreciable assets	<u>7,486,003</u>	<u>324,542</u>	<u>-</u>	<u>7,810,545</u>
Accumulated depreciation:				
Equipment	(300,371)	(1,335)	-	(301,706)
Automobiles	(95,302)	(30,535)	-	(125,837)
Buildings	(452,503)	(58,298)	-	(510,801)
Improvements	(111,615)	(13,234)	-	(124,849)
Infrastructure	(1,880,464)	(162,253)	-	(2,042,717)
Total accumulated depreciation	<u>(2,840,255)</u>	<u>(265,655)</u>	<u>-</u>	<u>(3,105,910)</u>
Governmental Activities				
capital assets, net	<u>\$ 7,050,862</u>	<u>\$ 817,802</u>	<u>\$ -</u>	<u>\$ 7,868,664</u>



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 3 - CAPITAL ASSETS (continued)

Business-type Activities:	Balance 09/30/2015	Additions	Retirements	Reclassifications	Balance 09/30/2016
Non-depreciable Assets:					
Land	\$ 255,339	\$ 304,528	\$ -	\$ -	\$ 559,867
Construction in progress	1,254,929	54,974	-	(1,285,569)	24,334
Total non-depreciable assets	1,510,268	359,502	-	(1,285,569)	584,201
Depreciable Assets:					
Buildings	46,413	-	-	-	46,413
Water plant	4,054,667	-	-	-	4,054,667
Water distribution	4,844,577	81,961	-	-	4,926,538
Wastewater systems	2,381,255	132,798	-	1,285,569	3,799,622
Automobiles	122,692	-	-	-	122,692
Equipment	164,898	-	-	-	164,898
Intangible assets	1,463,092	-	(675,206)	-	787,886
Total depreciable assets	13,077,594	214,759	(675,206)	1,285,569	13,902,716
Accumulated depreciation:					
Buildings	(10,470)	(1,188)	-	-	(11,658)
Water Plant	(1,079,133)	(126,051)	-	-	(1,205,184)
Water distribution	(1,767,516)	(178,831)	-	-	(1,946,347)
Wastewater system	(825,031)	(112,828)	-	-	(937,859)
Automobiles	(86,167)	(14,073)	-	-	(100,240)
Equipment	(77,345)	(13,290)	-	-	(90,635)
Intangible assets	(372,176)	(28,548)	189,713	-	(211,011)
Total accumulated depreciation	(4,217,838)	(474,809)	189,713	-	(4,502,934)
Business-type activities capital assets, net	\$ 10,370,024	\$ 99,452	\$ (485,493)	\$ -	\$ 9,983,983



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 3 - CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 46,317
Public safety	57,085
Highways, streets and parks	162,253
Total depreciation expense - governmental activities	<u>\$ 265,655</u>
Business-type activities:	
Hudson Oaks water system	\$ 247,015
Wastewater	129,713
Dyegard water system	98,081
Total depreciation expense - business-type activities	<u>\$ 474,809</u>

Intangible Assets

June 20, 2003, the water and wastewater fund purchased raw water capacity rights in Benbrook Lake, capacity rights in the Benbrook Pipeline and capacity rights in the Weatherford Treatment Facility. The Enterprise Fund purchased these rights through an agreement with Parker County Utility District #1.

The total cost associated with the buy-ins was \$787,886. This cost was financed with the Combination Tax and Revenue Certificates of Obligation, Series 2003. The debt was refunded with the General Obligation Refunding Bonds, Series 2010. The Benbrook Lake and Treatment Facility capacity rights were then sold back to the City of Weatherford for a credit balance towards future impact fees and demand charges. As of September 30, 2016, the credit from the City of Weatherford was \$232,649.

In April of 2004 the water and wastewater fund paid an additional \$104,935 of legal fees associated with the rights purchased through the agreement with Parker County Utility District #1 (PCUD #1). Per amendment number 1 effective March 31, 2004, \$147,916 of the legal fees are related to initial organization cost.

August 24, 2009, the City entered into an agreement with Parker County Special Utility District (PCSUD) to purchase PCSUD's raw water capacity reservation for \$490,834. The raw water capacity reservation reserves the right for the City to receive raw water from Tarrant Regional Water District. The raw water capacity reservation is based on a projected 30 year average daily use of 1.0 MGD.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 3 - CAPITAL ASSETS (continued)

A summary of intangible assets as of September 30, 2016, follows:

	<u>Term</u>	<u>Asset</u>	<u>Accumulated Depreciation</u>	<u>Net Asset</u>
Depreciated intangible assets:				
TRWD Raw Water Buy-in	28 years	\$ 134,839	\$ (56,386)	\$ 78,453
TRWD Raw Water Capacity	30 years	490,834	(84,542)	406,292
Legal Fees for Buy-ins	30 years	<u>162,213</u>	<u>(70,083)</u>	<u>92,130</u>
 Total depreciated intangible assets		 <u>\$ 787,886</u>	 <u>\$ (211,011)</u>	 <u>\$ 576,875</u>

Aggregate Intangible Depreciation Expense:

For the year ended September 30, 2016 \$ 28,548

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of the interfund balances for the City’s individual major funds and nonmajor funds as of September 30, 2016, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	General Capital Projects	\$ 73,111
General	Other Governmental Funds	47,818
Other Governmental Funds	General	<u>24,615</u>
Total Governmental Funds		<u>\$ 145,544</u>
Water and wastewater	Stormwater Utility	134,721
Stormwater Utility	General Capital Projects	<u>570,790</u>
Total business-type activities Funds		<u>\$ 705,511</u>

The composition of the interfund transfers for the City’s individual major funds and nonmajor funds as of September 30, 2016, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
General	Wastewater	\$ 68,750	Debt Service Transfer
General Debt Service	General	295,380	Debt Service Transfer
General Capital Projects	Deercreek	<u>67,500</u>	General capital projects
Total governmental activities transfers		<u>\$ 431,630</u>	



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 5 – LONG-TERM DEBT

A. Capital Leases

Governmental Activities:

On July 11, 2014, the General Fund acquired two police vehicles with a capital lease. The lease requires three annual payments of \$12,212 beginning June 2015. The interest rate is 3.50%. The outstanding balance at September 30, 2016 was \$11,774.

On October 25, 2015, the General Fund acquired two police vehicles with a capital lease. The lease requires three annual payments of \$13,495 beginning October 25, 2016. The interest rate is 2.60%. The outstanding balance at September 30, 2016 was \$38,437.

The following is an analysis of capital assets purchased under capital leases as of September 30, 2016:

	Governmental Activities
Automobiles	\$ 114,970
Less accumulated depreciation	(31,690)
	\$ 83,280

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at September 30, 2016:

	Governmental Activities
2017	\$ 25,707
2018	13,495
2019	13,495
Total minimum lease payments	52,697
Amount representing interest	(2,486)
Present value of future minimum payments	\$ 50,211



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 5 – LONG-TERM DEBT (continued)

Governmental Activities:

Combination Tax and Revenue Certificates of Obligation, Series 2007

On October 25, 2007, the City authorized the issuance and sale of \$1,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2007. The certificates were issued for paying, in whole or in part, the City's contractual Obligations incurred to acquire and construct street, bridge, curb, and sidewalk improvements, together with utility relocation and drainage improvements incidental thereto, pay for professional services rendered in connection therewith and paying for costs of issuance. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the certificates, however, if surplus revenues or other lawfully available moneys of the City are budgeted for deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of ad valorem taxes that otherwise would have been required to be levied may be reduced to the extent and by the amount of such funds then budgeted to be on deposit in the Interest and Sinking Fund. Interest is due semiannually on March 1 and September 1 of each year at an interest rate of 3.176% per annum and maturing August 1, 2027. Interest paid during the year totaled \$52,070.

Certificates of Obligation, Series 2012

On April 26, 2012, the City authorized the issuance and sale of \$2,910,000 Certificates of Obligation, Series 2012 with an interest rate of 2%-3.5%. The certificates are split between the governmental and business-type activities at approximately 27% and 73%, respectively. The bonds were issued for paying the U.S. 180 middle median improvements, the loan payable to Parker County Special Utility District, improvements to Red Eagle water facility, improvements to the City's water metering system, a replacement of a water well, and a water system study. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the Certificates, however, if surplus revenues or other lawfully available moneys of the City are budgeted for deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of ad valorem taxes that otherwise would have been required to be levied may be reduced to the extent and by the amount of such funds then budgeted to be on deposit in the Interest and Sinking Fund. Interest is due semiannually on February 1 and August 1 of each year and matures August 1, 2032. Interest paid during the year totaled \$74,850.

Combination Tax and Revenue Certificates, Series 2016A

On May 5, 2016, the City authorized the issuance and sale of \$4,745,000 Combination Tax and Revenue Certificates of Obligation, Series 2016A dated June 1, 2016. The Certificates were issued in order to raise the necessary funds for the City portion of the IH-20 Interchange at CenterPoint Road, the upcoming Oykey Corridor development and overages in the Lakeshore Bridge project. Additionally, the bond is split to include a portion (\$570,000) to the stormwater utility fund. Ad valorem taxes and surplus revenues from the general fund are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year bearing an interest rate of 2%



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 5 – LONG-TERM DEBT (continued)

– 3.5% per annum and maturing February 1, 2036. There was no interest paid during the year.

Combination Tax and Revenue Certificates, Series 2016B

On May 5, 2016, the City authorized the issuance and sale of \$1,540,000 Combination Tax and Revenue Certificates of Obligation, Series 2016B dated June 1, 2016. The Certificates were issued in order to raise the necessary funds for improvements to the City's infrastructure fiber internet system. Ad valorem taxes and surplus revenues from the general fund are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year bearing an interest rate of 2% – 3.5% per annum and maturing February 1, 2036. There was no interest paid during the year.

Business-type Activities:

General Obligation Refunding Bonds, Series 2010

On November 22, 2010, the City issued the \$2,075,000 General Obligation Refunding Bonds, Series 2010 with interest rates ranging from 2.0% to 4.0% maturing August 1, 2023. The bonds are split between the governmental and business-type activities at approximately 43% and 57% respectively. This percentage split was adjusted for, and authorized by council, to allocate an additional \$205,000 to the business-type activities and remove \$205,000 from the governmental activities in the current year. The proceeds of the General Obligation Refunding Bonds plus a contribution of \$217,452 from the City were used to refund \$1,075,000 of the 2008 Texas Tax Notes of the governmental activities and \$720,000 of the Texas Combination Tax and Revenue Certificates of Obligation, Series 2000B, and \$430,000 of the Combination Tax and Revenue Certificates of Obligation, Series 2003 of the business-type activities. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year. Interest paid during the year totaled \$43,600.

Combination Tax and Revenue Certificates, Series 2010

On August 15, 2010, the City authorized the issuance and sale of \$2,915,000 Combination Tax and Revenue Certificates of Obligation, Series 2010 dated September 20, 2010. The Certificates were issued in connection with the acquisition of the Dyegard Water System. Surplus revenues from the Dyegard water system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year bearing an interest rate of 4.25% per annum and maturing August 1, 2035. Interest paid during the year totaled \$98,950.

Combination Tax and Revenue Certificates, Series 2014

On May 15, 2014, the City authorized the issuance and sale of \$1,235,000 Combination Tax and Revenue Certificates of Obligation, Series 2014 dated June 12, 2014. The Certificates were issued in order to acquire, construct, expand and equip extensions and improvements to the City's sanitary wastewater system including, but not limited to, an expansion of the wastewater main south of I-20 from Lakeshore Drive to Parker Oaks Drive and the acquisition of easements, the installation of



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 5 – LONG-TERM DEBT (continued)

a lift station, and the construction of a gravity main and a force main related thereto. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year bearing an interest rate of 2.15% per annum and maturing August 1, 2024. Interest paid during the year totaled \$25,585.

The annual requirements to amortize all bonded debt outstanding as of September 30, 2016, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	378,750	315,013	693,763	391,250	216,192	607,442
2018	433,750	251,101	684,851	396,250	201,791	598,041
2019	405,100	232,611	637,711	454,900	191,234	646,134
2020	425,100	213,965	639,065	464,900	179,053	643,953
2021	421,450	194,313	615,763	458,550	166,158	624,708
2022-2026	2,212,100	740,844	2,952,944	1,902,900	627,844	2,530,744
2027-2031	1,916,250	405,190	2,321,440	1,488,750	355,795	1,844,545
2032-2036	1,824,950	138,036	1,962,986	990,050	91,414	1,081,464
Debt service requirement	8,017,450	2,491,073	10,508,523	6,547,550	2,029,481	8,577,031
Add: Unamortized premium	256,007	-	256,007	144,823	-	144,823
Total	8,273,457	2,491,073	10,764,530	6,692,373	2,029,481	8,721,854



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 5 – LONG-TERM DEBT (continued)

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2016:

	Balance 09/30/2015	Additions	Retirements	Balance 09/30/2016	Due within one year
Governmental Activities:					
Certificates of Obligation, 2007	\$ 1,270,000	\$ -	\$ 80,000	\$ 1,190,000	\$ 85,000
General Obligation Refunding, 2010	730,000	-	295,000	435,000	95,000
2010 Premium on Bond	10,588	-	1,176	9,412	-
Certificates of Obligation, 2012	689,850	-	32,400	657,450	33,750
2012 Permium on Bond	21,530	-	1,266	20,264	-
Certificates of Obligation, 2016A	-	4,195,000	-	4,195,000	130,000
2016A Premium on Bond	-	158,770	1,985	156,785	-
Certificates of Obligation, 2016B	-	1,540,000	-	1,540,000	35,000
2016B Premium on Bond	-	70,426	880	69,546	-
Capital Leases	23,172	38,437	11,398	50,211	24,254
Note Payable	68,750	-	68,750	-	-
Net Pension Liability	463,525	130,476	-	594,001	-
Compensated Absences	113,923	106,016	113,923	106,016	106,016
Total governmental activities	3,391,338	6,239,125	606,778	9,023,685	509,020
Business-type Activities:					
Certificates of Obligation, 2010	2,565,000	-	90,000	2,475,000	95,000
2010 Premium on Bond	65,249	-	3,263	61,986	-
General Obligation Refunding, 2010	530,000	205,000	130,000	605,000	130,000
2010 Premium on Bond	9,398	-	1,879	7,519	-
Certificates of Obligation, 2012	1,865,150	-	87,600	1,777,550	91,250
2012 Premium on Bond	58,212	-	3,424	54,788	-
Certificates of Obligation, 2014	1,190,000	-	50,000	1,140,000	55,000
Certificates of Obligation, 2016A	-	550,000	-	550,000	20,000
2016A Premium on Bond	-	20,790	260	20,530	-
Net Pension Liability	201,790	60,487	-	262,277	-
Compensated Absences	32,018	32,273	32,018	32,273	32,273
Total business-type activities	\$ 6,516,817	\$ 868,550	\$ 398,444	\$ 6,986,923	\$ 423,523

For governmental activities, compensated absences payable and net pensions obligation are liquidated by the general fund.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 6 – CONDUIT DEBT AGREEMENTS

June 10, 2004, the City passed an ordinance authorizing and approving the creation of the Hudson Oaks Education Finance Corporation (a non-profit corporation) to finance and refinance education facilities for the purpose of aiding intuitions of higher education and accredited primary and secondary schools within the limitations set forth in Chapter 53, Texas Education Code.

During the year ended December 31, 2005, the board of directors of the Hudson Oaks Education Finance Corporation (the “Corporation”) entered into a \$4,000,000 loan agreement with Lakehill Preparatory School (the “Borrower”) and Frost National Bank (the “Lender”). According to the terms of the loan agreement the Lender is making a loan to the Corporation and the Corporation is making a loan to the Borrower. The proceeds will be used by Borrower to refinance the construction, improvement, and equipping of school buildings and athletic facilities on Borrower’s campus and payment of the costs of issuance. The Corporation’s obligations under the loan agreement are payable solely from the loan payments received from the Borrower and other amounts received, if any, from the enforcement of the security provided by the Borrower Note, and do not constitute, give rise to or impose upon the Corporation or the City of Hudson Oaks, Texas, a pecuniary liability, a charge upon the general credit thereof or a pledge of the general revenues of the City or the Corporation. The Corporation has assigned the Borrower Note to the Lender; therefore, the Lender will make loan payments directly to the Lender. The amount of Hudson Oaks Education Finance Corporation conduit debt obligations outstanding at September 30, 2016 are as follows:

Lakehill Preparatory School Loan Agreement	\$ 2,725,000
--	--------------

June 10, 2004, the City passed an ordinance authorizing and approving the creation of the Hudson Oaks Health Development Corporation (a non-profit corporation) to acquire, construct, provide, improve, finance, and refinance health facilities to assist the maintenance of the public health, subject to the Texas Health Facilities Development Act. As of September 30, 2016, this corporation has not issued any debt.

NOTE 7 – Defined Benefit Pension Plans

A. PLAN DESCRIPTION

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 7 – Defined Benefit Pension Plans (continued)

B. BENEFITS PROVIDED

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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 for 2016 and 2015 were the same and were as follows:

Employee deposit rate	7%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to reitrees)	70% of CPI Repeating

EMPLOYEES COVERED BY BENEFIT TERMS

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

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not receiving benefits	16
Active employees	23
	48

C. CONTRIBUTIONS

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



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 7 – Defined Benefit Pension Plans (continued)

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.97% and 12.89% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$167,446, and were equal to the required contributions.

D. 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 ASSUPMTIONS:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and

beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Rates are multiplied by a factor of 100%, which adds an additional layer of conservatism. 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 makes rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 7 – Defined Benefit Pension Plans (continued)

ACTUARIAL ASSUMPTIONS (continued)

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

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%	

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.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 7 – Defined Benefit Pension Plans (continued)

CHANGES IN THE NET PENSION LIABILITY	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/2014	\$ 2,980,190	\$ 2,314,876	\$ 665,314
Changes for the Year			
Service Cost	208,249	-	208,249
Interest	214,601	-	214,601
Changes of benefit terms	-	-	-
Difference between expected and actual performance	36,888	-	36,888
Changes in assumptions	(26,499)	-	(26,499)
Contributions - employer	-	152,320	(152,320)
Contributions - employee	-	88,724	(88,724)
Net investment income	-	3,416	(3,416)
Benefit payments, including refunds of employee contributions	(37,169)	(37,169)	-
Administrative expense	-	(2,081)	2,081
Other changes	-	(103)	103
Net changes	396,070	205,107	190,963
Balance at 12/31/2015	\$ 3,376,260	\$ 2,519,983	\$ 856,277

SENSITIVITY OF THE NET POSITION 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%
Changes in net pension liability	\$ 1,560,907	\$ 856,277	\$ 301,444

PENSION PLAN FIDUCIARY NET POSITION

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



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 7 – Defined Benefit Pension Plans (continued)

E. PENSION EXPENSE AND DEFEERED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended September 30, 2016, the city recognized pension expense of \$199,250.

At September 30, 2016, 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	\$ 30,371	\$ 50,706
Changes in actuarial assumptions	-	21,817
Differences between projected and actual investment earnings	142,479	-
Contributions subsequent to the measurement date	131,356	-
Total	\$ 304,206	\$ 72,523

\$131,356 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Net deferred outflows (inflows) of resources
2017	\$ 24,981
2018	24,981
2019	24,980
2020	24,171
2021	1,214
Thereafter	-
	\$ 100,327



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

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

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

Your City offers supplemental death to:	Plan Year 2015	Plan Year 2016
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

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

The city’s contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$1,193, \$1,086 and \$963, respectively, which equaled the required contributions each year.

NOTE 9 – RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located with Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There were no significant reductions in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage in any of the past three years.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 10 – CONTINGENT LIABILITIES

A. Federal and State Programs

The City participates in certain federal and state-assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

NOTE 11 – WATER AND WASTEWATER SERVICE CONTRACTS

A. Treated Water

During 2010, the City entered a contract for treated water with the City of Weatherford wherein the City of Weatherford agreed to deliver treated water to an existing meter located at the City of Hudson Oaks LOR Water Plant #2. Charges to the City are based upon a volume charge. The wholesale water charge shall be recalculated annually and becomes effective on January 1st of each year.

B. Wastewater Service

The City entered a 20-year wastewater service contract with the City of Weatherford on January 27, 2000, wherein the City of Weatherford agreed to extend a wastewater collection line to the Weatherford city limits just west of the Hudson Oaks city limits and to provide sewage treatment service for amounts of wastewater collected by the City and delivered to the Weatherford System. The City constructed wastewater facilities including a wastewater collection line from the point of entry of the Weatherford System into the City and related lift stations. Charges to the City are based upon a flow charge for the transmission and treatment of wastewater received from the Hudson Oaks system and a capacity charge to compensate Weatherford for the capacity in the Weatherford system necessary to accept the maximum daily flow from the Hudson Oaks system.

NOTE 12 – CONTRACTS AND COMMITMENTS

- A. On October 25, 2007, the City issued the \$1,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2007. The certificates were issued to fund street, bridge, curb, and sidewalk improvements, consisting principally of the Lakeshore Bridge project. As of September 30, 2016, \$2,386,974 has been incurred on the project. Additional proceeds from the Combination Tax and Revenue Certificates of Obligation, 2016A were used to cover the overage in the project.
- B. On August 26, 2010, the City entered an interlocal agreement with the Town of Annetta, Texas in whereby the City agreed to assist Annetta in the operations and management of Annetta's water system.
- C. In November 2014, the City created the Hudson Oaks Public Improvements District No. 1, for the purposes of designing, acquiring and constructing public improvement projects in the District. The District includes approximately 46 acres in the City. The City has committed to fund improvements of up to \$3,534,000 in the District with \$2,000,000 being funded within 120 days of issuance of a notice to proceed on a new grocery store and once



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2016

NOTE 12 – CONTRACTS AND COMMITMENTS (continued)

the store opens the remaining actual costs up to \$1,534,000. The City will issue new bonds to fund the initial \$2,000,000. There was no activity during the year ended September 30, 2016.

In July 2015, the City levied an annual assessment of \$.46 per \$100 of net taxable value against the properties in the District through year 2019. This assessment will be used to fund the long-term debt used to fund the public improvements.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent events were evaluated through February 13, 2017, which is the date the financial statements were available to be issued.

NOTE 14 – PRIOR PERIOD ADJUSTMENTS

During the year, prior activity affected the net position of the business-type activities. In 2012 the City of Weatherford bought back interest in its water treatment plant and pipeline from the City of Hudson Oaks for a \$675,206 credit against future demand charges for water. The transaction was not recognized in 2012. In the current year, the City reported a prior period adjustment for the difference between the carrying value of the interest in the water treatment plant and pipeline and the credit at the City of Weatherford. The business-type activities were reduced by the following prior period adjustments:

	<u>Business-type Activities</u>
Beginning Net Position	\$ 5,987,809
Prior period adjustment	<u>(75,000)</u>
Adjusted Beginning Net Position	<u>\$ 5,912,809</u>

NOTE 15: FUTURE ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board has issued several statements that will be effective in future years. The City has not yet determined the effect these statements will have on its financial reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* replaces the requirements of Statements No. 45 and No. 57 for accounting and financial reporting of postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures* will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial users. This Statement is effective for fiscal years beginning after December 15, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HUDSON OAKS, TEXAS
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2016

	Budget		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 1,927,000	\$ 2,079,025	\$ 2,107,714	\$ 28,689
Licenses and permits	193,500	324,850	355,804	30,954
Charges for services	3,700	4,400	755	(3,645)
Municipal court fines	99,000	75,300	81,094	5,794
Interest	2,000	4,000	56,222	52,222
Miscellaneous	64,800	59,900	81,632	21,732
Total revenues	<u>2,290,000</u>	<u>2,547,475</u>	<u>2,683,221</u>	<u>135,746</u>
Expenditures:				
Current:				
General government	429,000	465,653	474,243	(8,590)
Public safety	1,091,000	1,194,659	1,262,618	(67,959)
Highways and streets and parks	300,839	371,546	309,874	61,672
Planning & development	101,000	147,058	146,778	280
Debt service				
Principal	23,000	80,750	80,148	602
Interest and fiscal charges	-	-	817	(817)
Total expenditures	<u>1,944,839</u>	<u>2,259,666</u>	<u>2,274,478</u>	<u>(14,812)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>345,161</u>	<u>287,809</u>	<u>408,743</u>	<u>120,934</u>
Other Financing Sources (Uses):				
Transfers In	-	68,750	68,750	-
Transfers Out	(293,161)	(273,771)	(295,380)	(21,609)
Proceeds from capital lease	-	38,437	38,437	-
Total other financing sources (uses):	<u>(293,161)</u>	<u>(166,584)</u>	<u>(188,193)</u>	<u>(21,609)</u>
Net change in fund balance	52,000	121,225	220,550	99,325
Fund balance, October 1	<u>1,404,865</u>	<u>1,404,865</u>	<u>1,404,865</u>	<u>-</u>
Fund balance, September 30	<u>\$ 1,456,865</u>	<u>\$ 1,526,090</u>	<u>\$ 1,625,415</u>	<u>\$ 99,325</u>

The accompanying notes are an integral part of this schedule.

CITY OF HUDSON OAKS, TEXAS
Schedule of Changes in Net Pension Liability
and Related Ratios
For the Year Ended September 30, 2016

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service Cost	\$ 208,249	\$ 199,076
Interest (on the Total Pension Liability)	214,601	195,208
Changes of benefit terms	-	-
Differences between expected and actual experience	36,888	(78,250)
Change of assumptions	(26,499)	-
Benefit payments, including refunds of employee contributions	<u>(37,169)</u>	<u>(49,985)</u>
Net Change in Total Pension Liability	396,070	266,049
Total Pension Liability-Beginning	<u>\$ 2,980,190</u>	<u>\$ 2,714,141</u>
Total Pension Liability-Ending (a)	<u><u>\$ 3,376,260</u></u>	<u><u>\$ 2,980,190</u></u>
Plan Fiduciary Net Position		
Contributions-Employer	152,320	134,567
Contributions-Employee	88,724	82,097
Net Investment Income	3,416	116,357
Benefit payments, including refunds of employee contributions	(37,169)	(49,985)
Administrative Expense	(2,081)	(1,214)
Other	<u>(103)</u>	<u>(100)</u>
Net Change in Plan Fiduciary Net Position	205,107	281,722
Plan Fiduciary Net Position-Beginning	<u>2,314,876</u>	<u>2,033,154</u>
Plan Fiduciary Net Position-Ending (b)	<u><u>\$ 2,519,983</u></u>	<u><u>\$ 2,314,876</u></u>
Net Pension Liability-Ending (a) - (b)	<u><u>\$ 856,277</u></u>	<u><u>\$ 665,314</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	74.64%	77.68%
Covered Employee Payroll	\$ 1,267,491	\$ 1,172,812
Net Pension Liability as a Percentage of Covered Employee Payroll	67.56%	56.73%

The Schedule of Changes in the City's Net Pension Liability and Related Ratios shows the changes in Total Pension Liability less the changes in Fiduciary Net Position, resulting in the net pension liability calculation for the city. Note that this is a 10-year schedule, to be created by the city prospectively, over the next 10-year period.

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HUDSON OAKS, TEXAS
Schedule of Employer Contributions
and Related Ratios
For the Year Ended September 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 167,446	\$ 146,854	\$ 136,130
Contributions in relation to the actuarially determined contribution	<u>\$ 167,446</u>	<u>\$ 146,854</u>	<u>\$ 136,130</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,325,824	\$ 1,237,245	\$ 1,204,317
Contributions as a percentage of covered employee payroll	12.63%	11.87%	11.30%

The Schedule of Employer Contributions shows the city’s required annual contributions from the actuarial valuation, compared with the actual contributions remitted. This schedule is based on the city’s respective fiscal year-end, and will be built over the next 10-year period.

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HUDSON OAKS, TEXAS
Notes to Required Supplementary Information
September 30, 2016

NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Budget

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The City Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Public hearings are conducted to obtain public comments.

The first budget reading for the ensuing year is presented to the City Council no later than the August City Council meeting. A second budget reading, if necessary, is presented no later than the September City Council meeting. A final budget is approved prior to the beginning of the budget year, and the budget is effective October 1 of the budget year. From its date of submission, the proposed budget shall be a public record, and copies are available for the public upon request. One amendment to the budget for the fiscal year was enacted and approved by the City Council.

2) Encumbrances

The City does not record encumbrances for goods and services.

3) Expenditures in excess of appropriations over \$5,000

General government expenditures had \$8,590 in excess of appropriations. Public safety government expenditures had \$67,959 in excess of expenditures due to the purchase of two new vehicles. Total general fund expenditures were \$14,812 in excess appropriations. An increase in budgeted expenditures was funded with additional \$135,746 in revenues that exceeded budget.

CITY OF HUDSON OAKS, TEXAS
Notes to Required Supplementary Information
September 30, 2016

NOTE 2- DEFINED BENEFIT PENSION PLANS

Notes to Schedule of Contributions

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage of Payroll, Closed

Remaining Amortization Period

28 years

Asset Valuation Method

10 Year smoothed market; 15% soft corridor

Inflation

2.50%

Salary Increases

3.50% to 10.5% including inflation

Investment Rate of Return

6.75%

Retirement Age

Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014

Mortality

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no changes during the year.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for revenue sources that are legally restricted to expenditures for specific purposes.

Police Seizure Forfeiture – This fund is used to account for revenue from police seizures.

Municipal Court Technology – This fund is used to account for Municipal Court fees collected for court technology.

Court Building Security – This fund is used to account for Municipal Court fees collected for court building security.

Park Dedication – This fund is used to account for park dedication donations and expenditures of those funds.

Special Events – This fund is used to account for community event revenues and expenditures of those funds.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

CITY OF HUDSON OAKS, TEXAS
 Nonmajor Funds
 Combining Balance Sheet
 September 30, 2016

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Special Events Fund	Total Special Revenue Funds	General Debt Service	Total Debt Service Funds	Total Nonmajor Governmental Funds
Assets:									
Cash	\$ 3,587	\$ 1,663	\$ 10,387	\$ 12,500	\$ -	\$ 28,137	\$ 9,630	\$ 9,630	\$ 37,767
Accounts receivable					21,000	21,000	-	-	21,000
Prepaid expenses	-	-	-	-	2,532	2,532	-	-	2,532
Due from Other Funds	-	-	-	-	-	-	24,615	24,615	24,615
Total assets	3,587	1,663	10,387	12,500	23,532	51,669	34,245	34,245	85,914
Liabilities and Fund Balance:									
Liabilities:									
Accounts payable	-	-	-	-	2,142	2,142	-	-	2,142
Accrued Interest Payable	-	-	-	-	-	-	17,074	17,074	17,074
Due to Other Funds	-	-	-	-	47,818	47,818	-	-	47,818
Total Liabilities	-	-	-	-	49,960	49,960	17,074	17,074	67,034
Fund Balance:									
Nonspendable	-	-	-	-	2,532	2,532	-	-	2,532
Restricted fund balance	3,587	1,663	10,387	12,500		28,137	17,171	17,171	45,308
Unassigned fund balance	-	-	-	-	(28,960)	(28,960)	-	-	(28,960)
Total Fund Balance	3,587	1,663	10,387	12,500	(26,428)	1,709	17,171	17,171	18,880
Total Liabilities and Fund Balance	\$ 3,587	\$ 1,663	\$ 10,387	\$ 12,500	\$ 23,532	\$ 51,669	\$ 34,245	\$ 34,245	\$ 85,914

CITY OF HUDSON OAKS, TEXAS

Nonmajor Funds

Combining Statement of Revenues, Expenditures and Changes

In Fund Balance

For the Year Ended September 30, 2016

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Special Events Fund	Total Special Revenue Funds	General Debt Service	Total Debt Service Funds	Total Nonmajor Governmental Funds
Revenue:									
Municipal court fees	\$ -	\$ 1,802	\$ 1,406	\$ -	\$ -	\$ 3,208	\$ -	\$ -	\$ 3,208
Interest	-	-	-	-	-	-	222	222	222
Miscellaneous					116,766	116,766	-	-	116,766
Total Revenues	-	1,802	1,406	-	116,766	119,974	222	222	120,196
Expenditures:									
Current									
General Government	-	-	-	-	133,753	133,753	-	-	133,753
Public safety	-	2,366	-	-	-	2,366	-	-	2,366
Debt Service:									
Principal	-	-	-	-	-	-	202,400	202,400	202,400
Interest	-	-	-	-	-	-	90,537	90,537	90,537
Total Expenditures	-	2,366	-	-	133,753	136,119	292,937	292,937	429,056
Excess (deficiency) of revenues over (under) expenditures	-	(564)	1,406	-	(16,987)	(16,145)	(292,715)	(292,715)	(308,860)
Other Financing Sources (Uses):									
Transfer in	-	-	-	-	-	-	295,380	295,380	295,380
Total other financing sources (uses):	-	-	-	-	-	-	295,380	295,380	295,380
Net change in fund balance	-	(564)	1,406	-	(16,987)	(16,145)	2,665	2,665	(13,480)
Fund balance, October 1	3,587	2,227	8,981	12,500	(9,441)	17,854	14,506	14,506	32,360
Fund balance, September 30	\$ 3,587	\$ 1,663	\$ 10,387	\$ 12,500	\$ (26,428)	\$ 1,709	\$ 17,171	\$ 17,171	\$ 18,880

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ENTERPRISE FUND SUPPLEMENTARY INFORMATION

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Schedules of Net Position
September 30, 2016
(With Comparative Totals for September 30, 2015)

	Hudson Oaks	Wastewater	Dyegard	Deer Creek	Utility	Totals	
	Water		Water	Management	Capital Projects	2016	2015
Assets							
Current Assets:							
Cash	\$ 470,910	\$ 456,121	\$ (49,721)	\$ 145,589	\$ -	\$ 1,022,899	\$ 1,825,228
Investments	87,852	-	-	-	-	87,852	87,599
Accounts receivable (net of allowance for doubtful accounts)	196,058	56,412	38,317	-	-	290,787	325,084
Miscellaneous receivables	253,594	467,508	-	20,005	-	741,107	-
Due from other funds	-	-	-	-	134,721	134,721	-
Prepaid Expense	8,875	-	-	-	-	8,875	8,875
Restricted Assets:							
Cash- water debt sinking funds	-	-	-	-	497,534	497,534	56,172
Total current assets	1,017,289	980,041	(11,404)	165,594	632,255	2,783,775	2,302,958
Noncurrent Assets:							
Capital Assets:							
Nondepreciable	-	-	-	-	584,201	584,201	1,510,268
Depreciable, net of accumulated depreciation	-	-	-	-	9,399,782	9,399,782	8,859,756
Total assets	1,017,289	980,041	(11,404)	165,594	10,616,238	12,767,758	12,672,982
Deferred Outflow of Resources							
Deferred Outflow Related to Pensions	74,009	-	-	18,771	-	92,780	41,701
Total deferred outflow of resources	74,009	-	-	18,771	-	92,780	41,701
Liabilities							
Current Liabilities:							
Accounts payable	74,374	25,498	440	1,423	13,899	115,634	152,797
Accrued payroll	4,466	-	-	1,137	-	5,603	3,375
Compensated absences payable	25,566	-	-	6,707	-	32,273	32,018
Due to other funds	-	-	-	-	-	-	1,650
Current liabilities payable from restricted assets:							
Current portion of long-term debt	-	-	-	-	391,250	391,250	367,600
Accrued interest payable	-	-	-	-	32,975	32,975	32,679
Total current liabilities	104,406	25,498	440	9,267	438,124	577,735	590,119
Noncurrent Liabilities:							
Net pension liability	209,873	-	-	52,404	-	262,277	201,790
Certificates of obligation	-	-	-	-	5,730,593	5,730,593	5,915,409
	209,873	-	-	52,404	5,730,593	5,992,870	6,117,199
Total liabilities	314,279	25,498	440	61,671	6,168,717	6,570,605	6,707,318
Deferred Inflow of Resources							
Deferred Inflow Related to Pensions	17,775	-	-	4,438	-	22,213	19,556
Total deferred outflow of resources	17,775	-	-	4,438	-	22,213	19,556
Net Position							
Investment in capital assets, net of debt	-	-	-	-	3,371,107	3,371,107	4,087,015
Restricted for debt service (expendable)	-	-	-	-	6,501	6,501	44,249
Restricted for capital projects (expendable)	-	-	-	-	625,754	625,754	-
Restricted for impact fees	118,793	-	-	-	-	118,793	94,476
Unrestricted	640,451	954,543	(11,844)	118,256	444,159	2,145,565	1,762,069
Total net position	\$ 759,244	\$ 954,543	\$ (11,844)	\$ 118,256	\$ 4,447,521	\$ 6,267,720	\$ 5,987,809

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Schedules of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended September 30, 2016
(With Comparative Totals for the Year Ended September 30, 2015)

	Hudson Oaks	Wastewater	Dyegard	Deer Creek	Utility	Elimination	Totals	
	Water		Water	Management	Capital Projects		2016	2015
Operating revenues:								
Water & Wastewater sales	\$ 1,126,216	\$ 323,193	\$ 246,557	\$ -	\$ -	\$ -	\$ 1,695,966	\$ 1,689,171
Management contract charges	-	-	-	219,390	-	-	219,390	213,000
Late payment charges	11,156	-	2,459	-	-	-	13,615	12,331
Tap Fees	17,500	9,000	-	-	-	-	26,500	26,000
Impact fees	24,317	-	-	-	-	-	24,317	19,666
Customer assessment fees	10,638	-	-	-	-	-	10,638	1,120
Miscellaneous fees & Charges	44,928	-	-	-	-	-	44,928	55,071
Total operating revenues	<u>1,234,755</u>	<u>332,193</u>	<u>249,016</u>	<u>219,390</u>	<u>-</u>	<u>-</u>	<u>2,035,354</u>	<u>2,016,359</u>
Operating expenses:								
Personal services	416,591	-	-	107,810	-	-	524,401	456,563
Supplies	56,747	-	3,284	7,773	15	-	67,819	81,300
Contractual Services	468,076	151,588	14,360	1,634	-	-	635,658	431,031
Well utilities	77,664	-	3,939	-	-	-	81,603	79,864
Depreciation	-	-	-	-	474,809	-	474,809	464,080
Total operating expenses	<u>1,019,078</u>	<u>151,588</u>	<u>21,583</u>	<u>117,217</u>	<u>474,824</u>	<u>-</u>	<u>1,784,290</u>	<u>1,512,838</u>
Operating income (loss)	<u>215,677</u>	<u>180,605</u>	<u>227,433</u>	<u>102,173</u>	<u>(474,824)</u>	<u>-</u>	<u>251,064</u>	<u>503,521</u>
Nonoperating revenues (expenses)								
Interest income	253	-	-	-	1,939	-	2,192	898
Interest expense	-	-	-	-	(197,570)	-	(197,570)	(196,336)
Nonoperating expense	-	-	-	-	(205,000)	-	(205,000)	-
Gain or (Loss) on Disposal of Assets	-	-	-	-	-	-	-	(12,918)
Total nonoperating revenues (expenses)	<u>253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,631)</u>	<u>-</u>	<u>(400,378)</u>	<u>(208,356)</u>
Income (loss) before transfers	<u>215,930</u>	<u>180,605</u>	<u>227,433</u>	<u>102,173</u>	<u>(875,455)</u>	<u>-</u>	<u>(149,314)</u>	<u>295,165</u>
Contributions and transfers:								
Capital Contribution	-	488,682	-	-	151,793	-	640,475	188,161
Transfer In	-	-	-	-	576,335	(576,335)	-	43,869
Transfer out	(270,820)	(201,015)	(173,250)	(67,500)	-	576,335	(136,250)	(231,405)
Change in net position	(54,890)	468,272	54,183	34,673	(147,327)	-	354,911	295,790
Net Position, Beginning	889,134	486,271	(66,027)	83,583	4,594,848	-	5,987,809	5,867,388
Prior Period Adjustment	(75,000)	-	-	-	-	-	(75,000)	(175,369)
Net Position, Ending	<u>\$ 759,244</u>	<u>\$ 954,543</u>	<u>\$ (11,844)</u>	<u>\$ 118,256</u>	<u>\$ 4,447,521</u>	<u>\$ -</u>	<u>\$ 6,267,720</u>	<u>\$ 5,987,809</u>

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Schedules of Cash Flows
For the Year Ended September 30, 2016
(With Comparative Totals for the Year Ended September 30, 2015)

	Hudson Oaks	Wastewater	Dyegard	Deer Creek	Utility	Total	
	Water		Water	Management	Capital Projects	2016	2015
Cash flows from operating activities:							
Cash received from customers and users	\$ 1,264,237	\$ 312,711	\$ 254,540	\$ 218,158	\$ -	\$ 2,049,646	\$ 1,958,693
Cash paid to suppliers	(602,741)	(195,884)	(27,538)	(9,965)	13,884	(822,244)	(593,654)
Cash paid to employees	(403,148)	-	-	(106,705)	-	(509,853)	(439,963)
Net cash provided (used) by operating activities	258,348	116,827	227,002	101,488	13,884	717,549	925,076
Cash flow from noncapital financing activities:							
Due to other funds	(1,650)	-	-	-	-	(1,650)	(11,408)
Due from other funds	-	-	-	-	(134,721)	(134,721)	29,900
Transfers in (out)	(270,820)	(201,015)	(173,250)	(67,500)	576,335	(136,250)	(187,536)
Net cash provided (used) by noncapital financing activities	(272,470)	(201,015)	(173,250)	(67,500)	441,614	(272,621)	(169,044)
Cash flows from capital and related financing activities:							
Principal payments - certificates of obligation	-	-	-	-	(357,600)	(357,600)	(357,600)
Purchase of property, plant and equipment	-	-	-	-	(422,467)	(422,467)	(1,212,337)
Special assessments	-	21,174	-	-	-	21,174	-
(Increase) decrease in miscellaneous receivables	156,898	-	-	-	-	156,898	-
Interest payments	-	-	-	-	(205,840)	(205,840)	(207,310)
Net cash flows provided by (used in) capital and related financing activities	156,898	21,174	-	-	(985,907)	(807,835)	(1,777,247)
Cash flows from investing activities:							
Interest received	253	-	-	-	1,939	2,192	898
(Purchase) sale of investments	(252)	-	-	-	-	(252)	(45)
Net cash provided by (used in) investing activities	1	-	-	-	1,939	1,940	853
Net increase (decrease) in cash	142,777	(63,014)	53,752	33,988	(528,470)	(360,967)	(1,020,362)
Cash, October 1	328,133	519,135	(103,473)	111,601	1,026,004	1,881,400	2,901,762
Cash, September 30	<u>\$ 470,910</u>	<u>\$ 456,121</u>	<u>\$ (49,721)</u>	<u>\$ 145,589</u>	<u>\$ 497,534</u>	<u>\$ 1,520,433</u>	<u>\$ 1,881,400</u>
Reconciliation of income from operations to net cash provided by operating activities:							
Income (loss) from operations	\$ 215,677	\$ 180,605	\$ 227,433	\$ 102,173	\$ (474,824)	\$ 251,064	\$ 503,521
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities							
Depreciation	-	-	-	-	474,809	474,809	464,080
(Increase) decrease in accounts receivable	29,482	(19,482)	5,524	(1,232)	-	14,292	(57,666)
(Increase) decrease in prepaid expenses	-	-	-	-	-	-	46
(Increase) decrease in deferred outflow of resources	(40,746)	-	-	(10,333)	-	(51,079)	(10,526)
Increase (decrease) in accounts payable	(254)	(44,296)	(5,955)	(558)	13,899	(37,164)	(1,505)
Increase (decrease) in accrued payroll	1,768	-	-	460	-	2,228	1,362
Increase (decrease) in compensated absences	(1,682)	-	-	1,937	-	255	10,962
Increase (decrease) in net pension liability	51,661	-	-	8,826	-	60,487	(4,754)
Increase (decrease) in deferred inflow of resources	2,442	-	-	215	-	2,657	19,556
Net adjustments	42,671	(63,778)	(431)	(685)	488,708	466,485	421,555
Net cash provided by operating activities	<u>\$ 258,348</u>	<u>\$ 116,827</u>	<u>\$ 227,002</u>	<u>\$ 101,488</u>	<u>\$ 13,884</u>	<u>\$ 717,549</u>	<u>\$ 925,076</u>
Noncash Investing, Capital and Financing Activities							
Contributions of capital assets	\$ -	\$ -	\$ -	\$ -	\$ 151,793	\$ 151,793	\$ 188,161

STATISTICAL SECTION (Unaudited)

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STATISTICAL SECTION (Unaudited)

This part of the City of Hudson Oaks Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosure, and required supplementary information says about the City's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

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Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources.

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Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

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Demographic and Economic Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

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Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. There is no statistical analysis for property tax as the City of Hudson Oaks does not levy an ad valorem tax to its residents or businesses.

CITY OF HUDSON OAKS
Government-wide Net Position by Component
Last Ten Fiscal Years
(Unaudited)

	2016	2015	2014	2013
Governmental Activities				
Invested in capital assets, net of related debt	\$ 4,788,636	\$ 4,525,800	\$ 4,153,576	\$ 3,945,645
Restricted	50,298	44,541	693,884	26,372
Unrestricted	1,532,330	1,208,501	737,230	1,349,162
Total governmental activities net position	<u>\$ 6,371,264</u>	<u>\$ 5,778,842</u>	<u>\$ 5,584,690</u>	<u>\$ 5,321,179</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 3,371,107	\$ 4,087,015	\$ 3,819,660	\$ 4,845,486
Restricted	751,048	138,725	115,489	132,025
Unrestricted	2,038,621	1,762,069	1,932,239	727,281
Total business-type activities net position	<u>\$ 6,160,776</u>	<u>\$ 5,987,809</u>	<u>\$ 5,867,388</u>	<u>\$ 5,704,792</u>
Primary government				
Invested in capital assets, net of related debt	\$ 8,159,743	\$ 8,612,815	\$ 7,973,236	\$ 8,791,131
Restricted	801,346	183,266	809,373	158,397
Unrestricted	3,570,951	2,970,570	2,669,469	2,076,443
Total primary government net position	<u>\$ 12,532,040</u>	<u>\$ 11,766,651</u>	<u>\$ 11,452,078</u>	<u>\$ 11,025,971</u>

CITY OF HUDSON OAKS
Government-wide Net Position by Component
Last Ten Fiscal Years
(Unaudited)

2012	2011	2010	2009	2008	2007
\$ 3,572,025	\$ 3,457,023	\$ 3,116,516	\$ 2,860,525	\$ 2,493,355	\$ 2,174,620
12,764	14,228	-	-	-	-
1,442,408	1,546,941	2,023,326	2,072,919	2,589,491	1,107,900
<u>\$ 5,027,197</u>	<u>\$ 5,018,192</u>	<u>\$ 5,139,842</u>	<u>\$ 4,933,444</u>	<u>\$ 5,082,846</u>	<u>\$ 3,282,520</u>
\$ 4,743,012	\$ 4,977,526	\$ 4,921,044	\$ 4,993,315	\$ 5,043,241	\$ 4,874,415
197,820	53,565	31,056	18,283	11,208	24,584
881,405	747,361	749,107	789,660	791,892	755,148
<u>\$ 5,822,237</u>	<u>\$ 5,778,452</u>	<u>\$ 5,701,207</u>	<u>\$ 5,801,258</u>	<u>\$ 5,846,341</u>	<u>\$ 5,654,147</u>
\$ 8,315,037	\$ 8,434,549	\$ 8,037,560	\$ 7,853,840	\$ 7,536,596	\$ 7,049,035
210,584	67,793	31,056	18,283	11,208	24,584
2,323,813	2,294,302	2,772,433	2,862,579	3,381,383	1,863,048
<u>\$ 10,849,434</u>	<u>\$ 10,796,644</u>	<u>\$ 10,841,049</u>	<u>\$ 10,734,702</u>	<u>\$ 10,929,187</u>	<u>\$ 8,936,667</u>

CITY OF HUDSON OAKS
Government-wide Changes in Net Position
Last Ten Fiscal Years
(Unaudited)

	2016	2015	2014	2013
Expenses				
Governmental Activities				
General government	\$ 666,538	\$ 705,554	\$ 695,185	\$ 622,322
Public safety	1,277,695	1,140,082	1,127,251	1,032,743
Highways and streets and parks	368,670	292,149	296,496	248,484
Planning and development	146,778	165,319	-	-
Economic development grants	-	-	-	150,000
Interest and fiscal charges	122,302	91,412	117,554	111,547
Bond issuance costs	184,986	-	-	-
Total governmental activities expenses	<u>\$ 2,766,969</u>	<u>\$ 2,394,516</u>	<u>\$ 2,236,486</u>	<u>\$ 2,165,096</u>
Business-type activities				
Water	\$ 1,547,911	\$ 1,054,715	\$ 999,905	\$ 1,151,086
Economic development grants	306,680	-	-	150,000
Dyegard water system	215,052	297,909	292,818	256,581
Deercreek management	117,217	111,352	121,835	132,622
Wastewater	223,515	258,116	288,412	240,266
Total business-type activities net position	<u>2,410,375</u>	<u>1,722,092</u>	<u>1,702,970</u>	<u>1,930,555</u>
Total primary government expenses	<u>\$ 5,177,344</u>	<u>\$ 4,116,608</u>	<u>\$ 3,939,456</u>	<u>\$ 4,095,651</u>
Program Revenues				
Governmental Activities				
Charges for services	\$ 441,274	\$ 423,587	\$ 537,689	\$ 460,030
Operating grants and contributions	12,242	-	-	-
Capital grants and contributions	149,528	375,567	-	301,627
Total governmental activities	<u>\$ 603,044</u>	<u>\$ 799,154</u>	<u>\$ 537,689</u>	<u>\$ 761,657</u>
Business-type activities				
Water and sewer sales	\$ 2,035,354	\$ 2,016,359	\$ 1,866,868	\$ 1,831,601
Operating grants and ontributions	116,571	-	-	-
Capital grants and contributions	640,475	188,161	113,440	82,450
Total business-type activities	<u>2,792,400</u>	<u>2,204,520</u>	<u>1,980,308</u>	<u>1,914,051</u>
Total primary government revenues	<u>\$ 3,395,444</u>	<u>\$ 3,003,674</u>	<u>\$ 2,517,997</u>	<u>\$ 2,675,708</u>
Net (Expense) Revenue				
Governmental Activities	\$ (2,163,925)	\$ (1,595,362)	\$ (1,698,797)	\$ (1,403,439)
Business-type Activities	382,025	482,428	277,338	(16,504)
Total primary government net expense	<u>\$ (1,781,900)</u>	<u>\$ (1,112,934)</u>	<u>\$ (1,421,459)</u>	<u>\$ (1,419,943)</u>
General Revenues and Other Changes in Net Position				
Governmental Activities				
Sales tax	\$ 1,940,291	\$ 1,703,568	\$ 1,615,229	\$ 1,527,473
Franchise tax	177,958	193,272	169,518	137,113
Investment earnings	63,084	3,478	4,464	7,004
Other revenue	438,764	96,822	57,541	71,699
Transfers	136,250	187,536	115,556	(93)
Extraordinary items	-	-	-	-
Gain on sale of capital assets	-	8,200	-	-
Total governmental activities	<u>\$ 2,756,347</u>	<u>\$ 2,192,876</u>	<u>\$ 1,962,308</u>	<u>\$ 1,743,196</u>
Business-type activities				
Investment earnings	\$ 2,192	\$ 898	\$ 814	\$ 182
Transfers	(136,250)	(187,536)	(115,556)	93
Total business-type activities	<u>\$ (134,058)</u>	<u>\$ (186,638)</u>	<u>\$ (114,742)</u>	<u>\$ 275</u>
Total primary government	<u>\$ 2,622,289</u>	<u>\$ 2,006,238</u>	<u>\$ 1,847,566</u>	<u>\$ 1,743,471</u>
Change in Net Position				
Governmental Activities	\$ 592,422	\$ 597,514	\$ 263,511	\$ 339,757
Business-type Activities	247,967	295,790	162,596	(16,229)
Total primary government	<u>\$ 840,389</u>	<u>\$ 893,304</u>	<u>\$ 426,107</u>	<u>\$ 323,528</u>

CITY OF HUDSON OAKS
Government-wide Changes in Net Position
Last Ten Fiscal Years
(Unaudited)

2012	2011	2010	2009	2008	2007
\$ 611,863	\$ 555,859	\$ 572,233	\$ 569,225	\$ 788,582	\$ 657,991
1,004,471	971,556	852,514	1,047,950	1,050,286	648,411
316,225	338,921	292,173	229,557	208,020	81,291
-	-	-	-	-	-
-	-	-	-	-	-
106,219	106,873	114,881	132,368	96,799	-
-	-	-	-	-	-
<u>\$ 2,038,778</u>	<u>\$ 1,973,209</u>	<u>\$ 1,831,801</u>	<u>\$ 1,979,100</u>	<u>\$ 2,143,687</u>	<u>\$ 1,387,693</u>
\$ 1,069,189	\$ 1,065,916	\$ 900,658	\$ 878,212	\$ 862,805	\$ 533,639
-	-	-	-	-	-
249,488	291,458	-	-	-	-
135,193	114,719	-	-	-	-
242,478	239,880	189,660	186,509	174,176	127,211
<u>1,696,348</u>	<u>1,711,973</u>	<u>1,090,318</u>	<u>1,064,721</u>	<u>1,036,981</u>	<u>660,850</u>
<u>\$ 3,735,126</u>	<u>\$ 3,685,182</u>	<u>\$ 2,922,119</u>	<u>\$ 3,043,821</u>	<u>\$ 3,180,668</u>	<u>\$ 2,048,543</u>
\$ 352,724	\$ 277,133	\$ 430,174	\$ 290,717	\$ 469,887	\$ 339,181
-	35,760	34,959	32,370	57,963	1,396
-	-	41,407	-	-	1,601,600
<u>\$ 352,724</u>	<u>\$ 312,893</u>	<u>\$ 506,540</u>	<u>\$ 323,087</u>	<u>\$ 527,850</u>	<u>\$ 1,942,177</u>
\$ 1,730,715	\$ 1,781,677	\$ 990,090	\$ 954,547	\$ 933,941	\$ 624,291
-	-	-	-	292,269	2,335,760
<u>1,730,715</u>	<u>1,781,677</u>	<u>990,090</u>	<u>954,547</u>	<u>1,226,210</u>	<u>2,960,051</u>
<u>\$ 2,083,439</u>	<u>\$ 2,094,570</u>	<u>\$ 1,496,630</u>	<u>\$ 1,277,634</u>	<u>\$ 1,754,060</u>	<u>\$ 4,902,228</u>
\$ (1,686,054)	\$ (1,660,316)	\$ (1,325,261)	\$ (1,656,013)	\$ (1,615,837)	\$ 554,484
34,367	69,704	(100,228)	(110,174)	189,229	2,299,201
<u>\$ (1,651,687)</u>	<u>\$ (1,590,612)</u>	<u>\$ (1,425,489)</u>	<u>\$ (1,766,187)</u>	<u>\$ (1,426,608)</u>	<u>\$ 2,853,685</u>
\$ 1,443,331	\$ 1,364,008	\$ 1,349,689	\$ 1,369,692	\$ 1,432,180	\$ 938,695
161,210	150,734	124,812	136,827	122,466	81,697
7,519	12,639	20,613	33,377	88,253	36,236
82,999	11,285	36,545	31,081	117,400	-
-	-	-	(64,365)	-	-
-	-	-	-	-	(130,122)
-	-	-	-	1,655,864	-
<u>\$ 1,695,059</u>	<u>\$ 1,538,666</u>	<u>\$ 1,531,659</u>	<u>\$ 1,506,612</u>	<u>\$ 3,416,163</u>	<u>\$ 926,506</u>
\$ 9,418	\$ 7,541	\$ 177	\$ 726	\$ 2,965	\$ 5,475
-	-	-	64,365	-	-
<u>\$ 9,418</u>	<u>\$ 7,541</u>	<u>\$ 177</u>	<u>\$ 65,091</u>	<u>\$ 2,965</u>	<u>\$ 5,475</u>
<u>\$ 1,704,477</u>	<u>\$ 1,546,207</u>	<u>\$ 1,531,836</u>	<u>\$ 1,571,703</u>	<u>\$ 3,419,128</u>	<u>\$ 931,981</u>
\$ 9,005	\$ (121,650)	\$ 206,398	\$ (149,401)	\$ 1,800,326	\$ 1,480,990
43,785	77,245	(100,051)	(45,083)	192,194	2,304,676
<u>\$ 52,790</u>	<u>\$ (44,405)</u>	<u>\$ 106,347</u>	<u>\$ (194,484)</u>	<u>\$ 1,992,520</u>	<u>\$ 3,785,666</u>

CITY OF HUDSON OAKS
Fund Balances, Governmental Fund
Last Ten Fiscal Years
(Unaudited)

	2016	2015	2014	2013	2012
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Designated	-	-	-	-	-
Unreserved, Undesignated	-	-	-	-	-
Nonspendable	12,196	34,170	-	8,396	-
Restricted	4,990	2,740	1,732	1,732	886
Committed	-	-	-	-	-
Assigned	335,000	235,000	-	-	27,745
Unassigned	1,273,229	1,132,955	1,115,147	1,025,655	1,014,467
Total general fund	<u>\$ 1,625,415</u>	<u>\$ 1,404,865</u>	<u>\$ 1,116,879</u>	<u>\$ 1,035,783</u>	<u>\$ 1,043,098</u>
All Other Governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Designated	-	-	-	-	-
Unreserved, Undesignated	-	-	-	-	-
Nonspendable	2,533	-	-	-	-
Restricted	5,288,947	191,057	692,152	859,124	1,775,663
Committed	-	-	-	-	-
Assigned	-	-	43,231	53,563	70,855
Unassigned	(28,961)	(9,441)	-	-	-
Total other governmental funds	<u>\$ 5,262,519</u>	<u>\$ 181,616</u>	<u>\$ 735,383</u>	<u>\$ 912,687</u>	<u>\$ 1,846,518</u>

Notes: The City implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions in fiscal year 2011. The following definitions relate to the pre-GASB 54 fund balance categories. Definitions of GASB 54 fund balance categories can be found on pages 28-29 of the notes to the financial statements.

Reserved - Amounts that are not available for appropriation or are legally restricted by an outside party for a specific use.

Designated - Represents management's tentative plans that are subject o change.

Unreserved, undesignated - Fund balance that is not reserved or designated.

CITY OF HUDSON OAKS
Fund Balances, Governmental Fund
Last Ten Fiscal Years
(Unaudited)

2011	2010	2009	2008	2007
\$ -	\$ -	\$ -	\$ -	\$ -
-	333,792	333,792	296,636	296,637
-	769,543	615,496	697,361	495,645
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,174,811	-	-	-	-
<u>\$ 1,174,811</u>	<u>\$ 1,103,335</u>	<u>\$ 949,288</u>	<u>\$ 993,997</u>	<u>\$ 792,282</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	1,844,808	31,422	70,831	59,359
-	-	2,487,500	2,894,343	378
-	-	-	-	-
1,085,857	-	-	-	-
-	-	-	-	-
57,773	-	-	-	-
-	-	-	-	-
<u>\$ 1,143,630</u>	<u>\$ 1,844,808</u>	<u>\$ 2,518,922</u>	<u>\$ 2,965,174</u>	<u>\$ 59,737</u>

CITY OF HUDSON OAKS
Changes in Fund Balances, Governmental Fund
Last Ten Fiscal Years
(Unaudited)

	2016	2015	2014	2013
Revenues				
Taxes	\$ 2,107,714	\$ 1,871,133	\$ 1,773,967	\$ 1,669,995
Licenses, fees, permits	355,804	339,196	414,691	322,735
Fines and penalties	84,302	113,374	103,801	121,207
Charges for services	755	751	15,146	7,390
Intergovernmental	12,242	129,280	-	216,000
Investment earnings	63,031	3,478	4,464	7,004
Other revenues	186,156	96,822	57,541	78,965
Total revenues	\$ 2,810,004	\$ 2,554,034	\$ 2,369,610	\$ 2,423,296
Expenditures				
General government	\$ 607,996	\$ 729,223	\$ 653,351	\$ 584,677
Public safety	1,264,984	1,074,111	1,111,307	964,123
Highways and streets and parks	309,874	176,048	299,554	496,790
Planning and development	146,778	165,319	-	-
Capital outlay	758,915	659,038	174,276	1,149,639
Other	-	-	-	150,000
Debt service:				
Principal	282,548	282,577	266,232	110,797
Interest	91,354	106,034	110,874	114,572
Bond issuance costs	184,986	-	-	-
Total expenditures	\$ 3,647,435	\$ 3,192,350	\$ 2,615,594	\$ 3,570,598
Other financing sources (uses)				
Proceeds from sale of capital assets	\$ -	\$ 185,000	\$ -	\$ -
Proceeds from borrowings	6,002,633	-	34,220	206,250
Other resources	-	-	-	-
Transfers in	431,630	544,003	406,378	197,279
Transfers out	(295,380)	(356,467)	(290,822)	(197,372)
Total other financing sources (uses)	\$ 6,138,883	\$ 372,536	\$ 149,776	\$ 206,157
Net change in fund balances	\$ 5,301,452	\$ (265,780)	\$ (96,208)	\$ (941,145)
Debt service as a percentage of noncapital expenditures	13.78%	16.88%	16.93%	9.31%

CITY OF HUDSON OAKS
Changes in Fund Balances, Governmental Fund
Last Ten Fiscal Years
(Unaudited)

2012	2011	2010	2009	2008	2007
\$ 1,598,179	\$ 1,518,938	\$ 1,459,645	\$ 1,517,316	\$ 1,544,875	\$ 1,042,719
240,289	162,110	200,229	151,918	268,749	164,965
103,065	137,495	166,567	151,991	135,836	132,906
4,084	1,288	3,515	1,769	2,302	2,647
-	-	-	-	-	-
7,519	12,639	20,613	33,377	88,253	36,236
69,055	48,443	73,065	67,127	203,673	66,696
<u>\$ 2,022,191</u>	<u>\$ 1,880,913</u>	<u>\$ 1,923,634</u>	<u>\$ 1,923,498</u>	<u>\$ 2,243,688</u>	<u>\$ 1,446,169</u>
\$ 598,326	\$ 513,843	\$ 505,215	\$ 510,772	\$ 745,896	\$ 622,164
1,004,933	952,699	796,753	974,369	964,872	641,053
207,942	229,355	308,554	261,292	260,229	27,534
-	-	-	-	-	-
289,173	190,273	411,807	107,903	2,372,332	-
-	210,000	-	-	-	-
80,846	320,806	305,446	362,670	98,366	32,581
100,590	93,638	115,926	133,089	80,388	4,806
21,280	25,903	-	-	74,500	-
<u>\$ 2,303,090</u>	<u>\$ 2,536,517</u>	<u>\$ 2,443,701</u>	<u>\$ 2,350,095</u>	<u>\$ 4,596,583</u>	<u>\$ 1,328,138</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,260,000	\$ -
852,074	25,902	-	-	3,662,547	-
-	-	-	-	(462,500)	(80,414)
194,423	120,771	131,750	1,103,960	1,821,926	-
(194,423)	(120,771)	(131,750)	(1,168,325)	(1,821,926)	-
<u>\$ 852,074</u>	<u>\$ 25,902</u>	<u>\$ -</u>	<u>\$ (64,365)</u>	<u>\$ 5,460,047</u>	<u>\$ (80,414)</u>
<u>\$ 571,175</u>	<u>\$ (629,702)</u>	<u>\$ (520,067)</u>	<u>\$ (490,962)</u>	<u>\$ 3,107,152</u>	<u>\$ 37,617</u>
9.01%	17.66%	20.74%	22.11%	8.04%	2.81%

CITY OF HUDSON OAKS
Principal Sources of Revenue
Government-Wide
Last Ten Fiscal Years
(Unaudited)

Revenue Source	2016	2015	2014	2013
Principal General Government Revenue Sources				
Sales Tax	\$ 1,927,350	\$ 1,687,718	\$ 1,608,529	\$ 1,524,171
Franchise Tax	180,364	183,415	165,438	145,824
Licenses and Permits	355,804	339,196	414,691	322,735
All Other Sources	346,486	343,705	180,952	430,566
Total General Government Revenue	\$ 2,810,004	\$ 2,554,034	\$ 2,369,610	\$ 2,423,296

Sales Tax is collected at point of purchase in the City of Hudson Oaks at a total rate of 8.25%. Of that total, 6.25% is State tax, .50% is County tax, and 1.5% is City tax.

Franchise taxes are charged for business conducted in the City but for which no location is available for ad valorem tax. The tax as a percentage of revenue is set by contractual agreements.

Licenses and Permits are charged to business performing various construction projects throughout the City. The revenue is collected before a permit is issued and follows an Ordinance passed by City Council.

Principal Enterprise Funds Revenue Sources

Water Sales - Hudson Oaks	\$ 1,126,216	\$ 1,133,462	\$ 1,011,033	\$ 980,713
Wastewater Sales	323,193	323,332	333,576	334,771
All Other Sources	585,945	559,565	522,259	516,117
Total Enterprise Fund Revenue	\$ 2,035,354	\$ 2,016,359	\$ 1,866,868	\$ 1,831,601

CITY OF HUDSON OAKS
Principal Sources of Revenue
Government-Wide
Last Ten Fiscal Years
(Unaudited)

2012	2011	2010	2009	2008	2007	Change: 2007-2016
\$ 1,439,506	\$ 1,375,636	\$ 1,328,584	\$ 1,386,912	\$ 1,424,371	\$ 966,365	99.44%
158,673	143,302	131,061	130,404	120,504	76,354	136.22%
240,289	162,110	200,229	151,918	268,749	164,965	115.68%
183,723	199,865	263,760	254,264	430,064	238,485	45.29%
<u>\$ 2,022,191</u>	<u>\$ 1,880,913</u>	<u>\$ 1,923,634</u>	<u>\$ 1,923,498</u>	<u>\$ 2,243,688</u>	<u>\$ 1,446,169</u>	
;						
\$ 927,508	\$ 930,997	\$ 748,413	\$ 736,755	\$ 696,819	\$ 436,650	157.92%
271,811	222,902	183,420	179,969	170,064	137,952	134.28%
531,396	627,778	58,257	37,823	67,058	49,689	1079.22%
<u>\$ 1,730,715</u>	<u>\$ 1,781,677</u>	<u>\$ 990,090</u>	<u>\$ 954,547</u>	<u>\$ 933,941</u>	<u>\$ 624,291</u>	

CITY OF HUDSON OAKS
Sales tax by Business Type
Last Ten Fiscal Years
(Unaudited)

Sales Tax by Category	2016	2015	2014	2013	2012	2011	2010	2009	2008
Retail:									
Motor Vehicle & Parts	\$ 400,780	\$ 266,845	\$ 268,017	\$ 255,229	\$ 209,362	\$ 194,096	\$ 162,868	\$ 171,483	\$ 158,213
Furniture & Home Furnishings	3,163	986	1,538	271	318	770	488	386	824
Electronics & Appliance	2,771	1,235	2,078	16,314	12,725	10,908	10,812	404	877
Building Materials	3,816	6,028	3,861	5,010	2,541	7,863	9,489	7,965	1,559
Apparel Stores	6,423	5,798	5,637	5,822	2,386	1,445	1,598	1,195	1,260
General Merchandise	641,719	617,950	612,194	615,866	595,896	562,376	575,871	566,340	590,012
All other Retail	237,713	208,466	191,840	144,591	148,558	189,883	177,188	203,386	296,968
Total Retail	\$ 1,296,385	\$ 1,107,308	\$ 1,085,165	\$ 1,043,103	\$ 971,786	\$ 967,341	\$ 938,314	\$ 951,159	\$ 1,049,713
Agriculture/Manufacturing/Mining	18,513	21,636	21,044	22,199	22,013	12,151	7,891	10,732	33,654
Services	260,724	245,024	276,562	256,082	229,122	200,475	202,190	193,282	196,262
Wholesalers	10,980	17,030	21,639	22,745	27,359	26,469	22,054	19,552	30,562
Accommodation & Food	224,249	191,829	164,350	167,072	158,141	145,369	131,543	106,832	104,327
All Other	75,674	104,891	39,769	12,970	31,085	23,831	26,592	105,355	9,853
Total Sales Tax Received	\$ 1,886,525	\$ 1,687,718	\$ 1,608,529	\$ 1,524,171	\$ 1,439,506	\$ 1,375,636	\$ 1,328,584	\$ 1,386,912	\$ 1,424,371
City Sales Tax Rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

Note: This data will be updated with subsequent information added each year until ten years of history is obtained.

Source:
2014 - 2016 - Zactax Sales tax analysis
2008 - 2013 - MuniServices Sales Tax Analysis and Reporting Service

CITY OF HUDSON OAKS
Water Sales and Wastewater Sales
By Type of Customer
Last Ten Years

WATER SALES

Type of Customer	2016	2015	2014	2013
Residential	\$ 942,041	\$ 1,021,365	\$ 933,875	\$ 897,228
Commercial	\$ 397,720	\$ 356,589	\$ 307,777	\$ 311,011
Other	\$ 33,012	\$ 91,573	\$ 112,740	\$ 107,591
Total	\$ 1,372,773	\$ 1,469,527	\$ 1,354,392	\$ 1,315,830

WASTEWATER SALES

Type of Customer	2016	2015	2014	2013
Residential	\$ 37,447	\$ 41,515	\$ 40,257	\$ 50,308
Commercial	\$ 276,746	\$ 281,817	\$ 293,219	\$ 284,463
Other	\$ 9,000	\$ 10,500	\$ 7,000	\$ 9,000
Total	\$ 323,193	\$ 333,832	\$ 340,476	\$ 343,771

Note: Source data from monthly billing registers including adjustments.

CITY OF HUDSON OAKS
Water Sales and Wastewater Sales
By Type of Customer
Last Ten Years

WATER SALES

2012	2011	2010	2009	2008	2007
\$ 930,683	\$ 963,707	\$ 578,745	\$ 570,233	\$ 569,402	\$ 325,809
\$ 236,309	\$ 218,917	\$ 169,668	\$ 166,522	\$ 127,417	\$ 110,841
\$ 94,162	\$ 157,651	\$ 40,217	\$ 32,547	\$ 52,508	\$ 40,989
<u>\$ 1,261,154</u>	<u>\$ 1,340,275</u>	<u>\$ 788,630</u>	<u>\$ 769,302</u>	<u>\$ 749,327</u>	<u>\$ 477,639</u>

WASTEWATER SALES

2012	2011	2010	2009	2008	2007
\$ 40,969	\$ 31,040	\$ 14,655	\$ 8,166	\$ 8,358	\$ 5,774
\$ 230,842	\$ 191,862	\$ 168,765	\$ 171,802	\$ 161,706	\$ 132,178
\$ 7,000	\$ 1,500	\$ 18,040	\$ 5,276	\$ 14,550	\$ 8,700
<u>\$ 278,811</u>	<u>\$ 224,402</u>	<u>\$ 201,460</u>	<u>\$ 185,244</u>	<u>\$ 184,614</u>	<u>\$ 146,652</u>

CITY OF HUDSON OAKS
 Top Ten Utility Rate Payers
 by Rate Type
 Compared to Five Years Ago
 (Unaudited)
 September 30, 2016

Ten Largest Water Customers	Annual Gallons Consumed (in hundreds of gallons)			
	Rank	2016	Rank	2011
Jerry's Express Car Wash	1	449,210	3	216,940
Boyd, Ann	2	317,480	2	245,530
Jerry's Hyundai	3	189,630	5	175,370
Walmart Stores Inc	4	165,710	1	278,550
Jerry's Chevrolet - Main Building	5	152,020	6	126,450
Walmart Stores Inc - Irrigation	6	142,770	10	98,540
Splash Kingdom	7	139,810	7	123,820
Durant Toyota	8	130,440		
Boo Rays Restaurant	9	123,850		
Southwest Nissan	10	114,240		
Durant Toyota Parking Lot			4	178,830
Durent Toyota - Irrigation			8	122,420
Jerry's Collision Center			9	100,250

CITY OF HUDSON OAKS
 Utility Service Rates
 Water, Dyegard Water and Wastewater
 September 30, 2016
 (Unaudited)

Hudson Oaks Water Rate Structure

Residential

Base Rate - Meter Charge		Usage Charges - Consumption	
0.75 inch meter	\$35.50	Monthly Consumption	Monthly Rate
1.00 inch meter	\$70.00	0 to 5,000	\$3.21 per 1,000 gallons
1.50 inch meter	\$100.00	5,001 to 10,000	\$3.71 per 1,000 gallons
2.00 inch meter	\$220.00	10,001 to 30,000	\$4.74 per 1,000 gallons
3.00 inch meter	\$270.00	30,001 to above	\$5.34 per 1,000 gallons

Commercial

Base Rate - Meter Charge		Usage Charges - Consumption	
0.75 inch meter	\$35.50	Monthly Consumption	Monthly Rate
1.00 inch meter	\$70.00	0 to 15,000	\$4.12 per 1,000 gallons
1.50 inch meter	\$100.00	15,001 to 35,000	\$5.42 per 1,000 gallons
2.00 inch meter	\$220.00	35,001 to 65,000	\$6.37 per 1,000 gallons
3.00 inch meter	\$270.00	65,001 and above	\$7.01 per 1,000 gallons

Dyegard Water Rate Structure

Base Rate - Meter Charge		Usage Charges - Consumption	
0.75 inch meter	\$56.00	Monthly Consumption	Monthly Rate
1.00 inch meter	\$77.00	0 to 5,000	\$3.40 per 1,000 gallons
1.50 inch meter	\$109.00	5,001 to 10,000	\$3.93 per 1,000 gallons
		10,001 to 30,000	\$5.02 per 1,000 gallons
		30,001 to above	\$5.66 per 1,000 gallons

Wastewater charge: Based on winter averaged gallons of water use.
Residential: \$18.00 base rate + \$4.78 per 1,000 gallons used upon winter averaging.
Commercial: \$18.00 base rate + \$11.40 per 1,000 gallons used upon winter averaging.

CITY OF HUDSON OAKS
Government Wide Outstanding Debt
Last Ten Years
September 30, 2016

Fiscal Year	Governmental Activities			Business-type Activities		
	General Obligation Bonds	Combined Tax & Revenue Certificates of Obligation	Notes and Lease/Purchases	General Obligation Bonds	Combined Tax & Revenue Certificates of Obligation	Notes and Lease/Purchases
2007	\$ -	\$ -	\$ 64,740	\$ -	\$ 1,445,000	\$ 17,737
2008	\$ -	\$ 3,550,000	\$ 78,922	\$ -	\$ 1,350,000	\$ 117,483
2009	\$ -	\$ 3,255,000	\$ 11,252	\$ -	\$ 1,250,000	\$ 579,428
2010	\$ -	\$ 2,955,000	\$ 5,806	\$ -	\$ 4,065,000	\$ 490,834
2011	\$ 890,000	\$ 1,565,000	\$ -	\$ 1,050,000	\$ 2,915,000	\$ 490,834
2012	\$ 890,000	\$ 2,280,700	\$ 30,198	\$ 925,000	\$ 4,954,300	\$ 65,745
2013	\$ 890,000	\$ 2,179,650	\$ 226,701	\$ 795,000	\$ 4,785,350	\$ 31,773
2014	\$ 810,000	\$ 2,072,250	\$ 182,099	\$ 665,000	\$ 4,607,750	\$ -
2015	\$ 730,000	\$ 1,959,850	\$ 91,922	\$ 530,000	\$ 5,620,150	\$ -
2016	\$ 444,412	\$ 7,829,045	\$ 50,211	\$ 612,519	\$ 6,079,854	\$ -

Total Government-wide Indebtedness

Total Government-wide Indebtedness	Estimated Population	Total Debt per Capita	Per Capita Income	Debt as Percent of Personal Income
\$ 1,527,477	1959	779.72	\$ 35,053	2%
\$ 5,096,405	2082	2,447.84	\$ 36,941	7%
\$ 5,095,680	2178	2,339.61	\$ 38,829	6%
\$ 7,516,640	1684	4,463.56	\$ 40,717	11%
\$ 6,910,834	1741	3,969.46	\$ 42,605	9%
\$ 9,145,943	1870	4,890.88	\$ 44,847	11%
\$ 8,908,474	1659	5,369.79	\$ 47,645	11%
\$ 8,337,099	1871	4,455.96	\$ 45,999	10%
\$ 8,931,922	1952	4,575.78	\$ 43,821	10%
\$ 15,016,041	2160	6,951.87	\$ 44,841	16%

CITY OF HUDSON OAKS
Ratio of Annual Debt Service
For General Bonded Debt to
Total General Expenditures
Last Ten Years
(Unaudited)

Fiscal Year	Principal	Interest and Charges	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
2007	\$ -	\$ -	\$ -	\$ 1,320,859	0.00%
2008	\$ 295,000	\$ 125,186	\$ 420,186	\$ 2,087,267	20.13%
2009	\$ 300,000	\$ 115,183	\$ 415,183	\$ 1,774,686	23.39%
2010	\$ 315,000	\$ 104,942	\$ 419,942	\$ 1,614,073	26.02%
2011	\$ 70,000	\$ 94,065	\$ 164,065	\$ 1,670,016	9.82%
2012	\$ 101,050	\$ 113,322	\$ 214,372	\$ 1,991,797	10.76%
2013	\$ 187,400	\$ 109,831	\$ 297,231	\$ 2,205,826	13.47%
2014	\$ 192,400	\$ 104,508	\$ 296,908	\$ 2,142,755	13.86%
2015	\$ 192,400	\$ 98,980	\$ 291,380	\$ 2,215,816	13.15%
2016	\$ 202,400	\$ 90,430	\$ 292,830	\$ 2,274,478	12.87%

CITY OF HUDSON OAKS

Estimated Direct and Overlapping Supported Gross Debt Schedule
as of September 30, 2016
(unaudited)

Government Subdivision	Gross Debt	Estimated Percent Applicable (1)	Direct and Estimated Overlapping Bonded Debt
Direct:			
City of Hudson Oaks	\$ 8,323,668	100%	\$ 8,323,668
Total direct debt			<u>\$ 8,323,668</u>
Overlapping:			
Weatherford Independent School District	66,330,495	7.59%	5,034,485
Parker County	93,014,355	2.86%	2,660,211
Parker County Junior College District	5,421,016	2.86%	<u>155,041</u>
Total gross overlapping debt			<u>\$ 7,849,736</u>
Total gross overlapping debt and direct debt			<u>\$ 16,173,404</u>
Direct and overlapping gross debt per capita A.			<u>\$ 7,488</u>

A. Based on population estimate of 2160 as of 9/30/16.

Note 1: The "Estimated Percentage Overlapping" is determined by dividing the City's certified taxable value by the County and related other County entities certified taxable values. The share of market value for Weatherford Independent School District, Parker County and Parker County Junior College District are calculated by the Parker County appraisal district.

CITY OF HUDSON OAKS
Demographic Statistics
Last Ten Years
(Unaudited)

Year Ended September 30	Estimated Population	Unemployment Rate for Parker County	School Enrollment	Per Capita Income
2007	1959	4.0%	Unavailable	\$ 35,053
2008	2082	4.4%	Unavailable	\$ 36,941
2009	2178	7.6%	Unavailable	\$ 38,829
2010	1684	7.6%	365	\$ 40,717
2011	1741	6.9%	416	\$ 42,605
2012	1870	5.9%	488	\$ 44,847
2013	1659	5.5%	355	\$ 47,645
2014	1871	4.6%	368	\$ 45,999
2015	1952	4.2%	431	\$ 43,821
2016	2160	4.3%	453	\$ 44,841

Sources:

Population, school enrollment and Per capita income from <http://factfinder2.census.gov>
Unemployment rates from Texas Workforce Commission Web site (www.tracer2.com)

CITY OF HUDSON OAKS
 City Employees by Job Type
 Last Ten Fiscal Years
 (Unaudited)

Count of Employees by Year

Job Classification	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Waterworkers	7	7	8	6	7	7	4	5	6	5
Police Officers	11	11	11	11	11	12	11	14	12	13
Clerical-Office	6	7	8	9	7	7	8	8	7	6
Total	24	25	27	26	25	26	23	27	25	24

Source: Texas Municipal League Workers Compensation audit figures and current year approved, budgeted positions.

CITY OF HUDSON OAKS
Capital Assets Information
Last Ten Fiscal Years
(Unaudited)

	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
City-owned Equipment				
Vehicles	12	14	14	14
Mobile Equipment	5	4	4	4
Street Department				
Miles of Roadway	21.86 miles	21.46 miles	21.46 miles	21.46 miles
City Parks				
Maintained Public Parks	4 acres	4 acres	4 acres	4 acres
Water Department				
Water Lines (in miles)	25.73	25.53	24.46	21.22
Wells	27	27	27	27
Water Plant	2	2	2	2
Wastewater Department				
Lift Stations	5	5	5	5
Sewer Lines (in miles)	10.71	10.51	9.7	9.7

Source: City of Hudson Oaks records

CITY OF HUDSON OAKS
Operating Indicators
Last Ten Fiscal Years
(Unaudited)

<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>
14	14	12	12	10	9
3	3	2	2	2	2
21.46 miles	21.31 miles	21.31 miles	21.31 miles	21.31 miles	21.31 miles
4 acres	4 acres	4 acres	4 acres	4 acres	4 acres
21.22	21.22	21.22	21.22	21.22	19.56
27	27	19	19	19	19
2	2	1	1	1	1
5	4	4	4	4	4
9.7	8.9	8.9	7.4	7.4	7.4

CITY OF HUDSON OAKS
Operating Indicators
Last Ten Fiscal Years
(Unaudited)

	FY 2016	FY 2015	FY 2014	FY 2013
Municipal Court				
Citations issued	634	739	931	1,023
Police Department				
Calls for Service	6,679	7,791	9,361	11,218
Arrests	123	156	197	252
Accidents	170	167	160	131
Community Services				
Building Permits Issued	241	175	185	218
Building Permits Value	\$ 22,081,434	\$ 21,121,918	\$ 27,702,865	\$ 16,627,435
Utility Department				
Water Connections	1,124	1,123	1,099	1,063
Sewer Connections	163	147	126	110
Water Department, in gallons (000)				
Water purchased or pumped	191,223,700	195,881,380	187,782,000	303,751,900
Water sold to customers	180,189,000	176,945,792	173,770,113	175,366,617

Source: City of Hudson Oaks records from these departments.
In 2011, the City began servicing the Dyegard water system customers.

CITY OF HUDSON OAKS
Operating Indicators
Last Ten Fiscal Years
(Unaudited)

FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
808	1,073	1,297	994	960	886
12,214	12,841	11,720	11,272	12,104	11,551
407	328	326	273	314	292
87	77	73	69	64	57
124	148	127	141	122	128
\$ 15,778,748	\$ 15,513,979	\$ 20,977,889	\$ 25,632,936	\$ 81,206,525	\$ 28,594,307
1,019	987	734	733	711	688
97	84	76	64	57	39
178,441,100	184,669,900	152,864,468	145,797,700	152,826,700	89,959,710
175,470,230	178,692,200	128,961,390	125,155,500	122,013,459	67,695,600

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COMPLIANCE AND INTERNAL CONTROL

**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***

To the City Council
City of Hudson Oaks, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hudson Oaks, 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 February 13, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hudson Oaks, Texas’ 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 City’s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

George, Morgan & Freed, P.C.

Weatherford, Texas
February 13, 2017