

CITY OF HARKER HEIGHTS, TEXAS



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDING SEPTEMBER 30, 2013

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

CITY OF HARKER HEIGHTS

For the Fiscal Year Ended September 30, 2013

Prepared by the
Finance Department
Alberta S. Barrett, Finance Director

City of Harker Heights
305 Miller's Crossing
Harker Heights, TX 76548



CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Transmittal Letter	vi
GFOA Certificate of Achievement	ix
Organizational Chart	x
Principal Officials	xi
 FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	23
Statement of Net Position – Proprietary Funds	25
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	27
Statement of Cash Flows – Proprietary Funds	28

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Basic Financial Statements (continued)	
Notes to the Financial Statements	30
Required Supplementary Information:	
Texas Municipal Retirement System – Analysis of Funding Progress	74
Other Post Employment Benefits – Analysis of Funding Progress	75
Combining and Individual Fund Statements and Schedules:	
Combining Financial Statements – Nonmajor Governmental Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	77
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	78
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	80
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Hotel/Motel Special Revenue Fund	81
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Restricted Court Special Revenue Fund	82
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Memorial Special Revenue Fund	83
Supplementary Individual Fund Financial Statements:	
Comparative Balance Sheets – General Fund	85
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – General Fund	86
Comparative Balance Sheets – Debt Service Fund	88
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Debt Service Fund	89
Comparative Balance Sheets – Capital Projects Fund	91

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Combining and Individual Fund Statements and Schedules (continued)	
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Capital Projects Fund	92
Comparative Balance Sheets – Hotel/Motel Fund	94
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Hotel/Motel Fund	95
Comparative Balance Sheets – Restricted Court Fund	96
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Restricted Court Fund	97
Comparative Balance Sheets – Memorial Fund	98
Comparative Statements of Revenues, Expenditures and Changes in Fund Balances – Memorial Fund	99
Comparative Statements of Net Position – Water and Sewer Fund	101
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position – Water and Sewer Fund	103
Comparative Statements of Cash Flows – Water and Sewer Fund	104
Comparative Statements of Net Position – Sanitation Fund	106
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position – Sanitation Fund	107
Comparative Statements of Cash Flows – Sanitation Fund	108
Comparative Statements of Net Position – Drainage Fund	110
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position – Drainage Fund	112
Comparative Statements of Cash Flows – Drainage Fund	113
Capital Assets Used in the Operation of Governmental Funds	
Comparative Schedules by Source	116
Schedule by Function and Activity	117
Schedule of Changes by Function and Activity	119

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
STATISTICAL SECTION (UNAUDITED)	
Financial Trends:	
Net Position by Component	121
Changes in Net Position	122
General Government Tax Revenues by Source	124
Fund Balances, Governmental Funds	125
Changes in Fund Balances, Governmental Funds	126
Revenue Capacity:	
Assessed and Estimated Actual Value of Property	127
Direct and Overlapping Property Tax Rates	128
Principal Taxpayers	129
Property Tax Levies & Collections	130
Own Source Revenues, Special Assessment Billings and Collections	131
Debt Capacity:	
Ratios of Outstanding Debt by Type	132
Ratios of General Bonded Debt Outstanding	133
Computation of Direct and Overlapping Bonded Debt	134
Legal Debt Margin Information	135
Pledged - Revenue Coverage	136
Demographic and Economic Information:	
Demographic and Economic Statistics	137
Principal Employers	138
Property Value, Construction and Bank Deposits	139

CITY OF HARKER HEIGHTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
STATISTICAL SECTION (UNAUDITED) (continued)	
Operating Information:	
Full-Time Equivalent City Employees by Function/Program	140
Operating Indicators by Function/Program	141
Capital Assets by Function/Program	142
INTERNAL CONTROL AND COMPLIANCE SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	143





**INTRODUCTORY
SECTION**



The City Of Harker Heights

305 Miller's Crossing
Harker Heights, Texas 76548
Phone 254/953-5600
Fax 254/953-5614

Mayor

Rob Robinson

City Council

Hal Schiffman
Sam Murphey
Pat Christ
Spencer H. Smith

March 11, 2014

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Harker Heights:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Harker Heights for the fiscal year ended September 30, 2013.

This report consists of management's representations concerning the finances of the City of Harker Heights. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Harker Heights's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Harker Heights' financial statements have been audited by Lott, Vernon & Company, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Harker Heights' MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Harker Heights, incorporated in 1960, is located in Bell County on US Highway 190, approximately twelve miles West of Interstate 35, between Belton and Killeen. The City

currently occupies a land area of 15.4 square miles and serves a population of approximately 28,545. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City of Harker Heights is a home rule City which operates under a Council-Manager form of government. All powers of the City are vested in the elective Council which consists of a Mayor and five council members; one of which is elected to serve as Mayor Pro-tem. The City Council enacts local legislation, adopts budgets, determines policies and employs the City Manager. The City Manager is responsible for executing the laws and administering the government of the City.

The City of Harker Heights provides a full range of services, including police, fire and EMS protection; the construction and maintenance of streets and other infrastructures; and recreational activities and cultural events. Sanitation services are contracted out to a private company. Water, sewer, and drainage utility are provided through a legally separate Utility and Drainage Utility fund, which functions, in essence, as a department of the City and therefore has been included as an integral part of the City of Harker Heights' financial statements.

The annual budget serves as the foundation for the City of Harker Heights' financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the City Council for review. The council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than September 27; the close of the City's fiscal year is September 30. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 23 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 80.

Local Economy

In 2013, the average unemployment rate for Harker Heights was 6.7%, a small decrease from a rate of 6.9% in 2012. This is slightly lower than the average rate for Bell County of 6.9 % and higher than the state average of 6.3%.

A basic growth indicator of a community is the value of building permits. The following chart shows the value of building permits issued by category for each of the past two years:

	Fiscal Year 2013	Fiscal Year 2012	Difference
Fence	\$880,972	\$697,979	\$182,993
Home Improvement/Other	6,585,532	4,542,941	2,042,591
New Commercial	21,801,016	12,329,478	9,471,538
New Residence	45,654,915	41,389,043	4,265,872
Plumbing	141,246	155,763	(14,517)
Total:	\$75,063,681	\$59,115,204	\$15,948,477

Building permits are up significantly in the new commercial category from the prior year due to the purchase of permits and construction of a Rooms To Go and Sam's Club, which were completed during the 2012-2013 fiscal year, and an Exxon that began construction towards the end of the fiscal year. Residential permits show an increase because of the continued building in residential subdivisions, such as Tuscan Meadows and Evergreen Estates.

Long-Term Financial Planning

In 2013, the City issued the Series 2013 General Obligation Refunding Bonds in the amount of \$1.5 million as an advance refund for the Series 2003 Revenue Certificates of Obligation and Series 2003A General Obligation Refunding Bonds.

Capital improvements are budgeted at over \$7 million which include drainage projects, various water and sewer improvements, street projects, and various park improvements. Series 2014 Certificates of Obligation will be issued to fund additional projects involving the water and sewer systems, streets, and parks as well as expansion and renovation to City Hall.

Relevant Financial Policies

In FY 2005-06, the City Council approved raising the General Fund reserve requirement to three months of operating expenses to be accomplished over a five year period. This goal was achieved during the 2009-10 fiscal year. At the end of FY 2012-13, the general fund has a five month fund balance or 44% of operating expenditures. The Utility Fund has an eight month fund balance or 72% of its operating expenditures.

Major Initiatives

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

- Foster the image of Harker Heights as a clean, safe, well-maintained and progressive City.
- Stimulate creation and growth of locally owned businesses.
- Enhance and extend infrastructure in anticipation of further planned growth.
- Expand street maintenance and sewer rehabilitation projects throughout the City.
- Maintain a long-range Capital Improvement Plan.
- Maintain multi-year equipment replacement program.
- Determine and implement methods to better communicate with citizens.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Harker Heights for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2012. This was the eighteenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR 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.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated October 1, 2012. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the City Council for their unflinching support for maintaining the highest standards of professionalism in the management of the City of Harker Heights' finances.

Respectfully submitted,



David R. Mitchell
City Manager



Alberta S. Barrett
Finance Director



Government Finance Officers Association

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

Presented to

**City of Harker Heights
Texas**

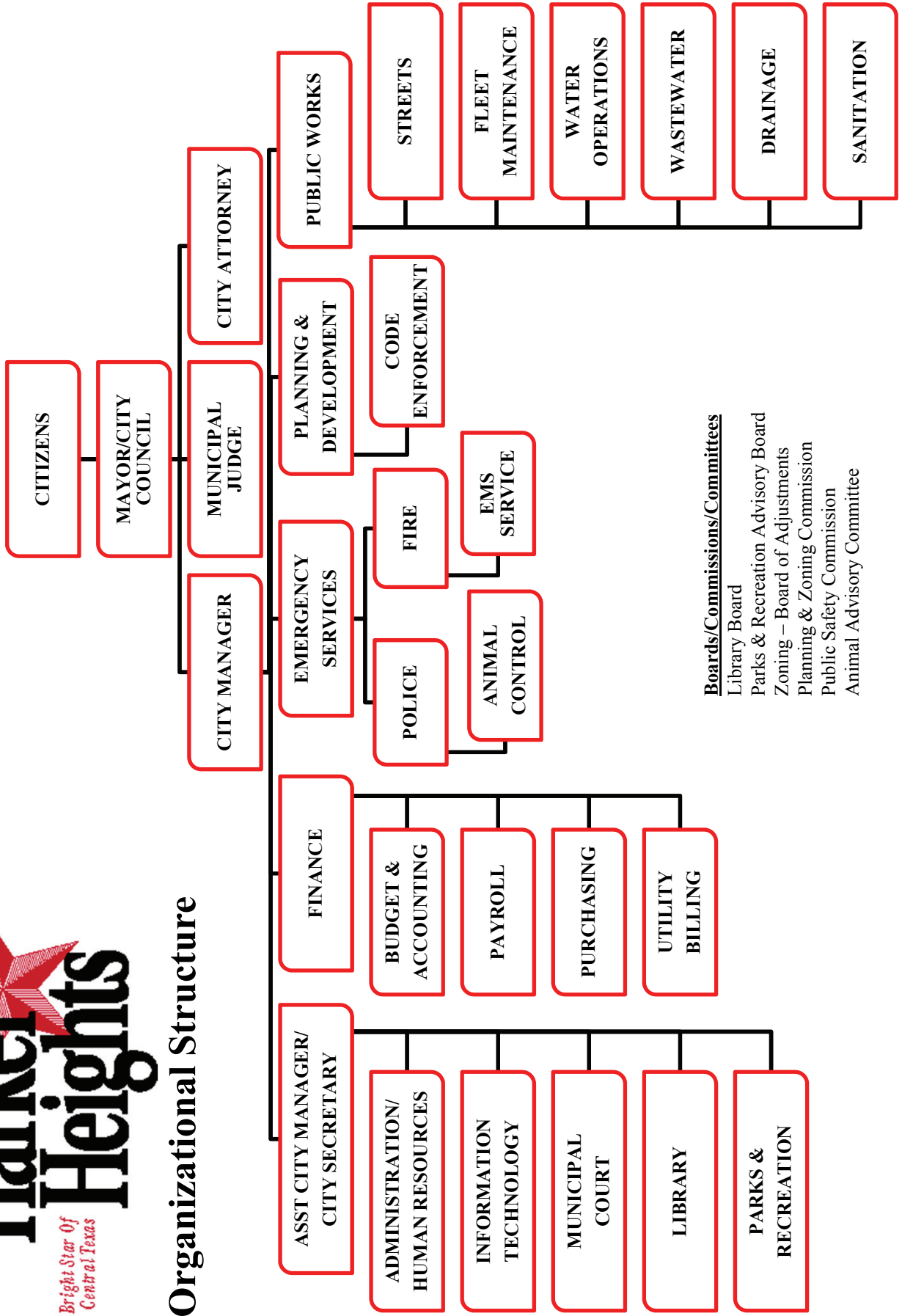
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO



Organizational Structure



- Boards/Commissions/Committees**
- Library Board
 - Parks & Recreation Advisory Board
 - Zoning – Board of Adjustments
 - Planning & Zoning Commission
 - Public Safety Commission
 - Animal Advisory Committee

**CITY OF HARKER HEIGHTS
LIST OF PRINCIPAL OFFICIALS**

CITY COUNCIL

Rob Robinson	Mayor
Vacant	Mayor Pro-tem
Hal Schiffman	Council Member
Sam Murphey.....	Council Member
Pat Christ.....	Council Member
Spencer H. Smith	Council Member

APPOINTED OFFICIALS

David R. Mitchell	City Manager
Burk Roberts	City Attorney
Tony Kosta.....	City Judge
Patricia Brunson.....	Assistant City Manager/City Secretary
Alberta Barrett	Finance Director
Michael Gentry	Police Chief
Jack Collier	Fire Chief
Jerry Bark.....	Parks & Recreation Director
Lisa Youngblood.....	Library Director
Mark Hyde	Public Works Director
Fred Morris	Development & Planning Director



FINANCIAL SECTION



LOTT, VERNON & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

20 SOUTH FOURTH STREET 254/778/4783
POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

*Member of
American Institute & Texas Society of
Certified Public Accountants*

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Harker Heights, 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 City of Harker Heights, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harker Heights, Texas, as of September 30, 2013, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and 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 of Harker Heights, Texas's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections 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 December 15, 2013, on our consideration of the City of Harker Heights, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 City of Harker Heights, Texas' internal control over financial reporting and compliance.



Killeen, Texas
December 15, 2013

City of Harker Heights, Texas
Management's Discussion and Analysis
September 30, 2013

As management of the City of Harker Heights, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Harker Heights for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars and include a comparative analysis of government-wide data.

Financial Highlights

- The assets of the City of Harker Heights exceeded its liabilities at the close of the fiscal year ending September 30, 2013 by \$62.8 million (*net position*). Of this amount, \$4.4 million is restricted for capital projects.
- The City's total net position increased by \$2.6 million for the year ended September 30, 2013. The majority of the increase in net position can be attributed to increases in appraised property values, licenses and permits, charges for services, and the issuance of \$1.5 million in refunding bonds.
- As of the September 30, 2013, the City of Harker Heights' governmental funds reported combined ending fund balances of \$16.3 million, a decrease of \$3.4 million in comparison with the prior year. This decrease is a result of over \$3.1 million of completed capital projects during 2013. Of the governmental funds reported combined fund balances, \$11.3 million or 69.0 percent is available for spending within the City's guidelines (*unassigned fund balance*).
- At fiscal year end, the general fund unassigned fund balance was \$8.3 million, or 45.8 percent of total general fund expenditures. An increase in revenues, as described in the second paragraph, along with maintaining expenditures during the year is the result of this increase.
- Residential growth has seen an increase in single family permits. This past year residential permits increased by 29 permits with an increased value of \$3.1 million. New commercial permits also increased by \$9.5 million in value.
- During this fiscal year, the City completed the development of the Goode/Connell Park and Phase 3 of Summer Soccer Complex.
- Various street improvement projects were completed for a total of \$979. Also, the City completed a bridge stabilization drainage project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Harker Heights' basic financial statements. The City of Harker Heights' basic financial statements are comprised of 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 of Harker Heights' finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City of Harker Heights' 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 of Harker Heights 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

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Harker Heights 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 of Harker Heights include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the City of Harker Heights include a Water and Sewer Fund, Drainage Utility Fund and Sanitation Fund.

The government-wide financial statements can be found on pages 14-16 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 of Harker Heights, 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 of Harker Heights can be divided into two categories: governmental funds and proprietary funds.

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

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, Debt Service Fund and the Capital Projects Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated nonmajor fund 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 of Harker Heights adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-24 of this report.

Proprietary funds. The City of Harker Heights maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

The City of Harker Heights maintains three individual enterprise funds. The City uses enterprise funds to account for its water and sewer, drainage utility, and sanitation. These 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 and sewer, drainage utility, and sanitation.

The basic proprietary fund financial statements can be found on page 25-29 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 30-72 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Harker Heights' progress in funding its obligation to provide pension benefits to its employees and to provide other postemployment benefits for its employees. Required supplementary information can be found on page 74-75 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions and other postemployment benefits. Combining and individual fund statements and schedules can be found on pages 77-119 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 of Harker Heights, assets exceeded liabilities by \$62.8 million at the close of the most recent fiscal year.

A portion of the City of Harker Heights' net position (8 percent) represents resources that are subject to external restrictions on how they may be used.

**Table 1
Condensed Statement of Net Position
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$18,337	\$22,281	\$5,115	\$5,631	\$23,452	\$27,912
Capital assets	46,373	43,908	42,597	40,595	88,970	84,503
Total assets	<u>64,710</u>	<u>66,189</u>	<u>47,712</u>	<u>46,226</u>	<u>112,422</u>	<u>112,415</u>
Long-term liabilities						
outstanding	24,787	25,923	19,514	20,512	44,301	46,435
Other liabilities	3,889	3,869	1,430	1,613	5,319	5,482
Total liabilities	<u>28,676</u>	<u>29,792</u>	<u>20,944</u>	<u>22,125</u>	<u>49,620</u>	<u>51,917</u>
Net position:						
Invested in capital assets, net of related debt	23,247	21,839	25,078	22,756	48,325	44,595
Restricted	4,920	8,773	33	34	4,953	8,807
Assigned	146	91			146	91
Unrestricted	7,721	5,695	1,657	1,310	9,378	7,005
Total net position	<u>\$36,034</u>	<u>\$36,398</u>	<u>\$26,768</u>	<u>\$24,100</u>	<u>\$62,802</u>	<u>\$60,498</u>

An additional portion of the City of Harker Heights' net position (77 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Harker Heights uses these capital assets to provide services to citizens; consequently, these

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

assets are *not* available for future spending. Although the City of Harker Heights' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted net position* \$9.4 million may be used to meet the government's ongoing obligations to citizens and creditors.

Total net position for the City of Harker Heights reflects a \$2.6 million increase. Key elements of this increase are as follows:

**Table 2
Changes in Net Position
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$2,454	\$2,556	\$11,552	\$11,586	\$14,006	\$14,142
Operating grants and contributions	477	598			477	598
Capital grants and contributions						
General revenues:						
Property taxes	9,189	9,167			9,189	9,167
Sales taxes	5,232	5,426			5,232	5,426
Other taxes	283	295			283	295
Franchise fees	1,265	1,436	137	130	1,402	1,566
Investment earnings	40	63	13	11	53	74
Gain on sale of capital assets	9	10			9	10
Total revenues	18,949	19,551	11,702	11,727	30,651	31,278
Expenses:						
General government	3,247	2,818			3,247	2,818
Public safety	10,553	10,383			10,553	10,383
Highways/streets	1,734	1,782			1,734	1,782
Culture and recreation	2,932	2,928			2,932	2,928
Economic development	483	468			483	468
Interest on long-term debt	1,094	1,236			1,094	1,236
Water and sewer			6,088	5,862	6,088	5,862
Sanitation			1,535	1,529	1,535	1,529
Drainage			325	283	325	283
Total expenses	20,043	19,615	7,948	7,674	27,991	27,289
Increase (decrease) in net position before transfers	(1,094)	(64)	3,754	4,053	2,660	3,989
Transfers	928	(2,203)	(928)	2,203		
Increase (decrease) in net position	(166)	(2,267)	2,826	6,256	2,660	3,989
Net position (beginning of year as restated see Note V.8 on page 72)	36,200	38,666	23,942	17,844	60,142	56,510
Net position (end of year)	\$36,034	\$36,200	\$26,768	\$23,942	\$62,802	\$60,142

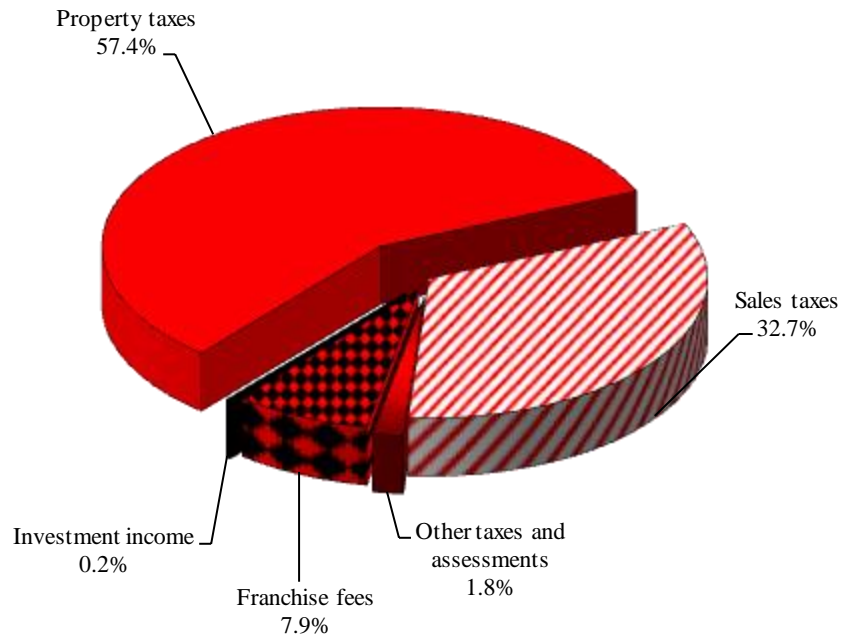
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

Governmental activities. The City's general revenues decreased when compared to the prior year by 2.3 percent or \$379. The major decrease was due to a \$194 decrease in sales tax revenues and a \$171 decrease in franchise fees. Property tax revenues had a slight increase of \$22. Investment income had a slight decrease by \$23.

**Table 3
General Revenues Comparison
(in thousands)**

	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)
Governmental activities			
Property taxes	\$9,189	\$9,167	\$22
Sales taxes	5,232	5,426	(194)
Other taxes and assessments	283	295	(12)
Franchise fees	1,265	1,436	(171)
Investment income	40	63	(23)
Gain on sale of capital assets	9	10	(1)
Total governmental activities	\$16,018	\$16,397	(379)

**General Revenues for the Year Ended
September 30, 2013**



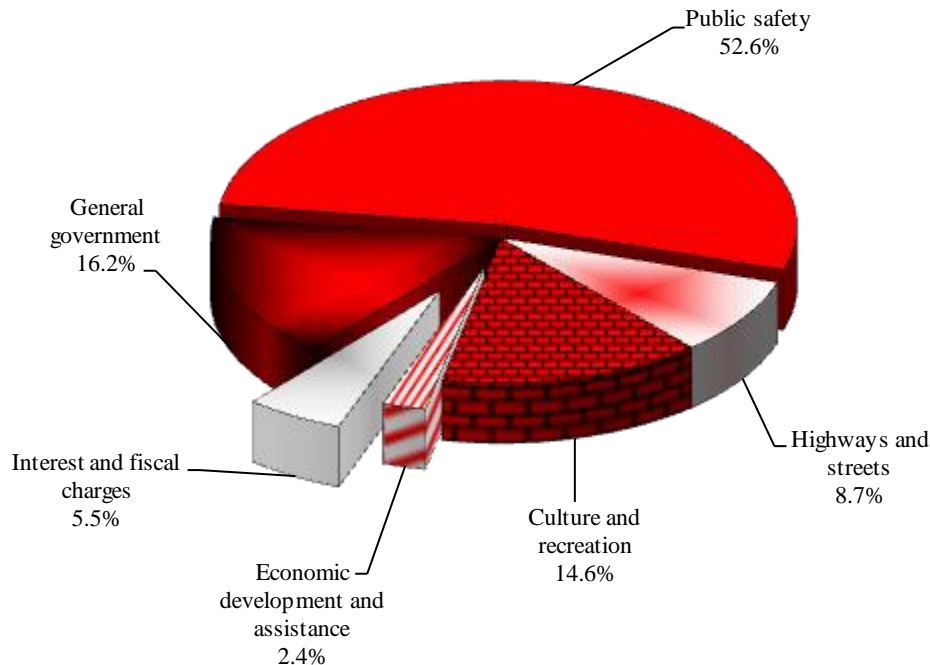
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$10.6 million. These expenses were offset by revenues collected from a variety of sources, with the largest consisting of court fines of \$1.3 million, property taxes which are \$9.2 million and sales tax revenues of \$5.2 million for the fiscal year ending September 30, 2013. The major components of public safety are Police, Fire and Emergency Medical Services (EMS). Police accounted for \$5.1 million in public safety expense of which \$4.1 million was incurred for salary and benefits. Fire and EMS accounted for \$3.7 million in public safety expense, of which \$3.1 million was incurred for salary and benefits.

**Table 4
Governmental Expenditures by Activity
(in thousands)**

	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)
Governmental activities			
General government	\$3,248	\$2,818	\$430
Public safety	10,553	10,383	\$170
Highways and streets	1,734	1,782	(\$48)
Culture and recreation	2,932	2,928	\$4
Economic development and assistance	483	468	\$15
Interest and fiscal charges	1,094	1,237	(\$143)
Total governmental activities	\$20,044	\$19,616	\$428

**Governmental Expenditures for the Year Ended
September 30, 2013**



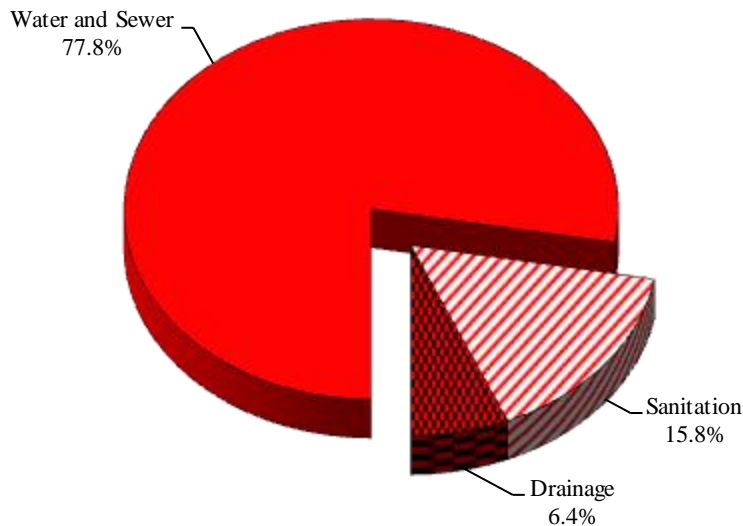
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

Business-type activities. Business-type activities increased the City of Harker Heights' net position by \$2.8 million. Revenues of the City's business-type activities were \$11.6 million for the fiscal year ending September 30, 2013.

**Table 5
Business Type Revenue Comparison
(in thousands)**

	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)
Water and Sewer	\$8,990	\$9,099	(\$109)
Sanitation	1,825	1,758	67
Drainage	738	729	9
	<u>\$11,553</u>	<u>\$11,586</u>	<u>(\$33)</u>

**Business Type Revenues for the Year Ended
September 30, 2013**



Water and Sewer rates did not increase for FY 2012-13 and growth in the City saw a slight decrease as well as heavy rainfall during the year. Sanitation revenues increased \$67 or by 3.8 percent. Drainage income increased by \$9 or by 1.2 percent which is due to overall growth in the City.

Expenses for the City's business-type activities were \$7.9 million for the year, resulting in net revenues of \$3.6 million and a change in net position of \$2.8 million. The changes in net position are the result of several factors, including the following:

- The City recorded charges for services of \$8.96 million from the water and sewer system out of the \$8.99 million total operating revenue. The most significant expenses were \$2.4 million to purchase water and \$1.1 million in salaries and benefits.
- Sanitation services are contracted out. Total revenue equaled \$2.0 million with the majority of the revenue from collections for sanitation services of \$1.8 million; the major expense for sanitation is \$1.5 million in contractual services.

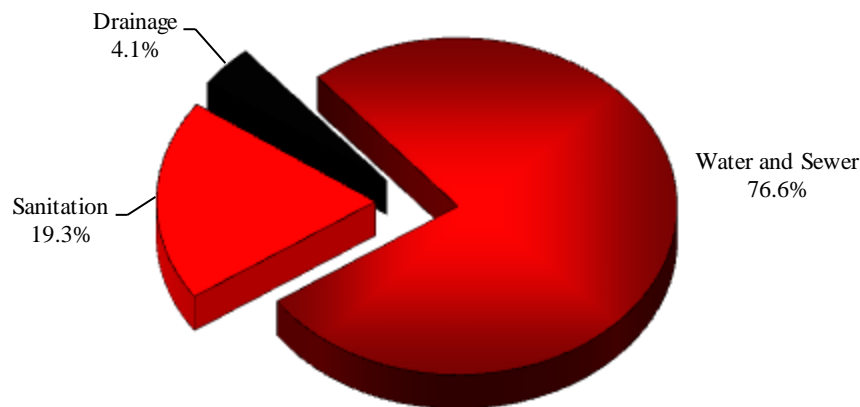
**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

- Drainage revenues totaled \$738 in charges for services. The major operating expenses include salaries and benefits of \$110 and ground maintenance of \$61.

**Table 6
Business Type Expenses by Activity
(in thousands)**

	Fiscal Year 2013	Fiscal Year 2012	Increase (Decrease)
Water and Sewer	\$6,088	\$5,862	\$226
Sanitation	1,536	1,529	7
Drainage	325	283	42
	<u>\$7,949</u>	<u>\$7,674</u>	<u>\$275</u>

**Business Type Expenses for the Year Ended
September 30, 2013**



Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City of Harker Heights' *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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Harker Heights' governmental funds reported combined ending fund balances of \$16.3 million, a decrease of \$3.5 million in comparison with the prior year. Approximately 69 percent or \$11.3 million constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is not available for new spending because it has already been restricted for 1) debt service (\$61), 2) capital assets (\$4.4 million) related to the bond issue, 3) federal or state grant restrictions (\$409), 4) cemetery (\$18), and assigned to 5) other (\$146).

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

The general fund is the chief operating fund of the City of Harker Heights. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8.3 million, while total fund balance reached \$8.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 46 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount. The fund balance of the City of Harker Heights' general fund has decreased by \$15 during the current fiscal year. Key factors for this decrease are less sales tax revenues and less in contributions and donations.

The debt service fund has a total fund balance of \$61, all of which is restricted for the payment of debt service.

The capital projects fund balance is \$7.4 million of which \$4.4 million is restricted for capital improvement projects financed by bonded debt. This fund had a \$3.4 million decrease in fund balance from the previous year. During this past fiscal year, the City completed street projects of \$986, park projects of \$1.5 million, drainage projects of \$395, and \$336 in water and sewer projects.

Proprietary funds. The City of Harker Heights' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the City of Harker Heights' proprietary funds reported combined net position of \$26.8 million, an increase of \$2.7 million in comparison with the prior year. Unrestricted net position totals \$1.7 million. A total of \$25.1 million of net position is invested in capital assets net of related debt.

At the end of the current fiscal year, unrestricted net position for the water and sewer fund was \$1.4 million while total net position was \$23.3 million. Total net position for the water and sewer fund have increased \$1.9 million during the current fiscal year.

The sanitation fund has total net position of \$235, an increase of \$75 from the prior year. The majority of this increase is due to more investments being made during the current year.

Drainage fund reflects a liability of \$1.8 million for capital improvements and total net position in the drainage utility system of \$3.2 million.

General Fund Budgetary Highlights

Actual expenditures in the General Fund were \$18.0 million compared to the budget amount of \$17.9 million. The \$87 positive variance is mainly due to a public safety equipment lease purchase agreement.

For FY 2012-13, actual revenues were \$16.2 million as compared to the budget amount of \$16.1 million. The majority of the \$81 positive variance was due to more licenses and permits, charges for services and \$111 in settlement of a claim.

The City of Harker Heights has an actual General Fund balance of \$8.4 million as of the fiscal year end, compared to the budgeted fund balance of \$6.9 million. The variance in fund balance is primarily due to the items stated above along with transfers in/out.

Capital Asset and Debt Administration

Capital assets. The City of Harker Heights' investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$88,970 (net of accumulated depreciation). This investment in capital assets includes land, buildings and lift stations, machinery and equipment, park facilities, vehicles, furniture and fixtures, streets, and infrastructure. The total increases in the City's investment in capital assets for the current fiscal year was 5.0 percent (a 3.0 percent increase for governmental activities and a 2.0 percent increase for business-type activities) and is attributed to the following:

**City of Harker Heights
Management’s Discussion and Analysis (continued)
September 30, 2013**

- The majority of the capital asset increase is in land and construction in progress. Land increased in governmental activities by \$1.3 million bringing the previous year total of \$13.9 million to \$15.2 million. This is primarily due to the completion of Goode Connell Park, Phase 3 of the Summit Soccer Complex, and miscellaneous park improvement projects.
- The increase in construction in progress of \$2.8 million includes the near construction completion of the US190/FM2410 west bound U-turn.

Major utility construction in progress projects started during the fiscal year include the Evergreen Elevated Storage Tank and 12” water main extension, wastewater infrastructure to the east and wastewater plant upgrades.

Several drainage construction in progress improvements include the Iron Jacket drainage project and Phase 2 of a drainage study.

**Table 7
Capital Assets
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	\$15,197	\$13,881	\$279	\$279	\$15,476	\$14,160
Buildings and lift stations	8,453	9,007	1,669	1,717	10,122	10,724
Improvements other than buildings	65	31	9	11	74	42
Furniture and fixtures	253	311			253	311
Machinery and equipment	1,141	934	335	273	1,476	1,207
Vehicles	1,138	1,037	123	108	1,261	1,145
Infrastructure	17,714	17,151	37,375	37,388	55,089	54,539
Construction in progress	2,412	1,556	2,807	819	5,219	2,375
Total	\$46,373	\$43,908	\$42,597	\$40,595	\$88,970	\$84,503

Additional information on the City of Harker Heights’ capital assets can be found in note IV.3 on pages 43-47 of this report.

Debt. In February 2012, the City was assigned a long-term rating of “AA” by Standard & Poor’s Rating Service. This rating was raised from the “AA-” rating received in 2009. In 2013, Standard & Poor’s considers the City’s economy to be strong which is aided by access to the broad and diverse economy of the Killeen-Temple MSA and the stabilizing presence of Fort Hood. The rating reflects that the City’s budgetary flexibility remains very strong and the budgetary performance has been strong overall. In their opinion, the City has very strong liquidity providing very strong cash levels to cover debt service and expenditures as well as good management with good financial policies. The City maintains an “A2” rating from Moody’s Investors Service for tax supported debt. The City also has several outstanding issues which are rated “Aaa” by Moody’s and “AAA” by Standard and Poor’s by virtue of insurance policies issued by various commercial insurance companies.

**City of Harker Heights
Management's Discussion and Analysis (continued)
September 30, 2013**

**Table 8
Outstanding Debt
(in thousands)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$4,098	\$4,063	\$3,865	\$3,157	\$7,963	\$7,220
Certificates of obligation	20,956	22,422	16,532	18,395	37,488	40,817
Capital leases payable	323	107	54	106	377	213
Compensated absences	678	643	38	34	716	677
Net pension obligation	652	574	49	43	701	617
Net other postemployment benefit obligation	238	80	27	9	265	89
Total	\$26,945	\$27,889	\$20,565	\$21,744	\$47,510	\$49,633

The constitutional debt limit is 7 percent of the five year average full valuation of taxable real property. The current debt limitation for the City of Harker Heights is \$103.2 million which is \$78.1 million more than the City's outstanding indebtedness of \$25.1 million.

Additional information on the City of Harker Heights' long-term debt can be found in note IV.6 on pages 49-62 of this report.

Economic Factors and Next Year's Budgets and Rates

The annual unemployment rate for Harker Heights in 2012 was 6.9% which is a decrease of 0.5% from a rate of 7.4% in 2011. This is lower than Bell County's annual unemployment rate of 7.3% and the national average rate of 8.1%; it is in line with the state average of 6.8%.

All of these factors were considered in preparing the fiscal year 2013-2014 budget for the City of Harker Heights.

During the current fiscal year, the fund balance in the general fund is projected to increase to \$7.9 million. The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2013-14 is \$0.6770 per \$100 valuation. Of this tax rate 75.57 percent or \$0.5116 is utilized for General Fund activities. The remaining 24.43 percent or \$0.1654 is used for debt service. The General Fund's portion of property tax revenue for FY 2013-14 is estimated to be \$7.4 million. Sales tax revenue for FY 2013-14 is budgeted at \$5.5 million.

The largest revenue source for the water and sewer fund is water sales at \$5.7 million. The rate for FY 2013-14 is \$9.98 as a base rate and \$3.11 per 1,000 gallons used. The second largest revenue source for the water and sewer fund is sewer charges at \$3.3 million based on a FY 2013-14 base rate of \$17.99 plus \$3.01 per 1,000 gallons over 3,000 gallons and caps at 10,000 gallons. These rates are the same as the rates set for FY 2012-13.

Sanitation fees for residential garbage are \$18.33 per month which remained the same from FY 2012-13.

The drainage fee also remained at \$6.00 per single family dwellings per month.

Requests for Information

This financial report is designed to provide a general overview of the City of Harker Heights' 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 of Harker Heights, Finance Director, 305 Miller's Crossing, Harker Heights, Texas, 76548.



CITY OF HARKER HEIGHTS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 5,331,059	\$ 715,689	\$ 6,046,748
Investments	6,743,202	3,400,077	10,143,279
Receivables (net of allowance for uncollectibles)			
Taxes	118,469		118,469
Accounts	403,103	1,304,558	1,707,661
Special assessments	922		922
Internal Balances	855,678	(855,678)	0
Due from other governments	305,307		305,307
Inventory of supplies, at first in, first out		126,764	126,764
Restricted Assets:			
Restricted cash	1,241,453	62,743	1,304,196
Restricted investments	3,338,443	360,360	3,698,803
Capital assets (net of accumulated depreciation):			
Land	15,197,296	279,113	15,476,409
Building and lift stations	8,453,069	1,669,025	10,122,094
Improvements other than buildings	65,007	8,918	73,925
Furniture and fixtures	252,940		252,940
Machinery and equipment	1,140,456	334,832	1,475,288
Vehicles	1,137,877	123,285	1,261,162
Infrastructure	17,713,970	37,375,119	55,089,089
Construction in progress	2,411,977	2,807,156	5,219,133
Total Assets	64,710,228	47,711,961	112,422,189
LIABILITIES			
Accounts payable and accrued liabilities	1,605,857		1,605,857
Accrued interest payable	125,413	97,817	223,230
Refundable Meter Deposit		281,122	281,122
Noncurrent liabilities:			
Due within one year	2,158,210	1,051,483	3,209,693
Due in more than one year	24,786,650	19,513,971	44,300,621
Total Liabilities	28,676,130	20,944,393	49,620,523
NET POSITION			
Invested in capital assets, net of related debt	23,247,248	25,077,760	48,325,008
Restricted for:			
Economic development	205,530		205,530
Public safety	202,971		202,971
Debt service	61,497	32,493	93,990
Capital projects	4,433,060		4,433,060
Cemetery	17,567		17,567
Assigned to:			
Culture and recreation	145,705		145,705
Unrestricted	7,720,520	1,657,315	9,377,835
Total Net Position	\$ 36,034,098	\$ 26,767,568	\$ 62,801,666

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

CITY OF HARKER HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>FUNCTION/PROGRAM ACTIVITY</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grant and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
General government	\$ 3,247,519	\$ 56,192	\$ 25,800	
Public safety	10,552,792	1,857,771	441,191	
Highways and streets	1,734,306			
Culture and recreation	2,931,851	290,969	9,926	
Economic development and assistance	482,835	249,122		
Interest and fiscal charges	1,094,081			
Total governmental activities	20,043,384	2,454,054	476,917	
Business-type Activities:				
Water and Sewer	6,088,103	8,990,034		
Sanitation	1,535,435	1,824,522		
Drainage	325,386	737,944		
Total business-type activities	7,948,924	11,552,500		
Total primary government	\$ 27,992,308	\$ 14,006,554	\$ 476,917	

General revenues:
Property taxes
Sales taxes
Mixed drink taxes
Bingo taxes
Hotel/Motel taxes
Franchise fees
Investment earnings
Gain from sale of capital assets
Transfers

Total general revenues and transfers

Change in net position

Net position – beginning (as restated
see Note V.8. on page 72)

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (3,165,527)		\$ (3,165,527)
(8,253,830)		(8,253,830)
(1,734,306)		(1,734,306)
(2,630,956)		(2,630,956)
(233,713)		(233,713)
(1,094,081)		(1,094,081)
<u>(17,112,413)</u>		<u>(17,112,413)</u>
	2,901,931	2,901,931
	289,087	289,087
	412,558	412,558
	<u>3,603,576</u>	<u>3,603,576</u>
<u>\$ (17,112,413)</u>	<u>\$ 3,603,576</u>	<u>\$ (13,508,837)</u>
9,189,435		9,189,435
5,232,487		5,232,487
97,552		97,552
100,915		100,915
84,257		84,257
1,265,244	136,692	1,401,936
39,805	13,087	52,892
8,935		8,935
927,950	(927,950)	
<u>16,946,580</u>	<u>(778,171)</u>	<u>16,168,409</u>
(165,833)	2,825,405	2,659,572
<u>36,199,931</u>	<u>23,942,163</u>	<u>60,142,094</u>
<u>\$ 36,034,098</u>	<u>\$ 26,767,568</u>	<u>\$ 62,801,666</u>

FUNCTION/PROGRAM ACTIVITY

Primary Government:

Governmental Activities:

General government
 Public safety
 Highways and streets
 Culture and recreation
 Economic development and assistance
 Interest and fiscal charges

Total governmental activities

Business-type Activities:

Water and Sewer
 Sanitation
 Drainage

Total business-type activities

Total primary government

General revenues:

Property taxes
 Sales taxes
 Mixed drink taxes
 Bingo taxes
 Hotel/Motel taxes
 Franchise fees
 Investment earnings
 Gain from sale of capital assets
 Transfers

Total general revenues and transfers

Change in net position

Net position – beginning (as restated
 see Note V.8. on page 72)

Net position - ending

CITY OF HARKER HEIGHTS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	General	Debt Service	Capital Projects
ASSETS			
Cash	\$ 4,526,158	\$ 14,269	\$ 731,069
Investments	4,256,108	46,182	2,137,737
Receivables (net of allowance for uncollectibles):			
Taxes	50,703	67,766	
Accounts	377,296		
Special Assessments	922		
Due from other funds	862,942		
Due from other governments	304,693	614	
Restricted assets:			
Cash	129,784		1,111,669
Investments	17,052		3,321,391
Total Assets	<u>\$ 10,525,658</u>	<u>\$ 128,831</u>	<u>\$ 7,301,866</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,582,614		\$ 23,243
Due to other funds	167,866	7,264	(149,041)
Deferred inflow/outflow	354,523	60,070	
Total Liabilities	<u>2,105,003</u>	<u>67,334</u>	<u>(125,798)</u>
Fund Balances:			
Nonspendable			
Restricted for:			
Economic development			
Public safety	1,131		
Debt service		61,497	
Capital projects			4,433,060
Cemetery	17,567		
Committed			
Assigned to:			
Culture and recreation	145,705		
Unassigned	8,256,252		2,994,604
Total Fund Balances	<u>8,420,655</u>	<u>61,497</u>	<u>7,427,664</u>
Total Liabilities and Fund Balances	<u>\$ 10,525,658</u>	<u>\$ 128,831</u>	<u>\$ 7,301,866</u>

Other Governmental Funds	Total Governmental Funds
\$ 59,563	\$ 5,331,059
303,175	6,743,202
	118,469
25,807	403,103
	922
18,825	881,767
	305,307
	1,241,453
	3,338,443
\$ 407,370	\$ 18,363,725
\$ 407,370	\$ 18,363,725

ASSETS

Cash
Investments
Receivables (net of allowance for uncollectibles):
Taxes
Accounts
Special Assessments
Due from other funds
Due from other governments
Restricted assets:
Cash
Investments
Total Assets

LIABILITIES AND FUND BALANCES

Liabilities:
Accounts payable and accrued liabilities
Due to other funds
Deferred revenue
Total Liabilities

Fund Balances:
Nonspendable
Restricted for:
Economic development
Public safety
Debt service
Capital projects
Cemetery
Committed
Assigned to:
Culture and recreation
Unassigned

Total Fund Balances

Total Liabilities and Fund Balances

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



CITY OF HARKER HEIGHTS
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$ 16,317,186
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	46,372,592
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	55,340
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(26,711,020)</u>
Net position of governmental activities	<u><u>\$ 36,034,098</u></u>

CITY OF HARKER HEIGHTS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
REVENUES			
Taxes and special assessments:			
Property	\$ 6,813,196	\$ 2,430,478	
Other taxes and special assessments	6,691,380		
Licenses and permits	285,907		
Fines	1,326,703		
Charges for services	796,710		
Intergovernmental	100,851		342,000
Investment earnings	32,037	930	5,682
Contributions and donations	38,884		
Miscellaneous	143,952		
	<u>16,229,620</u>	<u>2,431,408</u>	<u>347,682</u>
Total Revenues			
EXPENDITURES			
Current:			
General government	3,071,871		
Public safety	10,482,239		
Highways and streets	1,302,496		
Culture and recreation	2,726,822		
Economic development and assistance	364,536		
Debt service:			
Principal	55,061	1,453,953	
Interest and fiscal charges	5,813	1,047,256	
Tax collection fees		28,020	
Bond Issuance Cost		18,787	
Capital outlay			3,295,798
	<u>18,008,838</u>	<u>2,548,016</u>	<u>3,295,798</u>
Total Expenditures			
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>(1,779,218)</u>	<u>(116,608)</u>	<u>(2,948,116)</u>
OTHER FINANCING SOURCES (USES)			
Capital Leases	270,422		
Proceeds from sale of bonds		455,447	
Payment to refunded bond escrow agent		(435,427)	
Transfers in	1,625,000	110,569	1,700,000
Transfers out	(310,000)		(2,197,619)
	<u>1,585,422</u>	<u>130,589</u>	<u>(497,619)</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(193,796)	13,981	(3,445,735)
Fund Balances – Beginning (as Restated see Note V.8. on page 72)	<u>8,614,451</u>	<u>47,516</u>	<u>10,873,399</u>
Fund Balances - Ending	<u>\$ 8,420,655</u>	<u>\$ 61,497</u>	<u>\$ 7,427,664</u>

Other Governmental Funds	Total Governmental Fund
	\$ 9,243,674
84,257	6,775,637
	285,907
78,235	1,404,938
	796,710
	442,851
369	39,018
	38,884
	143,952
162,861	19,171,571
68,002	3,071,871
	10,550,241
	1,302,496
	2,726,822
101,314	465,850
	1,509,014
	1,053,069
	28,020
	18,787
	3,295,798
169,316	24,021,968
(6,455)	(4,850,397)
	270,422
	455,447
	(435,427)
	3,435,569
	(2,507,619)
	1,218,392
(6,455)	(3,632,005)
413,825	19,949,191
\$ 407,370	\$ 16,317,186

REVENUES

Taxes and special assessments:

- Property
- Other taxes and special assessments
- Licenses and permits
- Fines
- Charges for services
- Intergovernmental
- Investment earnings
- Contributions and donations
- Miscellaneous

Total Revenues

EXPENDITURES

Current:

- General government
- Public safety
- Highways and streets
- Culture and recreation
- Economic development and assistance

Debt service:

- Principal
- Interest and fiscal charges
- Tax collection fees
- Bond Issuance Cost

Capital outlay

Total Expenditures

Excess (Deficiency) of Revenues

Over (Under) Expenditures

OTHER FINANCING SOURCES (USES)

- Capital Leases
- Proceeds from sale of bonds
- Payment to refunded bond escrow agent
- Transfers in
- Transfers out

Total Other Financing Sources (Uses)

Net Change in Fund Balances

Fund Balances – Beginning (as Restated
see Note V.8. on page 72)

Fund Balances - Ending



CITY OF HARKER HEIGHTS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Net change in fund balances – total governmental funds	\$ (3,632,005)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	4,317,965
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(1,831,062)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, transfers, disposals, and donations) is to decrease net position.	(19,755)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	85,016
Compensated absences are accrued on the government-wide statement of net position, but do not require the use of current financial resources. The current period change in compensated absences is reported in the government-wide statement of activities and changes in net position. This is the net decrease in absences not reported as an expenditure in governmental funds.	(35,000)
Net pension obligation is accrued on the government-wide statement of net position, but does not require the use of current financial resources. The current period change in net pension obligation is reported in the government-wide statement of activities and changes in net position. This is the net decrease in pension costs not reported as an expenditure in governmental funds.	(78,166)
The net decrease in the other postemployment benefit obligation (OPEB) is not reported in the funds.	(158,171)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,223,593
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(46,834)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as an expenditure in governmental funds.	<u>8,586</u>
Change in net position of governmental activities	<u><u>\$ (165,833)</u></u>

CITY OF HARKER HEIGHTS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –

BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts	Positive (Negative)
REVENUES				
Taxes and special assessments:				
Property	\$ 6,732,500	\$ 6,732,500	\$ 6,813,196	\$ 80,696
Other taxes and special assessments	7,054,000	7,054,000	6,691,380	(362,620)
Licenses and permits	180,000	180,000	285,907	105,907
Fines	1,385,000	1,385,000	1,326,703	(58,297)
Charges for services	641,000	641,000	796,710	155,710
Intergovernmental	93,200	93,200	100,851	7,651
Investment earnings	35,000	35,000	32,037	(2,963)
Contributions and donations			38,884	38,884
Miscellaneous	28,000	28,000	143,952	115,952
	16,148,700	16,148,700	16,229,620	80,920
EXPENDITURES				
Current:				
General government:				
Council	195,100	195,100	174,668	(20,432)
Administration	2,195,600	2,195,600	2,346,887	151,287
Finance	569,900	569,900	550,316	(19,584)
Public safety:				
Police	5,221,600	5,221,600	5,385,000	163,400
Courts	954,000	954,000	913,711	(40,289)
Code enforcement	483,900	483,900	442,850	(41,050)
Fire/EMS	3,809,500	3,809,500	3,740,678	(68,822)
Highways and streets:				
Streets	1,036,100	1,036,100	1,051,998	15,898
Maintenance	240,600	240,600	250,498	9,898
Culture and recreation:				
Library	620,600	620,600	590,220	(30,380)
Parks and recreation	2,172,300	2,172,300	2,136,602	(35,698)
Economic development and assistance	361,700	361,700	364,536	2,836
Debt Service:				
Principal	54,800	54,800	55,061	261
Interest and fiscal charges	6,000	6,000	5,813	(187)
	17,921,700	17,921,700	18,008,838	87,138
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$ (1,773,000)	\$ (1,773,000)	\$ (1,779,218)	\$ (6,218)

(Continued)

CITY OF HARKER HEIGHTS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Capital Leases			270,422	270,422
Sale of capital assets proceeds				
Transfers in	1,641,000	1,641,000	1,625,000	(16,000)
Transfers out	(310,000)	(310,000)	(310,000)	
Total Other Financing Sources (Uses)	<u>1,331,000</u>	<u>1,331,000</u>	<u>1,585,422</u>	<u>254,422</u>
Net Change in Fund Balances	(442,000)	(442,000)	(193,796)	248,204
Fund Balances – Beginning (as Restated see Note V.8. on page 72)	<u>7,309,683</u>	<u>7,309,683</u>	<u>8,614,451</u>	
Fund Balances – Ending	<u>\$ 6,867,683</u>	<u>\$ 6,867,683</u>	<u>\$ 8,420,655</u>	<u>\$ 248,204</u>

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

CITY OF HARKER HEIGHTS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2013

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash	\$ 569,774	\$ 84,258	\$ 61,657	\$ 715,689
Investments	3,272,177	52,686	75,214	3,400,077
Receivables (net of allowance for uncollectibles):				
Accounts	1,030,091	197,395	77,072	1,304,558
Due from other funds		236		236
Inventory of supplies, at first-in, first-out cost	126,764			126,764
Restricted cash	61,306		1,437	62,743
Restricted investments	359,215		1,145	360,360
Total Current Assets	5,419,327	334,575	216,525	5,970,427
Capital Assets:				
Land and improvements	154,113		125,000	279,113
Buildings and lift stations	3,026,857			3,026,857
Improvements other than buildings		23,728		23,728
Furniture and fixtures	12,375			12,375
Machinery and equipment	973,687	19,325	168,378	1,161,390
Vehicles	567,672		92,354	660,026
Water, sewer, and drainage systems	40,588,748		4,803,830	45,392,578
Construction in progress	2,525,634		281,522	2,807,156
Less accumulated depreciation	(10,318,842)	(21,896)	(425,036)	(10,765,774)
Total Capital Assets (Net of Depreciation)	37,530,244	21,157	5,046,048	42,597,449
Total Noncurrent Assets	37,530,244	21,157	5,046,048	42,597,449
Total Assets	\$ 42,949,571	\$ 355,732	\$ 5,262,573	\$ 48,567,876

(Continued)

CITY OF HARKER HEIGHTS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2013

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
LIABILITIES				
Current Liabilities:				
Due to other funds	\$ 631,100	\$ 117,128	\$ 107,687	\$ 855,915
Accrued compensated absences	25,000	2,000	5,500	32,500
Refundable meter deposits	281,122			281,122
Accrued interest payable	89,151		8,666	97,817
Capital leases payable - current	54,147			54,147
General obligation bonds - current	340,821		68,906	409,727
Certificates of obligation - current	495,000		60,000	555,000
Total Current Liabilities	1,916,341	119,128	250,759	2,286,228
Noncurrent Liabilities:				
Accrued compensated absences	3,000		2,500	5,500
Net pension obligation	41,317	949	7,209	49,475
Net other postemployment benefit obligation	24,069	159	2,595	26,823
Capital leases payable				
General obligation bonds payable	2,908,392		547,040	3,455,432
Certificates of obligation	14,765,284		1,211,566	15,976,850
Total Noncurrent Liabilities	17,742,062	1,108	1,770,910	19,514,080
Total Liabilities	19,658,403	120,236	2,021,669	21,800,308
NET POSITION				
Invested in capital assets, net of related debt	21,898,067	21,157	3,158,536	25,077,760
Restricted for debt service	29,911		2,582	32,493
Unrestricted	1,363,190	214,339	79,786	1,657,315
Total Net Position	\$ 23,291,168	\$ 235,496	\$ 3,240,904	\$ 26,767,568

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



CITY OF HARKER HEIGHTS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities – Enterprise Funds			
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	Total Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 8,961,818	\$ 1,823,388	\$ 737,344	\$ 11,522,550
Franchise fees		136,692		136,692
Other	25,960	1,134	600	27,694
Total Operating Revenues	<u>8,987,778</u>	<u>1,961,214</u>	<u>737,944</u>	<u>11,686,936</u>
OPERATING EXPENSES				
Water purchases	2,441,942			2,441,942
Contractual services	211,948	1,469,441	11,635	1,693,024
Personal services	1,066,253	39,451	109,950	1,215,654
Utilities and telephone	454,347	238		454,585
Repairs and maintenance	382,277	4,003	61,139	447,419
Supplies	235,193	314	16,830	252,337
Uncollectible accounts	76,093	11,053	4,156	91,302
Professional fees	55,199	5,000		60,199
Depreciation	886,907	5,935	102,403	995,245
Other	1,745		65	1,810
Total Operating Expenses	<u>5,811,904</u>	<u>1,535,435</u>	<u>306,178</u>	<u>7,653,517</u>
Operating Income	<u>3,175,874</u>	<u>425,779</u>	<u>431,766</u>	<u>4,033,419</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	12,917	90	80	13,087
Taxes & assessments	2,256			2,256
Interest expense	(256,311)		(18,862)	(275,173)
Bond issuance costs	(19,888)		(346)	(20,234)
Total Nonoperating Revenues (Expenses)	<u>(261,026)</u>	<u>90</u>	<u>(19,128)</u>	<u>(280,064)</u>
Income Before Transfers	2,914,848	425,869	412,638	3,753,355
Transfers In	1,723,581		474,038	2,197,619
Transfers Out	(2,600,569)	(350,000)	(175,000)	(3,125,569)
Change in Net Position	2,037,860	75,869	711,676	2,825,405
Total Net Position – Beginning (as Restated see Note V.8. on page 72)	21,253,308	159,627	2,529,228	23,942,163
Total Net Position – Ending	<u>\$ 23,291,168</u>	<u>\$ 235,496</u>	<u>\$ 3,240,904</u>	<u>\$ 26,767,568</u>

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

CITY OF HARKER HEIGHTS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

SEPTEMBER 30, 2013

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 8,948,236	\$ 1,798,956	\$ 730,035	\$ 11,477,227
Cash payments to suppliers	(3,488,352)	(1,482,199)	13,416	(4,957,135)
Cash payments to employees	(1,043,500)	(38,196)	(105,419)	(1,187,115)
Franchise fees		136,692		136,692
Other operating cash receipts (payments)	25,971	951	600	27,522
Net Cash Provided By Operating Activities	4,442,355	416,204	638,632	5,497,191
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	1,723,581		474,038	2,197,619
Transfers out	(2,600,569)	(350,000)	(175,000)	(3,125,569)
Net Cash Provided (Used) By Noncapital Financing Activities	(876,988)	(350,000)	299,038	(927,950)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Net proceeds from issuance of certificates of obligation				
Acquisition and construction of capital assets	(2,459,134)		(538,484)	(2,997,618)
Proceeds from sale of capital assets				
Interest received on new debt principal repayments				
Principal repayments	(923,702)		(299,190)	(1,222,892)
Interest paid on long-term debt	(251,017)		(26,851)	(277,868)
Net Cash Provided (Used) By Capital and Related Financing Activities	(3,633,853)		(864,525)	(4,498,378)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales and maturities of investments	2,613,820		152,000	2,765,820
Purchase of investments	(2,675,000)	(50,003)	(225,000)	(2,950,003)
Interest & penalties received	15,173	90	80	15,343
Net Cash Provided (Used) By Investing Activities	(46,007)	(49,913)	(72,920)	(168,840)
Net Increase (Decrease) in Cash For The Year	(114,493)	16,291	225	(97,977)
Cash - Beginning	745,573	67,967	62,869	876,409
Cash - Ending	\$ 631,080	\$ 84,258	\$ 63,094	\$ 778,432

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

CITY OF HARKER HEIGHTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2013

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Water and Sewer Fund	Sanitation Fund	Drainage Utility Fund	
Reconciliation of cash:				
Cash	\$ 569,774	\$ 84,258	\$ 61,657	\$ 715,689
Restricted Cash	61,306		1,437	62,743
Total Cash	\$ 631,080	\$ 84,258	\$ 63,094	\$ 778,432
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	\$ 3,175,874	\$ 425,779	\$ 431,766	\$ 4,033,419
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	886,907	5,935	102,403	995,245
Change in Assets and Liabilities:				
(Increase) Decrease in accounts receivable	(21,339)	(13,379)	(7,244)	(41,962)
Increase in allowance for doubtful accounts				
(Increase) Decrease in due from other funds		(183)		(183)
(Increase) Decrease in inventory	(3,293)			(3,293)
Increase (Decrease) in accounts payable and accrued liabilities				
Increase (Decrease) in refundable meter deposits	7,757			7,757
Increase (Decrease) in due to other funds	373,696	(3,203)	107,176	477,669
Increase in compensated absences	1,000	900	2,000	3,900
Increase in net pension obligation	5,075	228	848	6,151
Increase (Decrease) in net other postemployment benefit obligation	16,678	127	1,683	18,488
Total Adjustments	1,266,481	(9,575)	206,866	1,463,772
Net cash Provided By Operating Activities:	\$ 4,442,355	\$ 416,204	\$ 638,632	\$ 5,497,191
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Amortization of deferred amount on advanced refunding of certificates of obligation	\$ 31,233			\$ 31,233
Amortization of bond discount	1,809		183	1,992
Amortization of bond issuance costs			346	346
Total Noncash Investing, Capital and Financing Activities	\$ 33,042	\$	\$ 529	\$ 33,571

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

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harker Heights, Texas, a municipal corporation in Bell County, Texas, was incorporated under the general laws of the State of Texas in 1960. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, highways and streets, water service and sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Harker Heights have been prepared to conform with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The government-wide and proprietary fund financial statements apply private-sector standards of accounting and financial reporting issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of the government's accounting and reporting policies are described below.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The City Council, which is elected at large, consists of a mayor and five council members constituting an ongoing entity and is the level of government that has governance responsibilities over all activities related to the City of Harker Heights. The criteria for including organizations as component units within the City's reporting entity include whether 1) the organization is legally separate (can sue and be sued in their own name, 2) the City holds the corporate powers of the organization, 3) the City appoints a voting majority of the organization's board, 4) the City is able to impose its will on the organization, 5) the organization has the potential to impose a financial benefit/burden on the City, and 6) there is fiscal dependency by the organization on the City. There are no component units that qualify for inclusion in the City's reporting entity.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) 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 City. 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. In the reporting model as defined by GASB Statement No. 34, the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Culture and Recreation, etc.) or segment 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, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements. The major governmental funds are the general fund, debt service fund, and capital projects fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. 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 statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the fiscal year. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Property taxes, franchise taxes, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes collected by Bell County Appraisal District at year-end on behalf of the City and sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. All other revenue items are considered to be measurable and available only when the City receives the cash.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund, the sanitation enterprise fund, and the drainage utility enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The following major funds are used by the City:

1. Governmental Funds

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in other funds.
- b. The Debt Service Fund accounts for the resources accumulated and payments made for principal, interest, and related costs on long-term general obligation debt of governmental funds paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts are restricted exclusively for debt service expenditures.
- c. The Capital Projects Fund accounts for the acquisition of capital assets or construction of major capital projects other than those financed by proprietary or trust funds.
- d. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

2. Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Enterprise funds include the following funds:

- a. The Water and Sewer Fund accounts for the distribution of treated water and the collection and treatment of sewage activities. Activities of the fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.
- b. The Sanitation Fund accounts for the collection and disposal of garbage activities. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.
- c. The Drainage Utility Fund accounts for the receipt of storm water utility fees for construction, operations, and maintenance of the City's storm water drainage system.

D. Cash and Investments

Cash includes cash on hand, amounts in demand deposits and money market fund deposits.

The City is authorized to make investments in accordance with "The Public Funds Investment Act of 1987". The City is also authorized by the Interlocal Cooperation Act, Articles 4413(32c) and 4413(34c), Vernon's Texas Civil Statutes, as amended, to invest in shares of a public funds investment pool. The City's investment policy authorizes certain investments that may be purchased by the City. A detail listing of authorized investments is included in Part IV, Note 1 titled "Deposits and Investments."

The City adopted GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" during the year ended September 30, 1998. Under GASB Statement No. 31, investments are reported at their fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Short-term nonparticipating interest-earning investment contracts (to include certificates of deposit) are reported using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments that have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The gain/loss resulting from valuation is reported within the revenue account "investment earnings" on the Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Funds, and the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds.

The City has implemented GASB Statement No. 40 entitled "Deposit and Investment Risk Disclosures". This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk as well as modifying custodial credit risk disclosures.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Receivables and Payables and Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds. Nonrecurring or non-routine transfers of equity between funds – for example, contribution of capital assets to a proprietary fund or transfers of residual balances of discontinued funds to other funds – are accounted for as transfers in the government-wide statements of activities and as capital contributions in the proprietary fund operating statement.

All service receivables are shown net of an allowance for uncollectibles. Service accounts receivable in excess of 90 days comprise the service accounts receivable allowance with the exception of ambulance receivable, which is 120 days. Property tax receivable allowance is equal to 68% of outstanding property taxes at the end of the fiscal year.

F. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Proprietary fund-type inventories are recorded as expenses when consumed rather than when purchased.

G. Restricted Assets

Certain investments and cash accounts are classified as restricted on the balance sheet because their use is limited to servicing debt, repaying refundable deposits, cemetery maintenance, public safety, culture and recreation, and specific construction projects.

H. Capital Assets

Capital assets (i.e. land, buildings, equipment, improvements other than buildings, which includes the City's infrastructure, and construction in progress) of all funds are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Machinery and equipment	3-12 years
Buildings	20-50 years
Improvements other than buildings	20-60 years
Infrastructure	20-60 years

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave, which is not vested. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Typically, the General Fund has been used in prior years to liquidate such amounts in governmental funds.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types 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 statement 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. Bond issuance costs incurred are fully expensed in that reporting period.

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

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

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

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balance Classifications

The difference between assets and liabilities in the governmental fund balance sheets shall be organized into the following classifications:

Nonspendable – Not in a spendable form, such as inventory, or required to be maintained intact such as the principal of a permanent fund. As of September 30, 2013, the City did not have any nonspendable fund balances.

Restricted – Resources that are subject to constraints that are either imposed by law through constitutional provisions or enabling legislation, or externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. As of September 30, 2013, the City had restricted funds for economic development, public safety, debt service, capital projects and cemetery.

Committed – Amounts that can only be used for specific purposes determined by formal approval of the Council. These amounts shall not be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action it used to commit the amounts. As of September 30, 2013, the City did not have any committed fund balances.

Assigned – Amounts that the City intends to use for a specific purpose and are neither restricted nor committed. The intent to assign amounts for a specific purpose shall be expressed by the Council. As of September 30, 2013, the City had assigned funds for culture and recreation.

Unassigned – The residual classification for the general fund balance, including amounts that are not contained in the other classifications. Unassigned amounts are the portion of fund balance that is not obligated or specifically designated and is available for any purpose.

N. Use of Restricted, Committed, Assigned, and Unassigned Assets

When the City incurs an expense for which it may use either restricted, committed, assigned, or unassigned assets, the City shall reduce restricted, committed, and assigned assets first, in that order, unless unassigned assets would have to be returned because they were not used.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$26,711,020 difference are as follows:

Certificates of obligation	\$20,790,000
Less: Issuance discount (to be amortized as interest expense)	(34,386)
General obligation refunding	4,343,513
Plus: Premium on current year issuance	0
Less: Deferred charges for advanced refunding costs (to be amortized as interest expense)	(245,311)
Accrued interest payable	125,413
Capital leases payable	322,421
Compensated absences	678,000
Net pension obligation	652,182
Net postemployments benefit obligation	79,188
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	\$26,711,020

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

The details of this \$1,223,593 difference are as follows:

Current Year Issuance:	
Certificates of obligation (Net of Discount)	\$ (402,426)
Capital Leases	(270,422)

Principal repayments:	
Certificates of obligation	\$ 1,460,000
General obligation refunding	418,953
Capital leases	55,062

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$ 1,223,593

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$46,834 difference are as follows:

Amortization of bond discounts	(4,320)
Amortization of advanced refunding costs	(42,514)

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$(46,834)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds except the capital project fund. The capital projects fund is budgeted in a multi-year manner. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The City’s department heads may make transfers of appropriations within a department with approval of the City Manager. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level. The budget was approved September 4, 2012.

During the fiscal year it was necessary to amend the original budget of the General Fund and the Hotel/Motel Fund (a nonmajor special revenue fund included in Other Governmental Funds) by City Council action.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS

1. Deposits and Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City of Harker Heights to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition it includes an "investment strategy statement" that specifically addresses each fund's investment strategy and maximum maturity of each fund's individual investments.

The Finance Director submits an investment report each quarter to the City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to the investment policy and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificates of deposit or share certificates at commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance.
2. A savings account issued by a depository institution that has its main office or a branch office in the State of Texas and meets the collateralization requirements as stated in the City's depository contract.
3. Eligible investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019) if the City Council by resolution authorized investment in that particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act.
4. Direct obligations of the United States Government or the State of Texas or their respective agencies and instrumentalities, which have a final maturity date of two years or less from the date of purchase.
5. Obligations of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Tennessee Valley Authority (TVA), or the Federal Home Loan Mortgage Corporation (FHLMC), which have a final maturity date of two years or less from the date of purchase and do not exceed 50% of the portfolio.
6. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
7. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

Under the City investment policy, the City may not invest in repurchase agreements, collateralized mortgage obligations, and any other investment instrument that is not specifically listed as an authorized investment.

The City has invested in certificates of deposit at a local banking institution as well as through a broker. Collateral for the certificates of deposit held at a local bank institution consisted of securities with a fair market value of \$17,456,794 at September 30, 2013. Investments made through an authorized broker/dealer are in increments of less than the FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance. Of the certificates of deposit purchased through an authorized broker/dealer, \$675,000 was covered by federal depository insurance.

The City has invested in TexSTAR, an interlocal governmental investment pool. TexSTAR operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexSTAR is the same as the value of the TexSTAR shares.

The City has invested in MBIA Texas Class, which enables local governments to pool funds with other units of government. MBIA Texas Class is administered by MBIA Municipal Investors Service Corporation, an investment subsidiary of MBIA, Inc. MBIA Texas Class uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in MBIA Texas Class is the same as the value of the MBIA Texas Class shares.

The City has invested in Lone Star Investment Pool, a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star Investment Pool's Liquidity Plus Fund uses a dollar weighted average maturity of 120 days or fewer and the net asset value of the shares invested are expected to maintain a net asset value of approximately \$.50. The net asset value of the shares invested in the fund will fluctuate based on the fund's current market value.

The City does not own specific, identifiable investments with TexSTAR, MBIA Texas Class, or Lone Star Investment Pool. The City considers the holdings in these pools to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Deposits – Custodial credit risk for deposits is the risk in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits, including certificates of deposit, were fully insured or collateralized with securities held by the City or its agent in the City's name or by the pledging financial institution's trust department or agent in the City's name at September 30, 2013.

At September 30, 2013, the carrying amount of the City's deposits was \$7,349,399, and the respective bank balances totaled \$8,187,939. Of the bank balances, \$255,461 was covered by federal depository insurance. Collateral for the bank balances over the federal depository insurance amount consisted of securities with a fair market value of \$6,200,000 and a letter of credit valued at \$5,000,000 at September 30, 2013.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

Investments – Custodial credit risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City’s investment policy requires that securities be insured and registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City’s name, and all securities are registered in the City’s name.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s investment policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. In accordance with its investment policy, the City manages its interest rate risk by limiting the maturity of its investment portfolio to two years or less. Also, the City may not invest more than 20% of the investment portfolio for a period greater than one year. Concentration of credit risk is the risk of loss attributed to the magnitude of the City’s investment in a single issuer. The City’s investment policy requires multiple brokers/dealers for its investment portfolio. The City may not invest more than 50% of the portfolio in one agency.

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Such risk shall be controlled by investing in compliance with the City’s investment policy, qualifying the broker and financial institution with whom the City will transact, portfolio diversification, and limiting maturity.

The following table includes the portfolio balances of all investment types of the City at September 30, 2013.

	Fair Value/Carrying Value			Cost	Weighted Average Days to Maturity (1)
	Governmental Activities	Business- type Activities	Total		
Investments:					
Certificates of deposit	\$9,258,445	\$3,375,134	\$12,633,579	\$12,633,579	133
Local government investment pools					
TexSTAR	600,596	289,572	890,168	890,168	1
MBIA Texas Class	51,297	2,620	53,917	53,917	1
Lone Star Investment Pool	171,307	93,111	264,418	264,418	1
Total local government investment pools	823,200	385,303	1,208,503	1,208,503	
Total Investments	\$10,081,645	\$ 3,760,437	\$13,842,082	\$13,842,082	

(1) Interest rate risk is estimated using weighted average days to maturity.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

1. Deposits and Investments (Continued)

As of September 30, 2013, the City of Harker Heights' investments were rated by Standard & Poor's as follows:

	Average Credit Quality/ Ratings
Tex STAR	AAAm
MBIA Texas Class	AAAm
Lone Star Investment Pool	AAAm

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

Cash on hand	\$ 1,460
Carrying amount of deposits	7,349,484
Carrying amount of investments	13,842,082
Total Cash and Investments	\$ 21,193,026
Cash	\$ 6,046,748
Cash – restricted	1,304,196
Investments	
Short-Term	9,918,279
Long-Term	225,000
Investments – restricted	
Short-Term	3,698,803
Total Cash and Investments	\$ 21,193,026

2. Receivables

Receivables at September 30, 2013, for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

	General	Debt Service	Hotel/ Motel	Water and Sewer	Sanitation	Drainage Utility	Total
Receivables:							
Taxes	\$ 189,703	\$ 67,766					\$ 257,469
Accounts	1,799,193		25,807	1,052,891	200,395	78,072	3,156,358
Special assessments	22,922			14,245			37,167
Intergovernmental	304,693	614					305,307
Gross receivables	2,316,511	68,380	25,807	1,067,136	200,395	78,072	3,756,301
Less:							
Allowance for uncollectibles	1,582,897			37,045	3,000	1,000	1,623,942
Net total receivables	\$ 733,614	\$ 68,380	\$ 25,807	\$ 1,030,091	\$ 197,395	\$ 77,072	\$ 2,132,359

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS

3. Capital Assets

Capital asset activity for the year ended September 30, 2013 was as follows:

Governmental Activities:	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Transfers and Decreases</u>	<u>Balance at End of Year</u>
Capital assets, not being depreciated:				
Land	\$ 13,881,187	\$ 1,316,109		\$ 15,197,296
Construction in progress	1,555,837	3,337,122	2,480,982	2,411,977
Total capital assets, not being depreciated	<u>15,437,024</u>	<u>4,653,231</u>	<u>2,480,982</u>	<u>17,609,273</u>
Capital assets, being depreciated				
Buildings	13,549,188	103,796	254,413	13,398,571
Improvements other than buildings	45,350	37,337		82,687
Machinery and equipment	4,487,976	591,990	170,505	4,909,461
Vehicles	3,525,271	411,463	47,486	3,889,248
Furniture and fixtures	863,431	14,235		877,666
Street and drainage improvements	21,115,616	985,665		22,101,281
Total capital assets, being depreciated	<u>43,586,832</u>	<u>2,144,486</u>	<u>472,404</u>	<u>45,258,914</u>
Less accumulated depreciation for:				
Buildings	4,542,188	637,971	234,657	4,945,502
Improvements other than buildings	14,606	3,074		17,680
Machinery and equipment	3,553,790	384,490	169,275	3,769,005
Vehicles	2,488,278	310,580	47,487	2,751,371
Furniture and fixtures	552,488	72,238		624,726
Street and drainage improvements	3,964,603	422,708		4,387,311
Total accumulated depreciation	<u>15,115,953</u>	<u>1,831,061</u>	<u>451,419</u>	<u>16,495,595</u>
Total capital assets, being depreciated, net	<u>28,470,879</u>	<u>313,425</u>	<u>20,985</u>	<u>28,763,319</u>
Governmental activities capital assets, net	<u>\$ 43,907,903</u>	<u>\$ 4,966,656</u>	<u>\$ 2,501,967</u>	<u>\$ 46,372,592</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

Business-type Activities:	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Transfers and Decreases</u>	<u>Balance at End of Year</u>
Water and Sewer Fund				
Capital assets, not being depreciated:				
Land	\$ 154,113			\$ 154,113
Construction in progress	670,222	2,191,518	336,106	2,525,634
Total capital assets, not being depreciated	824,335	2,191,518	336,106	2,679,747
Capital assets, being depreciated				
Buildings and lift stations	3,012,906	13,951		3,026,857
Machinery and equipment	843,439	176,405	46,157	973,687
Vehicles	500,123	77,260	9,711	567,672
Furniture and fixtures	12,375			12,375
Water and sewer system	40,252,642	336,106		40,588,748
Total capital assets, being depreciated	44,621,485	603,722	55,868	45,169,339
Less accumulated depreciation for:				
Buildings and lift stations	1,295,799	62,033		1,357,832
Machinery and equipment	658,155	83,218	46,157	695,216
Vehicles	399,424	71,314	9,711	461,027
Furniture and fixtures	12,375			12,375
Water and sewer system	7,122,050	670,342		7,792,392
Total accumulated depreciation	9,487,803	886,907	55,868	10,318,842
Total capital assets, being depreciated, net	35,133,682	(283,185)		34,850,497
Water and sewer fund capital assets, net	<u>\$ 35,958,017</u>	<u>\$ 1,908,333</u>	<u>\$ 336,106</u>	<u>\$ 37,530,244</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

	Balance at Beginning of Year	Increases	Transfers and Decreases	Balance at End of Year
Sanitation Fund				
Capital assets, being depreciated:				
Machinery and equipment	\$ 19,325			\$ 19,325
Improvements other than buildings	23,728			23,728
Total capital assets, being depreciated	43,053			43,053
Less accumulated depreciation for:				
Machinery and equipment	3,221	3,865		7,086
Improvements other than buildings	12,740	2,070		14,810
Total accumulated depreciation	15,961	5,935		21,896
Total capital assets, being depreciated, net	27,092	(5,935)		21,157
Sanitation fund capital assets, net	\$ 27,092	\$ (5,935)		\$ 21,157
Drainage Fund				
Capital assets, not being depreciated:				
Land	\$ 125,000			\$ 125,000
Construction in progress	148,934	527,588	395,000	281,522
Total capital assets, not being depreciated	273,934	527,588	395,000	406,522
Capital assets, being depreciated:				
Machinery and equipment	227,882	10,896	70,400	168,378
Vehicles	21,954	70,400		92,354
Drainage system	4,408,830	395,000		4,803,830
Total capital assets, being depreciated	4,658,666	476,296	70,400	5,064,562
Less accumulated depreciation for:				
Machinery and equipment	156,044	17,492		173,536
Vehicles	15,003	11,431		26,434
Drainage system	151,586	73,480		225,066
Total accumulated depreciation	322,633	102,403		425,036
Total capital assets, being depreciated, net	4,336,033	373,893	70,400	4,639,526
Drainage fund capital assets, net	\$ 4,609,967	\$ 901,481	\$ 465,400	\$ 5,046,048

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

	Balance at Beginning of Year	Increases	Transfers and Decreases	Balance at End of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 279,113			\$ 279,113
Construction in progress	819,156	2,719,106	731,106	2,807,156
 Total capital assets, not being depreciated	 1,098,269	 2,719,106	 731,106	 3,086,269
 Capital assets, being depreciated				
Buildings and lift stations	3,012,906	13,951		3,026,857
Improvements other than buildings	23,728			23,728
Machinery and equipment	1,090,646	187,301	116,557	1,161,390
Vehicles	522,077	147,660	9,711	660,026
Furniture and fixtures	12,375			12,375
Water, sewer and drainage systems	44,661,472	731,106		45,392,578
 Total capital assets, being depreciated	 49,323,204	 1,080,018	 126,268	 50,276,954
 Less accumulated depreciation for:				
Buildings and lift stations	1,295,799	62,033		1,357,832
Improvements other than buildings	12,740	2,070		14,810
Machinery and equipment	817,420	104,575	46,157	875,838
Vehicles	414,427	82,745	9,711	487,461
Furniture and fixtures	12,375			12,375
Water and sewer system	7,273,636	743,822		8,017,458
 Total accumulated depreciation	 9,826,397	 995,245	 55,868	 10,765,774
 Total capital assets, being depreciated, net	 39,496,807	 84,773	 70,400	 39,511,180
 Business-type activities capital assets, net	 \$ 40,595,076	 \$ 2,803,879	 \$ 801,506	 \$ 42,597,449

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

3. Capital Assets (Continued)

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

Governmental Activities:

General government	\$ 216,269
Public safety	696,167
Highways and streets, including depreciation of infrastructure	487,710
Culture and recreation	420,456
Economic development and assistance	10,459
Total depreciation expense – governmental activities	\$ 1,831,061

Business-type Activities:

Water, sewer, drainage, and sanitation	\$ 995,245
Total depreciation expense – business-type activities	\$ 995,245

Effective October 1, 2009, the City implemented GASB Statement 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires that all intangible assets be classified as capital assets. The majority of the intangible assets are easements and right-of-ways. The procedure was already in place to capitalize any intangible asset purchased. No restatements were necessary due to the indefinite life of the intangible assets.

4. Interfund Transactions

A summary of interfund receivables and payables at September 30, 2013, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 630,863
	Drainage Utility Fund	107,687
	Sanitation Fund	117,128
	Debt Service Fund	7,264
Sanitation Fund	Water and Sewer Fund	236
Capital Projects Fund	General Fund	149,041
Non-major Governmental Funds	General Fund	18,825
Total		\$ 1,031,044

The General Fund receivables represent outstanding amounts for direct costs for the operations of the payable funds but are paid through the General Fund. The Water and Sewer and Sanitation receivables represent outstanding amounts collected for charges and services between the enterprise funds. The Nonmajor Governmental Funds receivable represents outstanding amounts collected in the General Fund for restricted purposes that will be transferred to the Special Revenue fund in the following period.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

4. Interfund Transactions (Continued)

Transfers between funds during the year ended September 30, 2013, were as follows:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 1,100,000
	Sanitation Fund	350,000
	Drainage Utility Fund	175,000
Capital Projects Fund	General Fund	200,000
	Water and Sewer Fund	1,500,000
Water and Sewer Fund	Capital Projects Fund	1,695,490
Drainage Utility Fund	Capital Projects Fund	474,140
Debt Service Fund	General Fund	110,000
	Water and Sewer Fund	569
		<hr/>
Total		<u>\$ 5,605,199</u>

Transfers to the General Fund are used for indirect costs deemed necessary for operations of the transferring funds but are paid through the General Fund. Transfers to the Capital Projects Fund are used for the funding of capital assets. Transfers to the Water and Sewer and Drainage Utility Funds are used to complete enterprise fund capital projects.

5. Leases

Noncancellable Operating Leases

Rental expenditures during the fiscal year ended September 30, 2013, including equipment rentals not covered under noncancellable leases, were \$43,381.

Capital Leases

The City has entered into five lease agreements as lessee for financing the acquisition of five copiers. The City has also entered into lease agreements as lessee for financing the acquisition of a fire truck, computers, computer servers, and a sewer cleaner truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Assets:		
Machinery and equipment	\$ 920,379	\$ 7,220
Vehicles	670,343	248,673
Less: Accumulated depreciation	(976,145)	(239,315)
	<hr/>	<hr/>
Total	<u>\$ 614,577</u>	<u>\$ 16,578</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

5. Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
2014	\$ 143,723	\$ 56,551	\$ 200,274
2015	95,225		95,225
2016	95,225		95,225
Total minimum lease payments	334,173	56,551	390,724
Less: amount representing interest	(11,752)	(2,404)	(14,156)
Present value of minimum lease payments	<u>\$ 322,421</u>	<u>\$ 54,147</u>	<u>\$ 376,568</u>

6. Long-term Debt

At September 30, 2013, long-term debt of the City consists of the following:

Certificates of Obligation:

	<u>Governmental</u>	<u>Business-type</u>
Combination tax and utility system revenue certificates of obligation, Series 2004, to be used for the cost of water and sewer system improvements and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$2,000,000. The certificates bear interest at 3.98% per annum through August 15, 2024. Principal is payable in annual installments of \$75,000 to \$180,000 through August 15, 2024.		1,590,000
Combination tax and utility system revenue certificates of obligation, Series 2005, to be used for the cost of construction of a police department building, library/community center building, senior citizens building, recreation center, and including land relating thereto, and the cost of related professional services. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$1,000,000. The certificates bear interest at 4.55% per annum through February 15, 2025. Principal is payable in annual installments of \$40,000 to \$75,000 through February 15, 2025.	725,000	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

	<u>Governmental</u>	<u>Business-type</u>
<p>Combination tax and utility system revenue certificates of obligation, Series 2006, to be used for the cost of street reconstruction, construction and equipment of a new library and community center; construction and equipment of an animal control facility, construction and equipment of administrative facilities, renovation and improvements to existing municipal buildings to wit: the police department building, library building, and recreation center; construction and equipment of a new fire station; construction and equipment of City park projects including an athletic complex and recreation center; the acquisition of land for any of the above named purposes; and the costs of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$12,000,000. The certificates bear interest at 4.00% to 4.5% per annum through August 15, 2027. Principal is payable in annual installments of \$465,000 to \$915,000 through August 15, 2027.</p>	9,825,000	
<p>Combination tax and utility system revenue certificates of obligation, Series 2006, to be used for the cost of construction of water and sewer system improvements, the acquisition of land for any of the above named purposes, and the costs of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$5,000,000. The certificates bear interest at 4.00% to 4.5% per annum through August 15, 2027. Principal is payable in annual installments of \$130,000 to \$400,000 through August 15, 2027.</p>		4,290,000
<p>Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for improvements to streets and bridges, renovation and construction of a City building, construction or improvement of a City athletic complex and City parks, and acquisition of land for any of the above named purposes. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$6,000,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$65,000 to \$475,000 through August 15, 2028.</p>	5,435,000	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

	<u>Governmental</u>	<u>Business-type</u>
<p>Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for the extension and improvements to the water and sewer system and the acquisition of land for the above named purpose. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$2,000,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$80,000 to \$155,000 through August 15, 2028.</p>		1,640,000
<p>Combination tax and utility system revenue certificates of obligation, Series 2008, to be used for the improvements to the drainage system and the acquisition of land for the above named purpose. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$1,500,000. The certificates bear interest at 4.19% per annum through August 15, 2028. Principal is payable in annual installments of \$55,000 to \$110,000 through August 15, 2028.</p>		1,230,000
<p>Combination tax and utility system revenue certificates of obligation, Series 2009, to be used for the cost of completion of a pump station and extensions and improvements to the water and sewer system, including the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system. The original principal balance was \$5,000,000. The certificates bear interest at 3.5% to 4.5% per annum through August 15, 2029. Principal is payable in annual installments of \$60,000 to \$430,000 through August 15, 2029.</p>		4,760,000

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

	<u>Governmental</u>	<u>Business-type</u>
<p>Combination tax and utility system revenue certificates of obligation, Series 2011, to be used for the cost of improvements to the City's water and sewer system, including extension of sewer lines, force mains, and lift stations; improvements to streets, roads, and highways, and costs of street, road and highway reconstruction; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system (not to exceed \$1,000). The original principal balance was \$5,000,000. The certificates bear interest at 2.0% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$95,000 to \$520,000 through August 15, 2031.</p>	4,805,000	
<p>Combination tax and utility system revenue certificates of obligation, Series 2011, to be used for the cost of improvements to the City's water and sewer system, including extension of sewer lines, force mains, and lift stations; improvements to streets, roads, and highways, and costs of street, road and highway reconstruction; improvements, construction, and equipment for city park projects; and the cost of professional services incurred in connection therewith. The certificates of obligation are payable from the proceeds of an ad valorem tax levied upon all taxable property in the City and from net revenues of the system. The certificates are additionally secured by a pledge of the net revenues of the system (not to exceed \$1,000). The original principal balance was \$3,000,000. The certificates bear interest at 2.0% to 4.0% per annum through August 15, 2031. Principal is payable in annual installments of \$90,000 to \$220,000 through August 15, 2031.</p>		2,815,000
Total certificates of obligation	20,790,000	16,325,000
Plus: Net unamortized issuance premium (discount)	166,095	206,850
Total certificates of obligation, net	20,956,095	16,531,850
 General Obligation Bonds Payable:		
	<u>Governmental</u>	<u>Business-type</u>
<p>General Obligation Refunding Bonds, Series 2005, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation Series 1997. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$2,370,000. The bonds bear interest at 4.32% per annum payable in annual installments of \$225,000 to \$305,000 through August 15, 2017.</p>	1,140,000	

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

	<u>Governmental</u>	<u>Business-type</u>
<p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest between 2.00% and 3.00% payable in annual installments of \$70,000 to \$740,000 through August 15, 2023.</p>	2,773,514	
<p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest between 2.00% and 3.00% payable in annual installments of \$70,000 to \$740,000 through August 15, 2023.</p>		2,465,541
<p>General Obligation Refunding Bonds, Series 2012, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 1999 and Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$6,250,000. The bonds bear interest between 2.00% and 3.00% payable in annual installments of \$70,000 to \$740,000 through August 15, 2023.</p>		615,946
<p>General Refunding Bonds, Series 2013, to be used to advance refund a portion of the City’s outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$1,460,000. The bonds bear interest between 1.50% and 2.00% payable in annual installments of \$30,000 to \$180,000 through August 15, 2023.</p>	430,000	

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

	<u>Governmental</u>	<u>Business-type</u>
General Refunding Bonds, Series 2013, to be used to advance refund a portion of the City's outstanding Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003 and General Obligation Refunding Bonds Series 2003A. The bonds are payable by levying an ad valorem tax upon all taxable property in the City. The original principal balance was \$1,460,000. The bonds bear interest between 1.50% and 2.00% payable in annual installments of \$30,000 to \$180,000 through August 15, 2023.		1,000,000
Total general obligation bonds payable	4,343,514	4,081,487
Less: Deferred amount on advanced refunding	(245,311)	(216,328)
Total general obligation bonds payable, net	4,098,203	3,865,159
Capital lease payable to a company to finance the acquisition of a copier. The lease is secured by the copier and is paid by the General Fund. The lease bears interest of 11.968%. The original principal balance was \$5,593. The lease is payable in monthly payments of \$125 including interest through November 1, 2013.	246	
Capital lease payable to a company to finance the acquisition of a copier. The lease is secured by the copier and is paid by the General Fund. The lease bears interest of 11.969%. The original principal balance was \$8,542. The lease is payable in monthly payments of \$191 including interest through November 1, 2013.	375	
Capital lease payable to a company to finance the acquisition of a copier. The lease is secured by the copier and is paid by the General Fund. The lease bears interest of 12.216%. The original principal balance was \$4,517. The lease is payable in monthly payments of \$101 including interest through November 1, 2013.	199	
Capital lease payable to a company to finance the acquisition of a copier. The lease is secured by the copier and is paid by the General Fund. The lease bears interest of 11.965%. The original principal balance was \$4,292. The lease is payable in monthly payments of \$96 including interest through November 1, 2013.	189	
Capital lease payable to a company to finance the acquisition of a copier. The lease is secured by the copier and is paid by the General Fund. The lease bears interest of 12.109%. The original principal balance was \$4,292. The lease is payable in monthly payments of \$96 including interest through November 1, 2013.	95	

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

	<u>Governmental</u>	<u>Business-type</u>
Capital lease payable to a company to finance the acquisition of computers. The lease is secured by the computers and is paid by the General Fund. The lease bears interest of 7.836%. The original principal balance was \$99,885. The lease is payable in annual payments of \$26,928 including interest through March 1, 2014.	25,579	
Capital lease payable to a company to finance the acquisition of computer servers. The lease is secured by the servers and is paid by the General Fund. The lease bears interest of 7.836%. The original principal balance was \$98,857. The lease is payable in annual payments of \$26,651 including interest through February 1, 2014.	25,316	
Capital lease payable to a company to finance the acquisition of a sewer cleaner truck. The lease is secured by the equipment and is paid by the Water and Sewer Fund. The lease bears interest of 4.44%. The original principal balance was \$248,673. The lease is payable in annual payments of \$56,551 including interest through December 11, 2014.		54,147
Capital lease payable to a company to finance the acquisition of video mobile data equipment. The lease is secured by the equipment and is paid by the General Fund. The lease bears interest of 1.88%. The original principal balance was \$270,422. The lease is payable in annual payments, with the first payment of \$89,024 including interest and the remaining annual payments of \$95,225 including interest through February 29, 2016.	<u>270,422</u>	
Total capital leases payable	<u>322,421</u>	<u>54,147</u>
Total debt before compensated absences, net	25,376,719	20,451,156
Compensated absences	678,000	38,000
Net pension obligation	652,182	49,475
Net other postemployment benefit obligation	<u>237,959</u>	<u>26,823</u>
Total long-term debt	<u>\$ 26,944,860</u>	<u>\$ 20,565,454</u>
Reconciliation to Government-wide Statement of Net Position:		
Noncurrent liabilities:		
Due within one year	\$ 2,158,210	\$ 1,051,483
Due in more than one year	<u>24,786,650</u>	<u>19,513,971</u>
Total long-term debt, net	<u>\$ 26,944,860</u>	<u>\$ 20,565,454</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2013 is as follows:

Governmental Activities:	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Retirements and Other</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Certificates of obligation	\$ 22,250,000		\$ 1,460,000	\$ 20,790,000	\$ 940,000
Plus net deferred amounts:					
Issuance (discounts) premiums	<u>172,168</u>		<u>6,073</u>	<u>166,095</u>	
Total certificates of obligation	<u>22,422,168</u>		<u>1,466,073</u>	<u>20,956,095</u>	<u>940,000</u>
General obligation bonds payable	4,322,467	440,000	418,953	4,343,514	600,274
Less deferred amount on advanced refunding	<u>259,195</u>		<u>13,884</u>	<u>245,311</u>	
Total general obligation bonds payable	<u>4,063,272</u>	<u>440,000</u>	<u>405,069</u>	<u>4,098,203</u>	<u>600,274</u>
Capital leases payable	<u>107,061</u>	<u>270,422</u>	<u>55,062</u>	<u>322,421</u>	<u>137,209</u>
Compensated absences	<u>643,000</u>	<u>488,160</u>	<u>453,160</u>	<u>678,000</u>	<u>480,727</u>
Net pension obligation	<u>574,016</u>	<u>1,350,555</u>	<u>1,272,389</u>	<u>652,182</u>	
Net other postemployment benefit obligation	<u>79,788</u>	<u>158,171</u>		<u>237,959</u>	
Governmental activity long-term debt	<u>27,889,305</u>	<u>2,707,308</u>	<u>3,651,753</u>	<u>26,944,860</u>	<u>2,158,210</u>

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Business-type Activities:	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Retirements and Other</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Certificates of obligation	18,175,000		1,850,000	16,325,000	555,000
Less deferred amounts:					
Issuance discounts	<u>219,874</u>		<u>13,024</u>	<u>206,850</u>	
Total certificates of obligation	<u>18,394,874</u>		<u>1,863,024</u>	<u>16,531,850</u>	<u>555,000</u>
General obligation bonds payable	3,372,534	1,020,000	311,047	4,081,487	409,727
Less deferred amount on advanced refunding	<u>215,888</u>		<u>(440)</u>	<u>216,328</u>	
Total general obligation bonds payable	<u>3,156,646</u>	<u>1,020,000</u>	<u>311,487</u>	<u>3,865,159</u>	<u>409,727</u>
Capital leases payable	<u>105,992</u>		<u>51,845</u>	<u>54,147</u>	<u>54,147</u>
Compensated absences	<u>34,100</u>	<u>32,300</u>	<u>28,400</u>	<u>38,000</u>	<u>32,609</u>
Net pension obligation	<u>43,324</u>	<u>107,128</u>	<u>100,977</u>	<u>49,475</u>	
Net other postemployment benefit obligation	<u>8,335</u>	<u>18,488</u>		<u>26,823</u>	
Business-type activity long-term debt	<u>21,743,271</u>	<u>1,177,916</u>	<u>2,355,733</u>	<u>20,565,454</u>	<u>1,051,483</u>
Total government	<u>\$ 49,632,576</u>	<u>\$ 3,885,224</u>	<u>\$ 6,007,486</u>	<u>\$ 47,510,314</u>	<u>\$ 3,209,693</u>

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

The annual debt service requirements to maturity for each bond or debt type are as follows:

Certificates of Obligation

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 940,000	\$ 857,084	\$ 555,000	\$ 654,201	\$ 3,006,285
2015	980,000	819,294	860,000	633,179	3,292,473
2016	1,025,000	779,912	900,000	601,201	3,306,113
2017	1,070,000	738,735	930,000	567,840	3,306,575
2018	1,105,000	697,075	965,000	533,634	3,300,709
2019-2023	6,285,000	2,769,385	5,450,000	2,081,214	16,585,599
2024-2028	7,890,000	1,237,707	5,605,000	917,010	15,649,717
2029-2033	<u>1,495,000</u>	<u>121,400</u>	<u>1,060,000</u>	<u>70,350</u>	<u>2,746,750</u>
Total	<u>\$ 20,790,000</u>	<u>\$ 8,020,592</u>	<u>\$ 16,325,000</u>	<u>\$ 6,058,629</u>	<u>\$51,194,221</u>

General Obligation Bonds Payable

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 600,274	\$ 134,289	\$ 409,727	\$ 104,559	\$ 1,248,849
2015	478,164	116,260	256,837	96,690	947,951
2016	490,532	100,351	254,468	91,903	937,254
2017	505,269	83,812	264,731	86,814	940,626
2018	350,800	64,878	449,201	79,572	944,451
2019-2023	<u>1,918,475</u>	<u>167,960</u>	<u>2,446,523</u>	<u>205,590</u>	<u>4,738,548</u>
Total	<u>\$ 4,343,514</u>	<u>\$ 667,550</u>	<u>\$ 4,081,487</u>	<u>\$ 665,128</u>	<u>\$ 9,757,679</u>

Capital Leases Payable

Year Ending September 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 137,210	\$ 6,513	\$ 54,147	\$ 2,404	\$ 200,274
2015	91,743	3,482	0	0	95,225
2016	<u>93,468</u>	<u>1,757</u>	<u>0</u>	<u>0</u>	<u>95,225</u>
Total	<u>\$ 322,421</u>	<u>\$ 11,752</u>	<u>\$ 54,147</u>	<u>\$ 2,404</u>	<u>\$ 390,724</u>

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Advance Refunding – 2013

On June 13, 2013, the City issued \$1,460,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 1.50% to 2.00% to advance refund \$1,415,000 of outstanding bonds. The \$1,415,000 refunded \$425,000 of 2003 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.20% which was governmental activity debt and \$990,000 in the water and sewer fund which included \$85,000 of Series 2003 general obligation refunding bonds with an interest rate of 4.00%; \$905,000 of Series 2003 Tax and Utility system revenue certificates of obligation with interest rates from 4.20%. The net proceeds of \$1,449,716.88 (after payment of \$37,574 in issuance costs and \$3,603 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$1,415,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2004 to August 15, 2023. All maturities were redeemed prior to original maturity on August 15, 2013.

The reacquisition price exceeded the net carrying amount of the old debt by \$28,630 for governmental activities and \$41,634 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2023 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2013 is \$27,321 for governmental activities and \$39,713 for the water and sewer fund.

Advance Refunding – 2012

On March 6, 2012, the City issued \$6,250,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 0.35% to 3.00% to advance refund \$6,230,000 of outstanding bonds. The \$6,230,000 refunded \$3,430,000 of 2003 Series Tax and Utility system revenue certificates of obligation with interest rates of 4.20% to 5.00% which was governmental activity debt and \$2,800,000 in the water and sewer fund which included \$575,000 of Series 1999 general obligation refunding bonds with an interest rate of 4.45%; \$1,895,000 of Series 2003 Tax and Utility system revenue certificates of obligation with interest rates from 4.20% to 5.00%; and \$330,000 of Series 2003A general obligation refunding bonds with interest rates from 3.875% to 5.00%. The net proceeds of \$6,629,811 (after payment of \$76,000 in issuance costs and \$19,016 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$6,230,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2004 to August 15, 2023. All maturities were redeemed prior to original maturity on August 15, 2013.

The reacquisition price exceeded the net carrying amount of the old debt by \$258,663 for governmental activities and \$225,545 for water and sewer. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2023 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2013 is \$202,548 for governmental and \$176,615 for water and sewer fund.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

Advance Refunding – 2005

On May 3, 2005, the City issued \$2,370,000 in general obligation refunding bonds from the debt service fund with an interest rate of 4.32% to advance refund \$2,225,000 of outstanding 1997 Series certificates of obligation with interest rates of 5.3% to 5.5%. The net proceeds of \$2,334,986 (after payment of \$31,375 in underwriting fees, insurance, and other issuance costs and \$3,639 net cash received by the City) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on \$2,225,000 of refunded debt. As a result, the refunded certificates of obligation are considered to be defeased and the liability has been removed from the government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2009 through August 15, 2017. All maturities were redeemed prior to original maturity on August 15, 2007 for a total of \$2,225,000. There is no defeased debt remaining outstanding at September 30, 2013.

The reacquisition price exceeded the net carrying amount of the old debt by \$109,986 for governmental activities. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2017 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2013, is \$15,442.

Advance Refunding – 2003

On August 26, 2003, the City issued \$2,405,000 in general obligation refunding bonds from the water and sewer fund with interest rates of 2% to 5% to advance refund \$1,355,000 of outstanding 1993 Series general obligation refunding bonds with interest rates of 4.4% to 4.9%; \$50,000 of 1993 Series certificates of obligation with an interest rate of 6%; and \$340,000 of 1994-A Series certificates of obligation with interest rates of 5.45% to 5.6% which was all water and sewer fund debt.

In addition, this new water and sewer fund debt advance refunded \$565,000 of 1997 Series certificates of obligation with interest rates of 4.9% to 5% which was governmental activity debt. The net proceeds of \$2,371,330 (after payment of \$33,670 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on \$2,310,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

Original maturity dates for the defeased debt remaining are August 15, 2004 through August 15, 2008. All maturities were redeemed prior to or on original maturity with \$1,405,000 redeemed October 1, 2003; \$540,000 redeemed August 15, 2004; \$190,000 redeemed August 15, 2005, and \$175,000 redeemed August 15, 2006. There is no defeased debt remaining outstanding at September 30, 2013.

The reacquisition price exceeded the net carrying amount of the old debt by \$61,330 with \$46,329 for the water and sewer fund and \$15,001 for governmental activities. The \$46,329 in the water and sewer fund is being netted against the new debt and amortized over the new debt's life. This difference, reported in the accompanying financial statements as a deduction from general obligation bonds payable, is being charged to operations through the year 2023 using the proportionate-to-stated-interest method. The remaining unamortized balance at September 30, 2013 is \$10,582. The \$15,001 for the debt service fund was shown as a loss on the government-wide statement of activities because the debt service fund was relieved of any

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

future debt in this transaction and thus, the loss is not susceptible to amortization against future debt in the governmental activities.

Compliance With Debt-Service Requirements

A. Combination Tax and Utility System Revenue Certificates of Obligation, Series 2003

The ordinance requires a separate interest and sinking fund for the payment of interest and principal of the certificates. On or before the first day of each month beginning with October 1, 2003, and for so long as any certificates remain outstanding, the City is required to transfer into the interest and sinking fund such amounts as will be sufficient to pay one-sixth of the interest scheduled to become due on the immediately next following semiannual interest payment date and one-twelfth of the principal scheduled to become due on the immediately next following annual principal payment date, provided that equal monthly payments be made.

The City is required to levy an ad valorem tax upon all taxable property within the City. If surplus net revenues of the City's combined waterworks and sewer system are actually on 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 taxes which otherwise would have been required to be levied may be reduced to the extent and by the amount of the surplus net revenues then on deposit in the interest and sinking fund or budgeted for deposit therein.

The City will not grant or permit any free service from the system except for public buildings and institutions operated by the City. The City shall establish rates and charges for water and sewer services which will provide revenues sufficient each year to pay all maintenance and operating expenses of the system, pay the interest and principal of prior lien obligations, provide amounts required to be deposited in the interest and sinking funds of prior lien obligations, and pay all other obligations of the system.

B. General Obligation Refunding Bonds, Series 1999 and General Obligation Refunding Bonds, Series 2003A

The ordinances require a separate interest and sinking fund for the payment of interest and principal of the certificates. The City is required to compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the bonds as interest becomes due and to provide and maintain an interest and sinking fund adequate to pay the principal as such principal matures (but never less than 2% of the original amount of the bonds as a sinking fund each year). The City does not levy taxes in the water and sewer fund. Payments were instead made from water operations.

C. Combination Tax and Utility System Revenue Certificates of Obligation, Series 2004; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2005; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2006; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2008; Combination Tax and Utility System Revenue Certificates of Obligation, Series 2009;and Combination Tax and Utility System Revenue Certificates of Obligation, Series 2011

The ordinances require a separate interest and sinking fund for the payment of interest and principal of the certificates. The City is required to compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the bonds as interest becomes due and to provide and maintain an interest and sinking fund adequate to pay the

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

6. Long-term Debt (Continued)

principal as such principal matures (but never less than 2% of the original amount of the bonds as a sinking fund each year).

If surplus net revenues of the City's combined waterworks and sewer system are actually on 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 taxes which otherwise would have been required to be levied may be reduced to the extent and by the amount of the surplus net revenues then on deposit in the interest and sinking fund or budgeted for deposit therein.

Any proceeds of the certificates not spent on the project shall promptly be deposited to the credit of the Interest and Sinking Fund.

D. General Obligation Refunding Bonds, Series 2005; General Obligation Refunding Bonds, Series 2012; and General Obligation Refunding Bonds, Series 2013.

The ordinance requires a separate interest and sinking fund for the payment of interest and principal of the certificates. The City is required to compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the bonds as interest becomes due and to provide and maintain an interest and sinking fund adequate to pay the principal as such principal matures (but never less than 2% of the original amount of the bonds as a sinking fund each year).

7. Ad Valorem Taxes

Property taxes are assessed and collected by the Tax Appraisal District of Bell County. The tax calendar is as follows:

Levy date:	October 1 of the tax year
Due date:	January 31 of year following the tax year, without penalty
Collection date:	Beginning in October of the tax year
Lien date:	January 1 of the tax year

The effective tax rate during fiscal year ended September 30, 2013, was \$0.6770 per \$100 valuation.

8. Interest Expense

Interest expense paid during the year ended September 30, 2013, is as follows:

General Fund	\$ 5,812
Debt Service Fund	1,050,510
Proprietary Fund Type	
Water and Sewer Fund	733,483
Drainage	80,382
 Total interest paid	 \$ 1,870,187

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

IV. DETAILED NOTES ON ALL FUNDS (CONTINUED)

8. Interest Expense (Continued)

Interest accrued in the Water and Sewer Fund at September 30, 2013, was \$89,151. Capitalized interest incurred during the construction phase of capital assets of \$481,888 was netted with interest earned on the invested proceeds over the same period of \$13,422, resulting in a net capitalized amount of \$468,466 for the year ended September 30, 2013. Amortization of deferred amount on advance refunding of certificates of obligation in the Water and Sewer Fund was \$31,233 for the year ended September 30, 2013. Amortization of bond discount in the Water and Sewer Fund was \$1,809 for the year ended September 30, 2013. Amortization of bond premium of refunding bonds in the Water and Sewer Fund was \$(28,793) for the year ended September 30, 2013.

Interest accrued in the Drainage Fund at September 30, 2013, was \$8,666, and amortization of bond discount was \$183. Amortization of bond premium of refunding bonds in the Drainage Fund was \$(6,660) for the year ended September 30, 2013. Capitalized interest expense of \$53,550 was netted with interest earned on the invested proceeds of \$1,553 resulting in a net capitalized amount of \$51,997 for the year ended September 30, 2013.

Interest accrued in the governmental activities on the government-wide statement of net position at September 30, 2013, was \$128,020, and amortization of bond discount was \$4,320. Amortization of deferred amount on advance refunding costs was \$42,514.

9. Water Service Contracts

The City has an agreement to purchase water service from Bell County Water Control and Improvement District No. 1 (WCID No. 1), Killeen, Texas, until December 31, 2041, when WCID No. 1 bonds are paid. WCID No. 1 agrees to deliver and meter water required by the City. WCID No. 1 bills for water purchased, at rates that are reviewed and adjusted periodically. The rates are determined by amounts necessary to retire WCID No. 1 debt and cover maintenance and operating expenses. During the fiscal year ended September 30, 2013, the City purchased 1,547,024,000 gallons of water from WCID No. 1 for a total charge of \$2,069,820. The City also paid \$372,122 for an option to purchase future water from the Brazos River Authority. This amount is included in current year purchased water expenditures. In addition, the City has two contracts with the Brazos River Authority to pay the Authority annually for the water made available to the City at a price equal to the product of multiplying the system rate times 3,235 acre-feet and 300 acre-feet of water per fiscal year agreed to be made available to the City by Authority from the system regardless of whether, or how much of, said water is diverted and used by the City. The City paid the Brazos River Authority \$232,073 for water which can be pumped directly into the South Water Plant.

10. Sanitation Service Contract

On August 1, 2008, the City amended its sanitation contract with Waste Management of Texas, Inc. on the collection and distribution of fees on commercial customers within the city, size and collection of residential brush pickup, and fuel surcharges charged to commercial customers. Waste Management of Texas, Inc. now bills and collects fees from commercial customers and remits a five percent franchise fee to the City.

V. OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts: theft; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to TML for its general insurance coverage, real and personal property coverage, liability coverage, and

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

V. OTHER INFORMATION (Continued)

1. Risk Management (Continued)

workers compensation coverage. The agreement for formation for TML provides that TML will be self-sustaining through member premiums.

2. Employee Benefit Plans

Texas Municipal Retirement System Plan

Pension Trust Fund

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 849 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 849 municipalities has an annual, individual actuarial valuation performed. All assumptions for the 12-31-12 valuations are contained in the 2011 TMRS Comprehensive Annual Financial Report (CAFR), a copy of which may be obtained at www.tmr.com, by calling 1-800-924-8677, or by writing to P.O. Box 149153, Austin, TX 78714-9153.

Upon retirement, benefits depend upon the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At inception, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, either annually or on an annual repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming that the current City's deposit rate, seven percent, has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on a 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by three percent each year, not the actual interest credited to member accounts in previous years, and increased by the city match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or updated service credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

Contributions

The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25.2-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating updates, such as updated service credit and annuity increases. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2011, valuation is effective for rates beginning January 2013).

Cities are required to contribute at an actuarially determined rate. These rates are provided to the city on an annual basis, following the completion of the actuarial valuation. Note that there is a time delay in the valuation and when the rate becomes effective. If a change in plan provisions is elected by the city, this rate can change. The actuary determines contribution rates on a calendar-year basis; the city discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the city's fiscal year.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2010 and December 31, 2011, the basis for determining the contribution rates for calendar years 2012 and 2013. The December 31, 2012 actuarial valuation is the most recent valuation.

The actuarial valuation information is as follows:

Actuarial valuation date	12/31/10	12/31/11	12/31/12
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll, closed	Level percent of payroll, closed	Level percent of payroll, closed
Amortization period	27.1	26.1	25.2
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions:			
Investment rate of return	7.0%	7.0%	7.0%
Projected salary increase	Varies by age & service	Varies by age & service	Varies by age & service
Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%
City-specific assumptions:			
Payroll growth assumption	3.0%	3.0%	3.0%
Withdrawal rates for Male/Female	High/High	High/High	High/High

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

Net Pension Obligation:

Annual required contribution	\$ 1,451,615
Interest on net pension obligation	43,214
Adjustment to annual required contribution	<u>(37,147)</u>
Annual pension cost	1,457,682
Contributions made	<u>(1,373,366)</u>
Increase in net pension obligation	84,316
Net pension obligation, beginning of year	<u>617,340</u>
Net pension obligation, end of year	<u><u>\$ 701,656</u></u>

Trend information is as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Employer Contributions	Percentage of APC Contributed	Net Pension Obligation
2008	840,704	840,704	100.00%	
2009	1,062,598	939,511	88.43%	123,087
2010	1,263,397	1,070,783	84.75%	192,614
2011	1,363,824	1,175,958	86.23%	187,867
2012	1,370,725	1,256,953	91.70%	113,772
2013	1,457,682	1,373,366	94.22%	84,316

The schedule of actuarial liabilities and funding progress follows:

Actuarial Valuation Date		12/31/2012
Actuarial Value of Assets (A)		\$ 22,848,037
Actuarial Accrued Liability (B)		\$ 31,184,554
Percentage Funded (C) = (A) / (B)		73.27%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) (D) = (B) – (A)		\$ 8,336,517
Annual Covered Payroll (E)		\$ 9,666,391
UAAL as a Percentage of Covered Payroll (D) / (E)		86.24%

Additional schedule of funding progress for TMRS can be found in the required supplementary information on page 74.

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

2. Employee Benefit Plans (Continued)

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

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

Schedule of Contributions Rates:
 (Retiree-only portion of the rate)

Calendar Year	Annual Required Contribution Rate	Actual Contribution Made	Percentage of ARC Contributed
2007	0.03%	0.03%	100.0%
2008	0.02%	0.02%	100.0%
2009	0.02%	0.02%	100.0%
2010	0.02%	0.02%	100.0%
2011	0.02%	0.02%	100.0%
2012	0.02%	0.02%	100.0%

Deferred Compensation Plan

On July 29, 1986, the City entered into an agreement with the United States Conference of Mayors to participate in the administration of a deferred compensation plan derived from Section 457 of the Internal Revenue Code. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Investments, other than annuity contracts, are held in a custodial account, the assets of which are held by Bank One Trust Company, N.A. as custodian for the exclusive benefit of participants and the beneficiaries thereof of the Plan. The City’s USCM Deferred Compensation Program is administered by Nationwide Retirement Solutions. Except as may otherwise be permitted or required by law, no assets or income of the Plan shall be used for, or diverted to, purposes other than for the expenses of administration of the Plan. The assets amounted to \$785,442 at September 30, 2013.

It is the opinion of the City’s management that the City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. The City provides limited administrative duties. In accordance with GASB Statement No. 32, the Plan is not included in the City’s financial statements.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions

Plan Description

In addition to the pension benefits described in Note V. 2. as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance or until 65 if eligible for Medicare to eligible retirees, their spouses and dependents through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established by management.

During the year ended September 30, 2010, the City changed its policy and began allowing new retirees to remain on the City's health plan at the retiree's expense. As of the valuation date, there are no retirees on the City's health plan. Future retirees are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants.

Funding policy

Retirees will contribute to the health plan 100% of the total blended premium for active and retired participants. Retiree contributions rates for fiscal year 2013 were \$3,618 to \$11,168 per year depending on coverage levels selected.

The following table shows the components of the City's annual other postemployment benefit (OPEB) cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Net OPEB Obligation:

Annual required contribution	\$ 91,251
Interest on net OPEB obligation	7,066
Adjustment to annual required contribution	<u>(10,194)</u>
Annual OPEB cost	88,123
Contributions made	<u>(0)</u>
Increase in net OPEB obligation	88,123
Net OPEB obligation, beginning of year	<u>176,658</u>
Net OPEB obligation, end of the year	<u>\$ 264,781</u>

Trend information is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOC)	Employer Contributions	Percentage of AOC Contributed	Net OPEB Obligation
2010	\$88,792	0	0%	\$ 88,792
2011	87,866	0	0%	176,658
2012	88,123	0	0%	264,781
2013	0	0	0%	264,781

Additional schedule of funding progress for Other Postemployment Benefit can be found in the required supplementary information on page 75.

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

3. Postemployment Benefits Other than Pensions (Continued)

The schedule of actuarial liabilities and funding progress follows:

Actuarial Valuation Date		10/1/12
Actuarial Value of Assets	(A)	\$ 0
Actuarial Accrued Liability	(B)	\$ 590,256
Percentage Funded	(C) = (A) / (B)	0%
Unfunded (Overfunded)		
Actuarial Accrued Liability (UAAL)	(D) = (B) – (A)	\$ 590,256
Annual Covered Payroll	(E)	N/A
UAAL as a Percentage of Covered Payroll	(D) / (E)	N/A

The actuarial accrued liability of \$590,256 includes \$590,256 for active employees and \$0 for retirees. There are no current retirees on the health care plan.

Actuarial Valuations

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2010 actuarial valuation, the unit credit method was used. The actuarial assumptions include a four percent investment rate of return, which is a blended rate of expected long-term investment returns on plan assets and the City's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of ten percent initially, reduced by decrements to an ultimate rate of five percent after ten years. The City's unfunded actuarial accrued liability is being amortized as a level dollar of active member payroll over a 30 year closed period. The actuarial assumptions presented here are as follows in the chart form:

The actuarial valuation information is as follows:

Actuarial valuation date	10/1/11
Actuarial cost method	Unit Credit
Amortization method	Level Dollar of Payroll
Amortization period	27
Assumed investment rate of return	4.0%
Healthcare cost trend rate	10% initially, reduced by decrements to an ultimate rate of 5% after 10 years

4. Grants

During the year ended September 30, 2011, the City was approved by the U.S. Department of Justice for a grant in the amount of \$8,195 for police vests. As of September 30, 2013, the City recognized \$8,195 of grant proceeds and expenditures.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

4. Grants (Continued)

During the year ended September 30, 2013, the City was approved by the U.S. Department of Justice for a grant in the amount of \$3,414 for police vests. As of September 30, 2013, the City recognized \$310 of grant proceeds and expenditures.

During the year ended September 30, 2013, the City was approved by the U.S. Department of Justice for a grant in the amount of \$3,180 for police vests. As of September 30, 2013, the City recognized \$0 of grant proceeds and expenditures.

During the year ended September 30, 2013, the City was approved by the United States Olympic Committee for a grant in the amount of \$18,000 for the purchase of equipment under the U.S. Paralympics Integrated Adaptive Sports Program. As of September 30, 2013, the City recognized \$18,000 of grant proceeds and expenditures.

During the year ended September 30, 2010, the City was approved by the U.S. Department of Homeland Security for a grant in the amount of \$541,900 for the hiring of five additional firefighters. As of September 30, 2013, the City recognized \$536,161 of grant proceeds and expenditures.

During the year ended September 30, 2010, the City was approved by U.S. Department of Housing and Urban Development for a grant in the amount of \$750,000 for the construction of a YMCA facility in a city park. As of September 30, 2013, the City recognized no grant proceeds and expenditures, and the City expended no local matching funds.

During the year ended September 30, 2011, the City was approved by the State of Texas Department of Transportation pass through funding in the amount of \$1,700,000 to construct an eastbound to westbound turn around bridge at US 190. The City will be reimbursed the \$1,700,000 within a 10 – 20 year time frame based on traffic counts. As of September 30, 2013, the City has not recognized any proceeds.

During the year ended September 30, 2012, the City was approved by the Texas Department of Rural Affairs for a grant in the amount of \$350,000 for the stabilization of the Roy Reynolds Bridge. As of September 30, 2013, the City recognized \$350,000 of grant proceeds and expenditures.

During the year ended September 30, 2013, the City was approved by the Texas State Library and Archives Commission for a grant in the amount of \$10,000 for the purchase of equipment, supplies, and educational performances. As of September 30, 2013, the City recognized \$0 grant proceeds and expenditures.

During the year ended September 30, 2013, the City was approved by the Texas Commission on the Arts for a grant in the amount of \$625 for educational performances. As of September 30, 2013, the City recognized \$625 of grant proceeds and expenditures.

5. Commitments

The City has a commitment to pay WCID No. 1 for 618 acre feet of option water and 4,647 acre feet of election use water from the Brazos River Authority beginning January 1, 1992, and each year thereafter until December 31, 2041. Current rate for the option water is \$13.20 per acre-foot and the current rate for the election use water is \$26.40 per acre-foot; however, the contract between WCID No. 1 and the Brazos River Authority contains escalation provisions that would be passed through to the City.

The City has an agreement with WCID No. 1 for the expansion of treatment facilities for the City and another water district. The overall costs for the expansion are being funded by a bond issued by WCID No. 1. The associated debt payments are allocated to the City and the other water district by the additional increase of treated water to each. These debt payments are included in the monthly billing received from WCID No. 1.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

5. Commitments (Continued)

The City has two commitments to The Brazos River Authority (Authority) to pay the Authority annually for the water made available to the City hereunder at a price equal to the product of multiplying the system rate times 3,235 acre-feet and 300 acre-feet of water per fiscal year, regardless of whether, or how much of, said water is diverted and used by the City. Current rate is \$62.50 per acre-foot of water.

The City has a commitment to Hill Country Community Action Association, Inc. to allow them the exclusive use, occupancy and right to operate a Head Start Center on the designated City land rent-free for a period of seventeen years starting March 9, 1998.

On August 1, 2006, the City has entered into a 20-year joint-use operating lease agreement with Killeen Independent School District on 5 acres of land adjacent to Skipcha Estates Elementary School for the development of a public park. The City has agreed to construct and maintain the buildings and playground equipment over the lease period that expires on July 31, 2026.

The City has a promissory note in the amount of \$272,000 for the purchase of 19.026 acres out of the Elizabeth Dawson Survey, Abstract No. 258, Harker Heights, Bell County, Texas known as the Comanche Gap Park. This note will be paid in four annual installments. The balance on the note as of September 30, 2013 is \$210,414.60.

The City has a contract with a construction firm to construct a west bound U-turn lane at US190 and FM2410 in the amount of \$1,812,786 with \$4,536 remaining at September 30, 2013.

A contract has been signed between the City and specialty restoration firm in the amount of \$88,015 with \$49,127 remaining at September 30, 2013.

The City has a contract with an engineering firm for water supply, fire hydrants, and waterlines in the amount of \$52,000 with \$11,000 remaining at September 30, 2013. In addition the City has a signed contract with an engineering firm for an elevated storage tank and waterlines in the amount of \$127,940 with \$3,488 remaining at September 30, 2013. The City has a contract with a construction firm for the elevated storage tank and waterline improvements in the amount of \$928,549 with \$296,510 remaining at September 30, 2013.

A contract has been signed between the City and an engineering firm for drain valve repairs in the amount of \$30,400 with \$278 remaining at September 30, 2013. The City has a contract with a construction firm for the drain valve repairs in the amount of \$504,861 with \$63,243 remaining at September 30, 2013. Three contracts have been signed between the City and engineering firms for sewer rehabilitation and diversion projects in the amount of \$29,355 with \$7,748 remaining at September 30, 2013, \$240,000 with \$84,264 remaining at September 30, 2013, and \$230,668 with \$109,009 remaining at September 30, 2013.

A contract has been signed between the City and an engineering firm for the development of a Federal Emergency Management Agency (FEMA) in the amount of \$250,000 with \$39,630 remaining at September 30, 2013.

6. Contingencies

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

CITY OF HARKER HEIGHTS
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 SEPTEMBER 30, 2013

V. OTHER INFORMATION (CONTINUED)

7. Related Party Transactions

The City hired an upholstery center to repair upholstery on the City's vehicles and furniture. This upholstery center is owned and operated by a spouse of one of the City's department heads. The total amount billed to the City for this service during the year was \$5,254, of which none was outstanding at September 30, 2013.

8. Prior Period Adjustment

The City has implemented GASB 65, Items Previously Reported as Assets and Liabilities, which established accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows and deferred inflows. The major affect this statement has on the City's financial statements is debt issuance cost are now expensed as incurred instead of being capitalized and amortized over the life of the bonds. The Water and Sewer Fund had a prior period adjustment of \$143,278 and the Drainage Utility Fund had an adjustment of \$14,875 as a restatement of the beginning net position.

Water and Sewer Fund:

Net Position as of September 30, 2012	\$ 21,396,586
Less reclassification of bond issuance costs per GASB #65	(143,278)
Net Position as of September 20, 2012, restated	\$ 21,253,308

Drainage Utility Fund:

Net Position as of September 30, 2012	\$ 2,544,103
Less reclassification of bond issuance costs per GASB #65	(14,875)
Net Position as of September 20, 2012, restated	\$ 2,529,228

In the General Fund, the City made a prior period adjustment of \$178,785 to accurately reflect ambulance collection fees. This amount increased the beginning net position.

General Fund:

Fund Balances as of September 30, 2012	\$ 8,435,666
Plus reclassification of ambulance collection fees	178,785
Fund Balances as of September 30, 2012, restated	\$ 8,614,451

Governmental Activities

Net Position as of September 30, 2012	\$ 36,397,687
Less reclassification of bond issuance costs per GASB #65	(197,756)
Net Position as of September 20, 2012, restated	\$ 36,199,931

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARKER HEIGHTS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013
(UNAUDITED)

TEXAS MUNICIPAL RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS

The schedule of funding progress for TMRS is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) – (1)
12/31/00	3,070,636	3,625,715	(555,079)
12/31/01	3,704,603	4,438,527	(733,924)
12/31/02	4,432,425	6,445,242	(2,012,817)
12/31/03	5,424,045	8,175,496	(2,751,451)
12/31/04	6,622,384	8,933,821	(2,311,437)
12/31/05	7,834,744	10,298,670	(2,463,926)
12/31/06	8,479,946	11,473,458	(2,993,512)
12/31/07	9,762,880	15,929,666	(6,166,786)
12/31/08	11,275,779	18,787,573	(7,511,794)
12/31/09	13,416,439	21,390,191	(7,973,752)
12/31/10	17,265,452	25,939,525	(8,674,073)
12/31/11	19,878,412	27,999,789	(8,121,377)
12/31/12	22,848,037	31,184,554	(8,336,517)

Actuarial Valuation Date	(4) Funded Obligation (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll ((2) – (1) / (5))
12/31/00	84.69%	3,767,433	(14.7%)
12/31/01	83.46%	4,035,415	(18.2%)
12/31/02	68.77%	4,128,230	(48.8%)
12/31/03	66.35%	4,259,189	(64.6%)
12/31/04	74.13%	4,791,572	(48.2%)
12/31/05	76.08%	5,216,465	(47.2%)
12/31/06	73.91%	5,663,714	(52.9%)
12/31/07	61.29%	6,668,434	(92.5%)
12/31/08	60.02%	8,187,672	(91.7%)
12/31/09	62.72%	8,405,370	(94.9%)
12/31/10	66.56%	8,967,938	(96.7%)
12/31/11	71.00%	9,183,929	(88.4%)
12/31/12	73.27%	9,666,391	(86.2%)

CITY OF HARKER HEIGHTS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013
(UNAUDITED)

OTHER POSTEMPLOYMENT BENEFITS
ANALYSIS OF FUNDING PROGRESS

The schedule of funding progress for Other Postemployment Benefits is as follows:

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) – (1)
10/01/09	0	1,554,674	(1,554,674)
10/01/10	0	543,474	(543,474)
10/01/11	0	590,256	(590,256)
10/01/12	0	590,256	(590,256)

Actuarial Valuation Date	(4) Funded Obligation (1) / (2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll ((2) – (1) / (5))
10/01/09	0%	N/A	N/A
10/01/10	0%	N/A	N/A
10/01/11	0%	N/A	N/A
10/01/12	0%	N/A	N/A

The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to future employment, mortality, and the healthcare cost trend.

Note: The most recent actuarial valuation was October 1, 2011.



COMBINING FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Hotel/Motel Fund – This fund is used to account for the accumulation of resources of the hotel/motel occupancy tax. These monies are to be spent in accordance with the requirements of state law.

Restricted Court Fund – This fund is used to account for fees collected to maintain security for municipal court buildings, state mandated court costs for time payments restricted for judicial efficiency expenditures, and costs restricted for municipal court technology expenditures.

Memorial Fund – This fund is used to account for contributions received to give scholarships to individuals for training as police officers.

CITY OF HARKER HEIGHTS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Special Revenue			Total Nonmajor Governmental Funds
	Hotel/Motel Fund	Restricted Court Fund	Memorial Fund	
ASSETS				
Cash	\$ 16,125	\$ 43,080	\$ 358	\$ 59,563
Investments	163,598	127,757	11,820	303,175
Receivables (net of allowance for uncollectibles):				
Accounts	25,807			25,807
Due from other funds	<u> </u>	<u>18,825</u>	<u> </u>	<u>18,825</u>
Total Assets	<u><u>\$ 205,530</u></u>	<u><u>\$ 189,662</u></u>	<u><u>\$ 12,178</u></u>	<u><u>\$ 407,370</u></u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balances:				
Nonspendable				
Restricted for:				
Economic development	205,530			205,530
Public safety		189,662	12,178	201,840
Committed				
Assigned				
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>205,530</u>	<u>189,662</u>	<u>12,178</u>	<u>407,370</u>
Total Liabilities and Fund Balances	<u><u>\$ 205,530</u></u>	<u><u>\$ 189,662</u></u>	<u><u>\$ 12,178</u></u>	<u><u>\$ 407,370</u></u>

CITY OF HARKER HEIGHTS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue			Total Nonmajor Governmental Funds
	Hotel/Motel Fund	Restricted Court Fund	Memorial Fund	
REVENUES				
Taxes - other	\$ 84,257			\$ 84,257
Fines		78,235		78,235
Charges for services				
Investment earnings	198	152	19	369
Total Revenues	<u>84,455</u>	<u>78,387</u>	<u>19</u>	<u>162,861</u>
EXPENDITURES				
Current:				
Public safety:				
Courts		68,002		68,002
Economic development and assistance	101,314			101,314
Total Expenditures	<u>101,314</u>	<u>68,002</u>		<u>169,316</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,859)	10,385	19	(6,455)
Fund Balances - Beginning	<u>222,389</u>	<u>179,277</u>	<u>12,159</u>	<u>413,825</u>
Fund Balances - Ending	<u><u>\$ 205,530</u></u>	<u><u>\$ 189,662</u></u>	<u><u>\$ 12,178</u></u>	<u><u>\$ 407,370</u></u>



**SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

DEBT SERVICE AND SPECIAL REVENUE FUNDS

CITY OF HARKER HEIGHTS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,405,200	\$ 2,405,200	\$ 2,430,478	\$ 25,278
Investment earnings	5,500	5,500	930	(4,570)
Total Revenues	2,410,700	2,410,700	2,431,408	20,708
EXPENDITURES				
Debt service:				
Principal	1,444,000	1,444,000	1,453,953	9,953
Interest and fiscal charges	1,059,300	1,059,300	1,047,256	(12,044)
Tax collection fees	25,000	25,000	28,020	3,020
Bond Issuance Cost			18,787	18,787
Total Expenditures	2,528,300	2,528,300	2,548,016	19,716
Excess (Deficiency) of Revenues Over (Under) Expenditures	(117,600)	(117,600)	(116,608)	992
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of bonds			455,447	455,447
Payment to refunded bond escrow agent			(435,427)	(435,427)
Transfers in	110,000	110,000	110,569	569
Total Other Financing Sources (Uses)	110,000	110,000	130,589	20,589
Net Change in Fund Balances	(7,600)	(7,600)	13,981	21,581
Fund Balances – Beginning	14,528	14,528	47,516	
Fund Balances – Ending	\$ 6,928	\$ 6,928	\$ 61,497	\$ 21,581

CITY OF HARKER HEIGHTS

HOTEL/MOTEL SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Hotel/Motel tax	\$ 75,000	\$ 75,000	\$ 84,257	\$ 9,257
Investment earnings	200	200	198	(2)
Total Revenues	<u>75,200</u>	<u>75,200</u>	<u>84,455</u>	<u>9,255</u>
EXPENDITURES				
Current:				
Economic development				
Advertising	9,000	9,000	7,500	(1,500)
Historical restoration & preservation	120,200	120,200	81,404	(38,796)
Events			9,910	9,910
Softball tournament	5,000	5,000		(5,000)
Kids sporting events	4,000	4,000		(4,000)
Promotion of the arts	2,500	2,500	2,500	
Total Expenditures	<u>140,700</u>	<u>140,700</u>	<u>101,314</u>	<u>(39,386)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(65,500)	(65,500)	(16,859)	48,641
Fund Balances – Beginning	<u>203,832</u>	<u>203,832</u>	<u>222,389</u>	
Fund Balances – Ending	<u>\$ 138,332</u>	<u>\$ 138,332</u>	<u>\$ 205,530</u>	<u>\$ 48,641</u>

CITY OF HARKER HEIGHTS
RESTRICTED COURT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Fines	\$ 71,200	\$ 71,200	\$ 78,235	\$ 7,035
Investment earnings	300	300	152	(148)
Total Revenues	<u>71,500</u>	<u>71,500</u>	<u>78,387</u>	<u>6,887</u>
EXPENDITURES				
Current:				
Public safety - courts			68,002	68,002
Total Expenditures			<u>68,002</u>	<u>68,002</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>71,500</u>	<u>71,500</u>	<u>10,385</u>	<u>(61,115)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(90,000)</u>	<u>(90,000)</u>		<u>90,000</u>
Total Other Financing Sources (Uses)	<u>(90,000)</u>	<u>(90,000)</u>		<u>90,000</u>
Net Change in Fund Balances	(18,500)	(18,500)	10,385	28,885
Fund Balances – Beginning	<u>152,988</u>	<u>152,988</u>	<u>179,277</u>	
Fund Balances – Ending	<u><u>\$ 134,488</u></u>	<u><u>\$ 134,488</u></u>	<u><u>\$ 189,662</u></u>	<u><u>\$ 28,885</u></u>

CITY OF HARKER HEIGHTS

MEMORIAL SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 30	\$ 30	\$ 19	\$ (11)
 Total Revenues	30	30	19	(11)
 Excess (Deficiency) of Revenues Over (Under) Expenditures	30	30	19	(11)
 Fund Balances – Beginning	12,163	12,163	12,159	
 Fund Balances – Ending	\$ 12,193	\$ 12,193	\$ 12,178	\$ (11)



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

GENERAL FUND

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
GENERAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash	\$ 4,526,158	\$ 2,340,997
Investments	4,256,108	6,275,878
Receivables (net of allowance for uncollectibles):		
Taxes	50,703	57,812
Accounts	377,296	337,288
Special assessments	922	922
Due from other funds	862,942	1,598,449
Due from other governments	304,693	27,025
Restricted assets:		
Cash	129,784	76,955
Investments	17,052	17,024
 Total Assets	 \$ 10,525,658	 \$ 10,732,350
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,582,614	\$ 1,740,921
Due to other funds	167,866	26,857
Deferred revenue	354,523	528,906
 Total Liabilities	 2,105,003	 2,296,684
 Fund Balances:		
Nonspendable		
Restricted for:		
Public safety	1,131	3,479
Cemetery	17,567	17,538
Committed		
Assigned to:		
Culture and recreation	145,705	90,500
Unassigned	8,256,252	8,324,149
 Total Fund Balances	 8,420,655	 8,435,666
 Total Liabilities and Fund Balances	 \$ 10,525,658	 \$ 10,732,350

CITY OF HARKER HEIGHTS
GENERAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Taxes and special assessments:		
Property	\$ 6,813,196	\$ 6,838,334
Other taxes and special assessments	6,691,380	7,062,961
Licenses and permits	285,907	204,229
Fines	1,326,703	1,387,527
Charges for services	796,710	720,647
Intergovernmental	100,851	160,566
Investment earnings	32,037	31,955
Contributions and donations	38,884	170,940
Miscellaneous	143,952	56,588
	16,229,620	16,633,747
EXPENDITURES		
Current:		
General government	3,071,871	2,659,406
Public safety	10,482,239	9,735,631
Highways and streets	1,302,496	1,557,679
Culture and recreation	2,726,822	2,541,010
Economic development and assistance	364,536	347,544
Debt Service:		
Principal	55,061	136,061
Interest and fiscal charges	5,813	12,036
	18,008,838	16,989,367
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,779,218)	(355,620)
OTHER FINANCING SOURCES (USES)		
Capital leases	270,422	
Sale of capital assets proceeds		9,950
Transfers in	1,625,000	1,550,000
Transfers out	(310,000)	(150,000)
	1,585,422	1,409,950
Net Change in Fund Balances	(193,796)	1,054,330
Fund Balances – Beginning (as Restated see Note V. 8. on page 72)	8,614,451	7,381,336
Fund Balances – Ending	\$ 8,420,655	\$ 8,435,666



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

DEBT SERVICE FUND

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
DEBT SERVICE FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash	\$ 14,269	\$ 87,670
Investments	46,182	512,923
Receivables (net of allowance for uncollectibles):		
Taxes	67,766	20,514
Due from other governments	614	4,721
Total Assets	\$ 128,831	\$ 625,828
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to other funds	\$ 7,264	\$ 562,292
Deferred revenue	60,070	16,020
Total Liabilities	67,334	578,312
Fund Balances:		
Nonspendable		
Restricted for:		
Debt service	61,497	47,516
Committed		
Assigned		
Unassigned		
Total Fund Balances	61,497	47,516
Total Liabilities and Fund Balances	\$ 128,831	\$ 625,828

CITY OF HARKER HEIGHTS
DEBT SERVICE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Taxes and special assessments:		
Property	\$ 2,430,478	\$ 2,370,597
Investment earnings	930	3,383
Total Revenues	2,431,408	2,373,980
 EXPENDITURES		
Debt service:		
Principal	1,453,953	1,273,159
Interest and fiscal charges	1,047,256	1,156,689
Tax collection fees	28,020	26,497
Bond Issuance Cost	18,787	36,001
Total Expenditures	2,548,016	2,492,346
Excess (Deficiency) of Revenues Over (Under) Expenditures	(116,608)	(118,366)
 OTHER FINANCING SOURCES (USES)		
Proceeds from sale of bonds	455,447	3,200,096
Payment to refunded bond escrow agent	(435,427)	(3,650,136)
Transfers in	110,569	509,594
Total Other Financing Sources (Uses)	130,589	59,554
Net Change in Fund Balances	13,981	(58,812)
Fund Balances – Beginning	47,516	106,328
Fund Balances – Ending	\$ 61,497	\$ 47,516



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

CAPITAL PROJECTS FUND

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
CAPITAL PROJECTS FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash	\$ 731,069	\$ 1,359,051
Investments	2,137,737	1,908,797
Restricted assets:		
Cash	1,111,669	2,287,791
Investments	3,321,391	6,003,106
Total Assets	\$ 7,301,866	\$ 11,558,745
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 23,243	\$ 27,372
Due to other funds	(149,041)	657,974
Total Liabilities	(125,798)	685,346
Fund Balances:		
Nonspendable		
Restricted for:		
Capital projects	4,433,060	8,290,897
Committed		
Assigned		
Unassigned	2,994,604	2,582,502
Total Fund Balances	7,427,664	10,873,399
Total Liabilities and Fund Balances	\$ 7,301,866	\$ 11,558,745

CITY OF HARKER HEIGHTS
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Investment earnings	\$ 5,682	\$ 5,113
Miscellaneous		17,698
Intergovernmental	342,000	271,042
Total Revenues	347,682	293,853
 EXPENDITURES		
Debt Service:		
Principal		
Interest and fiscal charges		
Bond issuance costs		
Capital outlay	3,295,798	3,325,470
Total Expenditures	3,295,798	3,325,470
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,948,116)	(3,031,617)
 OTHER FINANCING SOURCES (USES)		
Issuance of certificates of obligation		
Sale of capital assets proceeds		
Issuance of certificates of obligation		
Transfers in	1,700,000	975,000
Transfers out	(2,197,619)	(5,087,123)
Total Other Financing Sources (Uses)	(497,619)	(4,112,123)
Net Change in Fund Balances	(3,445,735)	(7,143,740)
Fund Balances – Beginning	10,873,399	18,017,139
Fund Balances – Ending	\$ 7,427,664	\$ 10,873,399



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

SPECIAL REVENUE FUNDS

**HOTEL/MOTEL FUND
RESTRICTED COURT FUND
MEMORIAL FUND**

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
HOTEL/MOTEL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash	\$ 16,125	\$ 23,961
Investments	163,598	183,413
Receivables (net of allowance for uncollectibles):		
Accounts	25,807	6,514
Due from other funds		8,501
	\$ 205,530	\$ 222,389
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to other funds		
Total Liabilities		
 Fund Balances:		
Nonspendable		
Restricted for:		
Economic development	205,530	222,389
Committed		
Assigned		
Unassigned		
Total Fund Balances	205,530	222,389
	\$ 205,530	\$ 222,389

CITY OF HARKER HEIGHTS
HOTEL/MOTEL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Taxes – other	\$ 84,257	\$ 93,173
Charges for services		
Investment earnings	198	277
Total Revenues	84,455	93,450
 EXPENDITURES		
Current:		
Economic development and assistance	101,314	104,493
Total Expenditures	101,314	104,493
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,859)	(11,043)
Fund Balances – Beginning	222,389	233,432
Fund Balances – Ending	\$ 205,530	\$ 222,389

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash	\$ 43,080	\$ 31,294
Investments	127,757	129,627
Due from other funds	18,825	18,356
Total Assets	\$ 189,662	\$ 179,277
 FUND BALANCES		
Nonspendable		
Restricted for:		
Public safety	189,662	179,277
Committed		
Assigned		
Unassigned		
Total Fund Balances	\$ 189,662	\$ 179,277

CITY OF HARKER HEIGHTS
RESTRICTED COURT FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Fines	\$ 78,235	\$ 84,399
Investment earnings	152	211
	78,387	84,610
Total Revenues	78,387	84,610
 EXPENDITURES		
Current:		
Public safety:		
Courts	68,002	86,921
	68,002	86,921
Total Expenditures	68,002	86,921
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,385	(2,311)
Fund Balances – Beginning	179,277	181,588
Fund Balances – Ending	\$ 189,662	\$ 179,277

CITY OF HARKER HEIGHTS
MEMORIAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash	\$ 358	\$ 358
Investments	11,820	11,801
Total Assets	\$ 12,178	\$ 12,159
 FUND BALANCES		
Nonspendable		
Restricted for:		
Public safety	12,178	12,159
Committed		
Assigned		
Unassigned		
Total Fund Balances	\$ 12,178	\$ 12,159

CITY OF HARKER HEIGHTS
MEMORIAL FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Investment earnings	\$ 19	\$ 26
Total Revenues	19	26
Excess (Deficiency) of Revenues Over (Under) Expenditures	19	26
Fund Balances – Beginning	12,159	12,133
Fund Balances – Ending	\$ 12,178	\$ 12,159



**SUPPLEMENTARY INDIVIDUAL FUND
FINANCIAL STATEMENTS**

PROPRIETARY FUNDS

ENTERPRISE FUNDS:

**WATER AND SEWER FUND
SANITATION FUND
DRAINAGE FUND**

These supplementary statements are included to provide management additional information for financial analysis.

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 569,774	\$ 702,872
Investments	3,272,177	3,209,532
Receivables (net of allowance for uncollectibles):		
Accounts	1,030,091	1,008,752
Due from other funds		11
Inventory of supplies, at first-in, first-out cost	126,764	123,471
Restricted cash	61,306	42,701
Restricted investments	359,215	360,680
	<u>5,419,327</u>	<u>5,448,019</u>
Capital Assets:		
Land and improvements	154,113	154,113
Buildings and lift stations	3,026,857	3,012,906
Furniture and fixtures	12,375	12,375
Machinery and equipment	973,687	843,439
Vehicles	567,672	500,123
Water and sewer system	40,588,748	40,252,642
Construction in progress	2,525,634	670,222
Less accumulated depreciation	(10,318,842)	(9,487,803)
	<u>37,530,244</u>	<u>35,958,017</u>
Total Capital Assets (Net of Depreciation)		
	<u>37,530,244</u>	<u>35,958,017</u>
Total Noncurrent Assets		
	<u>37,530,244</u>	<u>35,958,017</u>
Total Assets	<u>\$ 42,949,571</u>	<u>\$ 41,406,036</u>

(Continued)

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF NET ASSETS (CONTINUED)
SEPTEMBER 30, 2013 AND 2012

	2013	2012
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities		
Due to other funds	631,100	257,404
Accrued compensated absences	25,000	23,000
Refundable meter deposits	281,122	273,365
Accrued interest payable	89,151	98,464
Capital leases payable - current	54,147	51,845
General obligation bonds - current	340,821	171,858
Certificates of obligation - current	495,000	680,000
	<u>1,916,341</u>	<u>1,555,936</u>
Noncurrent Liabilities:		
Accrued compensated absences	3,000	4,000
Net pension obligation	41,317	36,242
Net other postemployment benefit obligation	24,069	7,391
Capital leases payable		54,147
General obligation bonds payable, (net of deferred amount on advanced refundings)	2,908,392	2,527,695
Certificates of obligation (net of unamortized discounts)	14,765,284	15,967,317
	<u>17,742,062</u>	<u>18,596,792</u>
Total Noncurrent Liabilities	<u>17,742,062</u>	<u>18,596,792</u>
Total Liabilities	<u>19,658,403</u>	<u>20,152,728</u>
NET POSITION		
Invested in capital assets, net of related debt	21,898,067	20,312,039
Restricted for debt service	29,911	31,661
Unrestricted	1,363,190	909,608
	<u>23,291,168</u>	<u>21,253,308</u>
Total Net Position	<u>\$ 23,291,168</u>	<u>\$ 21,253,308</u>



CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Charges for services	\$ 8,961,818	\$ 9,064,451
Other	25,960	33,892
	8,987,778	9,098,343
OPERATING EXPENSES		
Water purchases	2,441,942	2,339,022
Contractual services	211,948	209,376
Personal services	1,066,253	970,849
Utilities and telephone	454,347	459,802
Repairs and maintenance	382,277	436,797
Supplies	235,193	189,426
Uncollectible accounts	76,093	68,471
Professional fees	55,199	42,620
Depreciation	886,907	778,994
Other	1,745	2,203
	5,811,904	5,497,560
Operating Income	3,175,874	3,600,783
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	12,917	10,562
Taxes and assessments	2,256	1,128
Interest expense	(256,311)	(345,747)
Bond issuance costs	(19,888)	(161,895)
Gain on sale of capital assets		10
Loss on sale of capital assets		
	(261,026)	(495,942)
Income Before Transfers	2,914,848	3,104,841
Transfers in	1,723,581	4,468,151
Transfers out	(2,600,569)	(1,775,000)
	2,037,860	5,797,992
Change in Net Position		
Total Net Position – Beginning (as Restated see Note V.E. on page 72)	21,253,308	15,455,316
Total Net Position – Ending	\$ 23,291,168	\$ 21,253,308

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 8,948,236	\$ 9,152,805
Cash payments to suppliers	(3,488,352)	(3,703,830)
Cash payments to employees	(1,043,500)	(967,592)
Other operating cash receipts (payments)	25,971	33,892
	<u>4,442,355</u>	<u>4,515,275</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	1,723,581	4,468,151
Transfers out	(2,600,569)	(1,775,000)
	<u>(876,988)</u>	<u>2,693,151</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(2,459,134)	(4,820,244)
Proceeds from sale of capital assets		10
Interest received on new debt principal repayments		2,644,534
Principal repayments	(923,702)	(3,829,118)
Interest paid on long-term debt	(251,017)	(360,099)
	<u>(3,633,853)</u>	<u>(6,364,917)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	2,613,820	3,929,492
Purchase of investments	(2,675,000)	(4,899,334)
Interest & penalties received	15,173	11,690
	<u>(46,007)</u>	<u>(958,152)</u>
Net Cash Provided (Used) By Investing Activities	<u>(46,007)</u>	<u>(958,152)</u>
Net Increase (Decrease) in Cash For The Year	(114,493)	(114,643)
Cash - Beginning	<u>745,573</u>	<u>860,216</u>
Cash - Ending	<u>\$ 631,080</u>	<u>\$ 745,573</u>
Reconciliation of cash:		
Cash	569,774	702,872
Restricted Cash	<u>61,306</u>	<u>42,701</u>
Total Cash	<u>\$ 631,080</u>	<u>\$ 745,573</u>

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

CITY OF HARKER HEIGHTS
WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 3,175,874	\$ 3,600,783
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	886,907	778,994
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(21,339)	82,480
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds		
(Increase) Decrease in inventory	(3,293)	12,942
Increase (Decrease) in accounts payable and accrued liabilities		
Increase (Decrease) in refundable meter deposits	7,757	5,874
Increase (Decrease) in due to other funds	373,696	30,956
Increase in compensated absences	1,000	5,000
Increase in net pension obligation	5,075	6,477
Increase (Decrease) in net other postemployment benefit obligation	16,678	(8,220)
Total Adjustments	<u>1,266,481</u>	<u>914,503</u>
Net cash Provided By Operating Activities:	<u><u>4,442,355</u></u>	<u><u>4,515,286</u></u>
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Decrease in fair value of investments		
Gain on sale of capital assets		\$ 10
Loss on sale of capital assets		
Amortization of deferred amount on advanced refunding of certificates of obligation	31,233	27,842
Amortization of bond discount	1,809	3,452
Amortization of bond issuance costs	<u> </u>	<u>18,617</u>
Total Noncash Investing, Capital and Financing Activities	<u><u>\$ 33,042</u></u>	<u><u>\$ 49,921</u></u>

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

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 84,258	\$ 67,967
Investments	52,686	2,683
Receivables (net of allowance for uncollectibles):		
Accounts	197,395	184,016
Due from other funds	236	53
Total Current Assets	334,575	254,719
Noncurrent Assets:		
Capital Assets:		
Machinery & equipment	19,325	19,325
Improvements other than buildings	23,728	23,728
Less accumulated depreciation	(21,896)	(15,961)
Total Capital Assets (Net of Depreciation)	21,157	27,092
Total Noncurrent Assets	21,157	27,092
Total Assets	\$ 355,732	\$ 281,811
LIABILITIES		
Current Liabilities:		
Due to other funds	\$ 117,128	\$ 120,331
Accrued compensated absences	2,000	1,100
Total Current Liabilities	119,128	121,431
Noncurrent Liabilities:		
Net pension obligation	949	721
Net other postemployment benefit obligation	159	32
Total Noncurrent Liabilities	1,108	753
Total Liabilities	120,236	122,184
NET POSITION		
Invested in capital assets, net of related debt	21,157	27,093
Unrestricted	214,339	132,534
Total Net Position	\$ 235,496	\$ 159,627

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Charges for services	\$ 1,823,388	\$ 1,756,692
Franchise fees	136,692	130,491
Other	1,134	1,081
	<u>1,961,214</u>	<u>1,888,264</u>
OPERATING EXPENSES		
Contractual services	1,469,441	1,469,027
Personal services	39,451	34,994
Utilities	238	244
Repairs and maintenance	4,003	2,687
Supplies	314	2,900
Uncollectible accounts	11,053	6,933
Depreciation	5,935	7,233
Professional fees	5,000	5,000
	<u>1,535,435</u>	<u>1,529,018</u>
Total Operating Expenses		
	<u>1,535,435</u>	<u>1,529,018</u>
Operating Income	<u>425,779</u>	<u>359,246</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	90	278
	<u>90</u>	<u>278</u>
Total Nonoperating Revenues (Expenses)		
	<u>90</u>	<u>278</u>
Income Before Transfers	425,869	359,524
Transfers in		
Transfers out	(350,000)	(400,000)
	<u>(350,000)</u>	<u>(400,000)</u>
Change in Net Position	75,869	(40,476)
Total Net Position – Beginning	<u>159,627</u>	<u>200,103</u>
Total Net Position – Ending	<u>\$ 235,496</u>	<u>\$ 159,627</u>

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,798,956	\$ 1,734,790
Cash payments to suppliers	(1,482,199)	(1,637,806)
Cash payments to employees	(38,196)	(34,300)
Franchise fees	136,692	130,491
Other operating cash receipts (payments)	951	1,118
	<u>416,204</u>	<u>194,293</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in		
Transfers out	<u>(350,000)</u>	<u>(400,000)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(350,000)</u>	<u>(400,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets		<u>(19,325)</u>
Net Cash Provided (Used) By Capital and Related Financing Activities		<u>(19,325)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments		250,240
Purchase of investments	(50,003)	
Interest received	90	278
	<u>(49,913)</u>	<u>250,518</u>
Net Cash Provided (Used) By Investing Activities	<u>(49,913)</u>	<u>250,518</u>
Net Increase (Decrease) in Cash For The Year	16,291	25,486
Cash - Beginning	<u>67,967</u>	<u>42,481</u>
Cash - Ending	<u>\$ 84,258</u>	<u>\$ 67,967</u>

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

CITY OF HARKER HEIGHTS
SANITATION FUND
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 425,779	\$ 359,246
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	5,935	7,233
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(13,379)	(14,968)
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds	(183)	37
Increase (Decrease) in due to other funds	(3,203)	(157,948)
Increase in compensated absences	900	1,000
Increase in net pension obligation	228	243
Increase (Decrease) in net other postemployment benefit obligation	<u>127</u>	<u>(549)</u>
Total Adjustments	<u>(9,575)</u>	<u>(164,952)</u>
Net cash Provided By Operating Activities:	<u>\$ 416,204</u>	<u>\$ 194,294</u>

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

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets:		
Cash	\$ 61,657	\$ 61,743
Investments	75,214	2,195
Receivables (net of allowance for uncollectibles):		
Accounts	77,072	69,828
Due from other funds		
Restricted cash	1,437	1,126
Restricted investments	1,145	1,144
Total Current Assets	216,525	136,036
Capital Assets:		
Land and improvements	125,000	125,000
Machinery and equipment	168,378	227,882
Vehicles	92,354	21,954
Drainage system	4,803,830	4,408,830
Construction in progress	281,522	148,934
Less accumulated depreciation	(425,036)	(322,633)
Total Capital Assets (Net of Depreciation)	5,046,048	4,609,967
Total Noncurrent Assets	5,046,048	4,609,967
Total Assets	\$ 5,262,573	\$ 4,746,003

(Continued)

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2013 AND 2012

	2013	2012
LIABILITIES		
Current Liabilities:		
Due to other funds	\$ 107,687	\$ 511
Accrued compensated absences	5,500	3,500
Accrued interest payable	8,666	10,158
General obligation bonds - current	68,906	34,190
Certificates of obligation - current	60,000	265,000
Total Current Liabilities	250,759	313,359
Noncurrent Liabilities:		
Accrued compensated absences	2,500	2,500
Net pension obligation	7,209	6,361
Net other postemployment benefit obligation	2,595	912
General obligation bonds (net of deferred amount on advanced refunding)	547,040	664,173
Certificates of obligation (net of unamortized discounts)	1,211,566	1,229,470
Total Noncurrent Liabilities	1,770,910	1,903,416
Total Liabilities	2,021,669	2,216,775
NET POSITION		
Invested in capital assets, net of related debt	3,158,536	2,416,787
Restricted for debt service	2,582	2,270
Unrestricted	79,786	110,171
Total Net Position	\$ 3,240,904	\$ 2,529,228



CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Charges for services	\$ 737,344	\$ 713,736
Other	600	14,842
	<u>737,944</u>	<u>728,578</u>
OPERATING EXPENSES		
Contractual services	11,635	3,112
Personal services	109,950	94,121
Repairs and maintenance	61,139	47,398
Supplies	16,830	16,486
Uncollectible accounts	4,156	3,423
Depreciation	102,403	88,428
Professional fees		
Other	65	
	<u>306,178</u>	<u>252,968</u>
Total Operating Expenses	<u>306,178</u>	<u>252,968</u>
Operating Income	<u>431,766</u>	<u>475,610</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	80	178
Bond issuance costs	(346)	(17,302)
Interest expense	(18,862)	(27,252)
	<u>(19,128)</u>	<u>(44,376)</u>
Total Nonoperating Revenues (Expenses)	<u>(19,128)</u>	<u>(44,376)</u>
Income Before Transfers	412,638	431,234
Transfers in	474,038	806,834
Transfers out	(175,000)	(897,456)
Change in Net Position	711,676	340,612
Total Net Position – Beginning (as Restated see Note V.8. on page 72)	<u>2,529,228</u>	<u>2,188,616</u>
Total Net Position – Ending	<u><u>\$ 3,240,904</u></u>	<u><u>\$ 2,529,228</u></u>

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 730,035	\$ 709,699
Cash payments to suppliers	13,416	(84,563)
Cash payments to employees	(105,419)	(92,619)
Other operating cash receipts (payments)	600	14,842
Net Cash Provided By Operating Activities	638,632	547,359
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	474,038	806,834
Transfers out	(175,000)	(897,456)
Net Cash Provided (Used) By Noncapital Financing Activities	299,038	(90,622)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net proceeds from issuance of certificates of obligation		689,832
Acquisition and construction of capital assets	(538,484)	(862,689)
Principal repayments	(299,190)	(272,364)
Interest paid on long-term debt	(26,851)	(18,679)
Net Cash Provided (Used) By Capital and Related Financing Activities	(864,525)	(463,900)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	152,000	1,000
Purchase of investments	(225,000)	(2,004)
Interest received	80	178
Net Cash Provided (Used) By Investing Activities	(72,920)	(826)
Net Increase (Decrease) in Cash For The Year	225	(7,989)
Cash - Beginning	62,869	70,858
Cash - Ending	\$ 63,094	\$ 62,869
Reconciliation of cash:		
Cash	61,657	61,743
Restricted Cash	1,437	1,126
Total Cash	\$ 63,094	\$ 62,869

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

CITY OF HARKER HEIGHTS
DRAINAGE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income	\$ 431,766	\$ 475,610
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	102,403	88,428
Change in Assets and Liabilities:		
(Increase) Decrease in accounts receivable	(7,244)	(4,037)
Increase in allowance for doubtful accounts		
(Increase) Decrease in due from other funds		
Increase (Decrease) in due to other funds	107,176	(14,144)
Increase in compensated absences	2,000	1,600
Increase in net pension obligation	848	1,094
Increase (Decrease) in net other postemployment benefit obligation	1,683	(1,192)
Total Adjustments	206,866	71,749
Net cash Provided By Operating Activities:	638,632	547,359
 NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Amortization of bond discount	\$ 183	\$ 466
Amortization of bond issuance costs	346	2,427
Total Noncash Investing, Capital and Financing Activities	\$ 529	\$ 2,893

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



CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS



CITY OF HARKER HEIGHTS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE
SEPTEMBER 30, 2013 AND 2012

	2013	2012
Governmental Funds Capital Assets:		
Land	\$ 15,197,296	\$ 13,881,187
Buildings	13,398,571	13,549,188
Improvements other than buildings	82,687	45,350
Machinery and equipment	4,909,461	4,487,976
Vehicles	3,889,248	3,525,271
Furniture and fixtures	877,666	863,431
Street and drainage improvements	22,101,281	21,115,616
Construction in progress	2,411,977	1,555,837
Total governmental funds capital assets	\$ 62,868,187	\$ 59,023,856
Investment in Governmental Funds Capital Assets by Source:		
General fund	\$ 7,966,365	\$ 7,274,882
Special revenue funds	565,711	495,573
Capital projects fund	48,083,445	44,986,784
Donations	1,572,895	1,572,895
Grants, revenue sharing	4,679,771	4,693,722
Total governmental funds capital assets	\$ 62,868,187	\$ 59,023,856

Note:

This schedule presents only the capital asset balances related to governmental funds. The City's infrastructure capital assets are included in the above street and drainage improvements.

CITY OF HARKER HEIGHTS
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2013

Function and Activity	Land	Buildings	Improvements other than Buildings	Machinery and Equipment
General government:				
Council				\$ 3,649
Administration	965,385	2,200,375		831,902
Finance				125,175
Total general government	<u>965,385</u>	<u>2,200,375</u>		<u>960,726</u>
Public Safety:				
Animal Control		1,601,459		
Police	53,228	2,829,879		1,086,981
Fire and EMS	27,578	1,074,764		1,211,556
Code Enforcement		125		20,265
Courts				182,859
Total public safety	<u>80,806</u>	<u>5,506,227</u>		<u>2,501,661</u>
Highways and streets:				
Maintenance	109,395	203,225		534,044
Street and drainage system				
Total highways and streets	<u>109,395</u>	<u>203,225</u>		<u>534,044</u>
Culture and recreation:				
Parks and recreation	14,024,347	1,352,970	37,337	638,770
Library	17,363	4,135,774		154,091
Total culture and recreation	<u>14,041,710</u>	<u>5,488,744</u>		<u>792,861</u>
Economic development and assistance			45,350	120,169
Construction in progress				
Total governmental funds capital assets	<u>\$ 15,197,296</u>	<u>\$ 13,398,571</u>	<u>\$ 82,687</u>	<u>\$ 4,909,461</u>

Note:

This schedule presents only the capital asset balances related to governmental funds.

<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Streets and Drainage Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
	\$ 3,755			\$ 7,404
	139,156			4,136,818
	1,646			126,821
	<u>144,557</u>			<u>4,271,043</u>
				1,601,459
1,130,247	219,245			5,319,580
1,919,238	13,449			4,246,585
28,453				48,843
54,098	7,209			244,166
<u>3,132,036</u>	<u>239,903</u>			<u>11,460,633</u>
				1,264,849
418,185		22,101,281		22,101,281
<u>418,185</u>		<u>22,101,281</u>		<u>23,366,130</u>
				16,530,347
339,027	137,896			4,659,828
	<u>352,600</u>			
<u>339,027</u>	<u>490,496</u>			<u>21,190,175</u>
				168,229
	<u>2,710</u>			
				2,411,977
			<u>2,411,977</u>	<u>2,411,977</u>
<u>\$ 3,889,248</u>	<u>\$ 877,666</u>	<u>\$ 22,101,281</u>	<u>\$ 2,411,977</u>	<u>\$ 62,868,187</u>

CITY OF HARKER HEIGHTS
CAPTIAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2013

Function and Activity	Capital Assets October 1, 2012	Additions	Transfers and Deletions	Capital Assets September 30, 2013
General government:				
Council	\$ 7,404			\$ 7,404
Administration	4,098,811	122,358	84,351	4,136,818
Finance	117,242	13,468	3,889	126,821
Total general government	<u>4,223,457</u>	<u>135,826</u>	<u>88,240</u>	<u>4,271,043</u>
Public Safety:				
Animal Control	1,601,459			1,601,459
Police	5,078,574	454,882	213,876	5,319,580
Fire and EMS	4,256,417	219,922	229,754	4,246,585
Code Enforcement	43,053	5,790		48,843
Courts	230,794	18,778	5,406	244,166
Total public safety	<u>11,210,297</u>	<u>699,372</u>	<u>449,036</u>	<u>11,460,633</u>
Highways and streets:				
Maintenance	1,330,215	47,698	113,064	1,264,849
Street and drainage system	21,115,616	985,665		22,101,281
Total highways and streets	<u>22,445,831</u>	<u>1,033,363</u>	<u>113,064</u>	<u>23,366,130</u>
Culture and recreation:				
Parks and recreation	14,757,330	1,795,149	22,132	16,530,347
Library	4,665,770	11,937	17,879	4,659,828
Total culture and recreation	<u>19,423,100</u>	<u>1,807,086</u>	<u>40,011</u>	<u>21,190,175</u>
Economic development and assistance	<u>165,334</u>	<u>2,895</u>		<u>168,229</u>
Construction in progress	<u>1,555,837</u>	<u>3,337,122</u>	<u>2,480,982</u>	<u>2,411,977</u>
Total governmental funds capital assets	<u>\$ 59,023,856</u>	<u>\$ 7,015,664</u>	<u>\$ 3,171,333</u>	<u>\$ 62,868,187</u>

Note:

This schedule presents only the capital asset balances related to governmental funds.



STATISTICAL SECTION
(unaudited)

Statistical Section

This part of the City of Harker Heights' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
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.	121
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	127
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.	132
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	137
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information related to the services the City provides and the activities it performs.	140

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.



CITY OF HARKER HEIGHTS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities:										
Invested in capital assets, net of related deb	\$ 23,247	\$ 21,839	\$ 19,802	\$ 19,815	\$ 18,703	\$ 9,766	\$ 3,348	\$ 127	\$ 6,769	\$ 6,919
Restricted	4,921	8,773	15,953	11,605	18,516	12,667	18,392	20,739	11,056	9,204
Assigned	146	91								
Unrestricted	7,721	5,695	2,911	4,731	(691)	6,716	6,712	4,854	4,628	2,344
Total governmental activities net positior	36,035	36,398	38,666	36,151	36,528	29,149	28,452	25,720	22,453	18,467
Business-type activities:										
Invested in capital assets, net of related deb	25,078	22,756	21,717	20,960	19,893	14,305	11,682	8,854	8,229	9,281
Restricted	32	34			35	18	73	93	178	138
Unrestricted	1,657	1,310	(3,873)	(3,711)	(5,627)	2,820	1,487	1,820	975	1,165
Total business-type activities net positior	26,767	24,100	17,844	17,249	14,301	17,143	13,242	10,767	9,382	10,584
Primary Government:										
Invested in capital assets, net of related deb	48,325	44,595	41,519	40,775	38,596	24,071	15,030	8,981	14,998	16,200
Restricted	4,953	8,807	15,953	11,605	18,551	12,685	18,465	20,832	11,234	9,342
Assigned	146	91								
Unrestricted	9,378	7,005	(962)	1,020	(6,318)	9,536	8,199	6,674	5,603	3,509
Total primary government net positior	\$ 62,802	\$ 60,498	\$ 56,510	\$ 53,400	\$ 50,829	\$ 46,292	\$ 41,694	\$ 36,487	\$ 31,835	\$ 29,051

CITY OF HARKER HEIGHTS
CHANGES IN NET POSITION (continued)
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses										
Governmental Activities:										
General government	\$ 3,247	\$ 2,818	\$ 2,869	\$ 3,304	\$ 2,182	\$ 1,995	\$ 1,593	\$ 1,485	\$ 1,305	\$ 1,193
Public safety	10,553	10,383	10,216	9,597	9,079	8,171	6,798	6,229	5,789	5,171
Highways/streets	1,734	1,782	1,541	1,498	1,488	1,312	1,154	1,036	948	849
Economic development	483	468	362	503	357	335	290	284	258	227
Culture and recreation	2,932	2,928	2,732	2,575	2,003	1,631	1,617	1,356	1,222	1,110
Interest on long-term debt	1,094	1,237	1,225	1,154	1,169	964	944	524	386	392
Other								6	5	6
Total Governmental Activities	20,043	19,616	18,945	18,631	16,278	14,408	12,396	10,920	9,913	8,948
Business-type Activities:										
Water and sewer	6,088	5,862	6,593	5,559	5,228	4,905	4,023	3,744	3,423	2,984
Drainage	325	283	283	251	225	187	1,400	182	69	67
Sanitation	1,536	1,529	1,475	1,361	1,295	1,552	125	1,286	1,169	1,065
Total Business-type Activities	7,949	7,674	8,351	7,171	6,748	6,644	5,548	5,212	4,661	4,116
Total Expenses	\$27,992	\$27,290	\$27,296	\$25,802	\$23,026	\$21,052	\$17,944	\$16,132	\$14,574	\$13,064
Program Revenues										
Governmental Activities:										
Charges for services										
General government	\$ 56	\$ 87	\$ 67	\$ 93	\$ 83	\$ 102	\$ 111	\$ 100	\$ 114	\$ 102
Public safety	1,858	1,998	2,029	1,874	1,937	1,825	1,744	1,710	1,574	1,179
Culture and recreation	291	306	246	273	204	136	134	127	110	102
Other activities	249	164	157	202	199	346	290	319	348	270
Operating grants and contributions	477	598	246	210	185	121	506	36	84	40
Capital Grants and contributions			234	138		215	40	496	19	1
Total Governmental Activities	2,931	3,153	2,979	2,790	2,608	2,745	2,825	2,788	2,249	1,694
Business-type Activities:										
Charges for services										
General government	11,553	11,586	11,833	10,062	9,976	9,616	8,088	8,253	6,915	5,746
Culture and recreation	11,553	11,586	11,833	10,062	9,976	9,616	8,088	8,253	6,915	5,746
Operating grants and contributions	\$14,484	\$14,739	\$14,812	\$12,852	\$12,584	\$12,361	\$10,913	\$11,041	\$ 9,164	\$ 7,440
Total Program Revenues										

**CITY OF HARKER HEIGHTS
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net (Expense)/Revenue										
Governmental Activities	\$ (17,112)	\$ (16,463)	\$ (15,966)	\$ (15,841)	\$ (13,670)	\$ (11,663)	\$ (9,571)	\$ (8,132)	\$ (7,664)	\$ (7,254)
Business-type Activities	3,604	3,912	3,482	2,891	3,228	2,972	2,540	3,041	2,254	1,630
Total Net Expense	\$ (13,508)	\$ (12,551)	\$ (12,484)	\$ (12,950)	\$ (10,442)	\$ (8,691)	\$ (7,031)	\$ (5,091)	\$ (5,410)	\$ (5,624)
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes										
Property taxes	\$ 9,189	\$ 9,167	\$ 8,965	\$ 8,839	\$ 8,344	\$ 7,510	\$ 6,436	\$ 5,238	\$ 4,603	\$ 4,170
Sales taxes	5,232	5,426	4,859	4,780	4,535	3,342	2,920	2,738	2,043	1,405
Mixed drink taxes	98	97	126	139	94	104	81	93	87	85
Bingo taxes	101	105	101	105	105	94	104	73	51	52
Hotel/Motel taxes	84	93	92	72	47	39	22	29	29	24
Special assessments										
Other taxes							1		3	2
Franchise fees	1,265	1,436	1,271	1,247	1,197	1,126	1,357	1,017	816	767
Investment earnings	40	64	48	205	498	993	1,091	472	400	103
Gain on sale of capital assets	9	9			4	10	98	7	119	272
Transfers	928	(2,203)	3,019	77	6,225	(858)	193	1,732	3,499	748
Total Governmental Activities	16,946	14,194	18,481	15,464	21,049	12,360	12,303	11,399	11,650	7,628
Business-type activities										
Franchise fees	137	130	124	112	112	17	124	76	43	427
Investment earnings	13	11	8	19	43	54				
Miscellaneous										
Gain on sale of capital assets				3			4			
Transfers	(928)	2,203	(3,019)	(77)	(6,225)	858	(193)	(1,732)	(3,499)	(748)
Total Business-type Activities	(778)	2,344	(2,887)	57	(6,070)	929	(65)	(1,656)	(3,456)	(321)
Total General Revenues and Other Changes in Net Position	\$ 16,168	\$ 16,538	\$ 15,594	\$ 15,521	\$ 14,979	\$ 13,289	\$ 12,238	\$ 9,743	\$ 8,194	\$ 7,307
Change in Net Position										
Governmental Activities	\$ (166)	\$ (2,269)	\$ 2,515	\$ (377)	\$ 7,379	\$ 697	\$ 2,732	\$ 3,267	\$ 3,986	\$ 374
Business-type Activities	2,826	6,256	595	2,948	(2,842)	3,901	2,475	1,385	(1,202)	1,309
Total Change in Net Position	\$ 2,660	\$ 3,987	\$ 3,110	\$ 2,571	\$ 4,537	\$ 4,598	\$ 5,207	\$ 4,652	\$ 2,784	\$ 1,683

**CITY OF HARKER HEIGHTS
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE¹
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Bingo Tax	Alcoholic Beverage Tax	Hotel/Motel Tax	Other Tax	Total
2013	9,189	5,232	1,265	101	98	84		15,969
2012	9,167	5,426	1,436	105	97	93		16,324
2011	8,965	4,859	1,271	101	126	92		15,414
2010	8,839	4,780	1,247	105	139	72		15,182
2009	8,344	4,535	1,197	105	94	47		14,322
2008	7,510	3,342	1,126	94	104	39		12,215
2007	6,436	2,920	1,357	104	81	22	1	10,921
2006	5,238	2,738	1,017	73	93	29	1	9,189
2005	4,603	2,043	816	51	87	29	3	7,632
2004	4,170	1,404	767	52	85	24	3	6,505

Source: Audited Financial Statements.

¹Includes general, debt services, capital projects, and hotel/motel funds.

CITY OF HARKER HEIGHTS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Fund										
Reserved				\$ 36	\$ 71	\$ 30	\$ 29	\$ 10	\$ 10	\$ 8
Unreserved				6,607	5,737	4,863	4,616	3,497	2,912	2,272
Nonspendable										
Restricted for:			39							
Economic development										
Public safety			3							
Debt service										
Capital projects										
Cemetery										
Committed										
Assigned to:										
Culture and recreation		91								
Unassigned	146	8,342	7,339							
Total general fund	\$ 8,421	\$ 8,436	\$ 7,381	\$ 6,643	\$ 5,808	\$ 4,893	\$ 4,645	\$ 3,507	\$ 2,922	\$ 2,280
All Other Governmental Funds										
Reserved				\$ 11,568	\$ 18,445	\$ 12,637	\$ 18,363	\$ 20,730	\$ 11,046	\$ 9,195
Unreserved, reported in:										
Special revenue funds				169	214	211	183	158	171	136
Capital projects funds				2,327	2,241	878	2,039	1,288	1,684	68
Debt service funds										
Capital projects										
Committed										
Assigned to:										
Culture and recreation		2,583	2,407							
Unassigned	2,995	\$ 11,335	\$ 18,551	\$ 14,064	\$ 20,900	\$ 13,726	\$ 20,585	\$ 22,176	\$ 12,901	\$ 9,399
Total all other governmental funds	\$ 7,897	\$ 11,335	\$ 18,551	\$ 14,064	\$ 20,900	\$ 13,726	\$ 20,585	\$ 22,176	\$ 12,901	\$ 9,399

CITY OF HARKER HEIGHTS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues										
Taxes	\$16,019	\$16,365	\$15,464	\$15,145	\$14,344	\$12,208	\$10,920	\$9,199	\$7,641	\$6,487
Licenses and permits	286	204	191	207	181	329	280	326	330	235
Fines	1,405	1,472	1,399	1,408	1,415	1,313	1,247	1,242	1,199	844
Charges for services	797	721	708	748	645	669	609	564	460	408
Intergovernmental	443	432	397	317	131	324	55	515	65	31
Investment earnings	39	41	48	204	498	993	1,091	472	400	102
Contributions and donations	39	171	26	31	54	12	491	17	38	11
Miscellaneous	144	74	54	74	87	108	112	105	111	108
Total revenues	19,172	19,480	18,287	18,134	17,355	15,956	14,805	12,440	10,244	8,226
Expenditures										
General government	3,072	2,659	3,023	2,750	2,213	1,889	1,735	1,369	1,343	1,043
Public safety	10,550	9,823	9,485	9,242	8,655	8,080	6,606	6,406	6,241	5,276
Highways and streets	1,302	1,558	1,172	1,130	1,104	1,058	933	866	750	671
Culture and recreation	2,727	2,541	2,348	2,166	1,974	1,569	1,846	1,316	1,151	1,047
Economic development and assistance	466	452	337	449	351	324	263	303	222	205
Debt service										
Principal	1,509	1,409	1,122	1,127	777	632	425	234	143	99
Interest	1,053	1,169	1,153	1,125	1,104	929	898	436	349	367
Tax collection fees	28	27	22	21	16	15	15	6	5	5
Bond issuance costs	19	36	42		44			186	54	
Capital outlay	3,296	3,325	2,577	6,254	5,286	7,411	3,078	5,332	1,106	713
Total expenditures	24,022	22,999	21,281	24,264	21,524	21,907	15,799	16,454	11,364	9,426
Excess of revenues over (under) expenditures	(4,850)	(3,519)	(2,994)	(6,130)	(4,169)	(5,951)	(994)	(4,014)	(1,120)	(1,200)
Other Financing Sources (Uses)										
Proceeds from sale of bonds	455	3,200	5,000		6,000			12,000	3,370	
Bond discount	(435)	(3,650)	199		27	186	255	135	(2,335)	26
Payment to refunded bond escrow agent	270	10	1	52	6	11	107	7	193	317
Capital leases										
Sale of capital assets proceeds	3,436	3,034	5,925	2,400	11,071	2,750	3,650	7,850	5,915	1,367
Transfers in	(2,508)	(5,237)	(2,906)	(2,323)	(4,846)	(3,608)	(3,470)	(6,118)	(2,416)	(619)
Transfers out	1,218	(2,643)	8,219	129	12,258	(661)	542	13,874	5,263	1,091
Total other financing sources (uses)	(\$3,632)	(\$6,162)	\$5,225	\$(6,001)	\$8,089	\$(6,612)	\$(452)	\$9,860	\$4,143	\$(109)
Net change in fund balances	13.00%	13.51%	12.57%	12.95%	12.13%	11.35%	11.30%	6.39%	5.30%	5.62%
Debt service as a percentage of noncapital expenditures										

**CITY OF HARKER HEIGHTS
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS**

Fiscal Year	Personal Property			Less: Exemptions ¹	Total Taxable Assessed Value	Taxable Assessed Value as a Percentage of		Total Direct Rate
	Real Property	Personal Property	Property			Estimated Actual Value	Actual Taxable Value	
2013	1,466,874,488	77,734,371	77,734,371	141,980,105	1,402,628,754	90.81%	1,544,608,859	0.6770
2012	1,449,939,258	76,917,735	76,917,735	131,985,034	1,394,871,959	91.36%	1,526,856,993	0.6770
2011	1,411,513,611	76,746,575	76,746,575	127,060,247	1,361,199,939	91.46%	1,488,260,186	0.6770
2010	1,375,764,616	80,934,800	80,934,800	120,712,330	1,335,987,086	91.71%	1,456,699,416	0.6770
2009	1,294,284,531	58,064,128	58,064,128	93,844,827	1,258,503,832	93.06%	1,352,348,659	0.6796
2008	1,165,256,114	54,466,657	54,466,657	93,101,967	1,126,620,804	92.37%	1,219,722,771	0.6796
2007	1,010,485,000	51,194,000	51,194,000	79,239,000	982,440,000	92.54%	1,061,679,000	0.6796
2006	809,245,000	39,277,000	39,277,000	58,706,000	789,816,000	93.08%	848,522,000	0.6896
2005	685,029,000	37,281,000	37,281,000	44,402,000	677,908,000	93.85%	722,310,000	0.6996
2004	624,052,000	35,963,000	35,963,000	42,538,000	617,477,000	93.55%	660,015,000	0.6996

Source: Bell County Appraisal District

NOTE: Tax rates are per \$100 of assessed values.

¹ Amount includes productivity loss and the homestead cap as well as local and state exemptions.

**CITY OF HARKER HEIGHTS
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year	City of Harker Heights				Overlapping Rates				Total Direct and Overlapping
	Operating Millage	Debt Service Millage	Total Direct Rate	Independent School District	Central Texas College	Bell County	Road District	Clearwater UWCD	
2013	\$ 0.49880	\$ 0.17820	\$ 0.67700	\$ 1.13100	\$ 0.14000	\$ 0.42120	\$ 0.02990	\$ 0.00400	\$ 2.40310
2012	0.50240	0.17460	0.67700	1.14119	0.14090	0.40960	0.02990	0.00400	2.40259
2011	0.53110	0.14590	0.67700	1.14119	0.14090	0.38200	0.02990	0.00400	2.37499
2010	0.53430	0.14270	0.67700	1.14119	0.14090	0.37590	0.02950	0.00400	2.36849
2009	0.55680	0.12280	0.67960	1.14119	0.14100	0.37790	0.02950	0.00400	2.37319
2008	0.56750	0.11210	0.67960	1.14119	0.14200	0.37950	0.02950	0.00400	2.37579
2007	0.55130	0.12830	0.67960	1.44890	0.14200	0.38150	0.02950	0.00400	2.68550
2006	0.62310	0.06650	0.68960	1.55830	0.14600	0.34650	0.02950	0.00440	2.77430
2005	0.63480	0.06480	0.69960	1.55830	0.14700	0.33150	0.02950	0.00480	2.77070
2004	0.62470	0.07490	0.69960	1.56330	0.14750	0.33510	0.02990	0.00490	2.78030

Source: Bell County Appraisal District

Note: Property tax rates per \$100 of assessed value.

**CITY OF HARKER HEIGHTS
PRINCIPAL TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(amounts expressed in thousands)**

Taxpayer	2013			2004		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Market Heights Ltd.	\$ 25,132	1	1.79%			
Wal-Mart Real Estate Business Trust	18,501	2	1.32%			
Oncor Electric Delivery Co LLC	10,275	3	0.73%	5,798	1	0.94%
HEB Grocery Company LP	6,222	4	0.44%	3,105	4	0.50%
HH/Killeen Health System LLC	4,986	5	0.36%			
Target Corporation	4,945	6	0.35%			
Omni Lion's Run LP	3,836	7	0.27%			
Target Stores Inc.	3,413	8	0.24%			
House, Charles Etal	3,338	9	0.24%	3,077	5	0.50%
Boose Properties LTD	3,075	10	0.22%	2,348	7	0.38%
D&H Lion's Run Joint Venture				4,696	2	0.76%
Lookout Ridge LLC				3,996	3	0.65%
Time Warner Advance New House				2,640	6	0.43%
Texas State Bancshares Inc.				2,228	8	0.36%
Central Texas Shopping Center				2,147	9	0.35%
Butt, H. E. Grocery Company				1,970	10	0.32%
	\$ 83,723		5.97%	\$ 32,005		5.19%

Source: Bell County Appraisal District

**CITY OF HARKER HEIGHTS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)**

Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections to Date			Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
	Total Tax Levy	Amount Collected	Percentage of Levy	Delinquent Tax Collections	Less Refunds	Amount Collected		
2013	9,496	9,243	97.34%	84	98	9,229	97.19%	2.71%
2012	9,443	9,173	97.14%	92	59	9,206	97.49%	2.56%
2011	9,215	8,949	97.11%	108	41	9,016	97.84%	2.73%
2010	9,045	8,801	97.30%	107	n/a	8,801	97.30%	2.89%
2009	8,553	8,313	97.19%	80	n/a	8,351	97.64%	3.00%
2008	7,657	7,468	97.53%	90	n/a	7,500	97.95%	2.89%
2007	6,565	6,367	96.98%	85	n/a	6,425	97.87%	3.32%
2006	5,362	5,180	96.61%	74	n/a	5,238	97.69%	3.97%
2005	4,712	4,539	96.33%	67	n/a	4,607	97.77%	4.39%
2004	4,231	4,083	96.50%	67	n/a	4,152	98.13%	4.96%

Source: Bell County Appraisal District

NOTE: Years 2004 to 2010 total collections already have the refund amount deducted.

CITY OF HARKER HEIGHTS
OWN SOURCE REVENUES¹, SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS
(amounts expressed in thousands except rates and meters)

Fiscal Year	Water & Sewer			Drainage		Special Assessments ⁶			
	Program Revenues	Water Rate ²	Sewer Rate ³	Program Revenues	Residential Rate ⁴	Commercial Rate ⁵	Number of Meters	Billings	Collected
2013	8,990	9.98 / 3.11	17.99 / 3.01	738	6.00	7.20 / 14.40	9,861	37	5
2012	9,099	9.98 / 3.11	17.99 / 3.01	729	6.00	7.20 / 14.40	9,664	49	5
2011	9,381	9.98 / 3.11	17.99 / 3.01	716	6.00	7.20 / 14.40	9,533	46	6
2010	7,635	9.50 / 2.96	17.13 / 2.87	706	6.00	7.20 / 14.40	9,474	46	1
2009	7,622	9.05 / 2.82	16.31 / 2.73	684	6.00	7.20 / 14.40	8,910	42	18
2008	7,072	8.62 / 2.69	15.53 / 2.60	557	5.00	6.00 / 12.00	8,691	61	2
2007	5,852	8.21 / 2.56	14.79 / 2.48	295	2.50	6.00 / 12.00	8,206	57	9
2006	6,175	7.82 / 2.44	14.09 / 2.36	280	2.50	6.00 / 12.00	7,246	105	17
2005	5,060	7.45 / 2.32	13.42 / 2.25	263	2.50	6.00 / 12.00	6,422	105	5
2004	4,059	6.96 / 2.17	12.54 / 2.10	243	2.50	6.00 / 12.00	5,747	102	12

Source: Audited Financial Statements, Annual Fee Schedules, and Utility Reports.

¹The Sanitation Fund is not included because, although funds are received for this service, garbage collection is outsourced.

²Rates are for within City limits (base rate/per 1,000 gallon rate).

³Residential customers are capped at 10,000 gallons for sewer charges (First 3,000 gallons rate/3-10,000 gallons per gallon rate).

⁴Rate shown is for single family homes, fee is paid per billing cycle.

⁵Rates shown is for commercial buildings up to 2,500 square feet/2,501 to 10,000 square feet, our two largest categories. Fee is paid per billing cycle.

⁶The special assessment billings and collection amounts include the general and proprietary funds.

**CITY OF HARKER HEIGHTS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(amount expressed in thousands)**

Fiscal Year	Bonded Debt	Notes Payable	Capital Leases	Bonded Debt	Capital Leases	Total Outstanding Debt	Percentage of Personal Income ¹	Per Capita ¹
	<u>Governmental Activities</u>			<u>Business-type Activities</u>				
2013	25,134		322	20,406	54	45,916	n/a	1,630.89
2012	26,572		107	21,548	106	48,333	0.29%	1,747.78
2011	28,315		243	22,310	156	51,024	0.31%	1,868.19
2010	24,240		241	20,395	204	45,080	0.29%	1,688.39
2009	25,065	81	462	21,420	251	47,279	0.31%	1,802.34
2008	19,580	131	647	13,850	5	34,213	0.23%	1,337.44
2007	19,955	173	675	14,585	6	35,394	0.26%	1,415.48
2006	20,175	214	585	15,235		36,209	0.30%	1,499.46
2005	8,270	248	555	10,840		19,913	0.18%	849.64
2004	7,235	277	23	9,420		16,955	0.17%	799.46

Source: Audited Financial Statements

¹See the Schedule of Demographic and Economic Statistics (page 138) for population and personal income data.

**CITY OF HARKER HEIGHTS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(amount expressed in thousands)**

Fiscal Year	Bonded Debt¹	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property²	Per Capita³
2013	25,134	61	25,073	1.62%	890.57
2012	26,572	47	26,525	1.74%	959.17
2011	28,315	106	28,209	1.90%	1,032.84
2010	24,240	13	24,227	1.66%	907.38
2009	25,065	107	24,958	1.85%	951.43
2008	19,580	174	19,406	1.59%	758.61
2007	19,955	202	19,753	1.86%	789.96
2006	20,175	74	20,101	2.37%	832.41
2005	8,270	52	8,218	1.14%	350.64
2004	7,235	39	7,196	1.09%	339.31

Source: Audited Financial Statements.

¹This is the bonded debt of governmental activities.

²See Schedule of Assessed and Estimated Value of Property (page 128) for property data

³See Schedule of Demographic and Economic Statistics (page 138) for population data

**CITY OF HARKER HEIGHTS
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
AS OF SEPTEMBER 30, 2013**

Government Subdivisions	Total G.O. Tax Debt¹	Estimated Percentage Applicable	City's Overlapping G.O. Tax Debt
Killeen Independent School District	\$ 86,685,000	19.88%	\$ 17,232,978
Bell County	122,035,000	10.03%	12,240,111
Subtotal, overlapping debt			29,473,089
City of Harker Heights Direct Debt			25,133,514
Total direct and overlapping net funded debt			<u>\$ 54,606,603</u>

Source: Specialized Public Finance

¹Excludes self-supporting debt.

**CITY OF HARKER HEIGHTS
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Total Taxable Assessed Value</u>	<u>Taxable Assessed Value as a Percentage of Estimated Actual Value</u>	<u>Estimated Actual Taxable Value</u>
2013	1,402,628,754	90.81%	1,544,608,859
2012	1,394,871,959	91.36%	1,526,856,993
2011	1,361,199,939	91.46%	1,488,260,186
2010	1,335,987,086	91.71%	1,456,699,416
2009	1,258,503,832	93.06%	1,352,348,659
Total Five Year Valuation			<u>7,368,774,113</u>
Five Year Average Full Valuation of Taxable Real Property			<u>1,473,754,823</u>
Constitutional Debt Limit (7% of Average Full Valuation)			<u>103,162,838</u>
Outstanding Indebtness as of September 30, 2013			
Total Bonded Debt			45,540,001
Less: Revenue bonds			20,406,487
Less: Amount available for repayment of general obligation bonds			61,497
Net indebtedness subject to debt limit			<u>25,072,017</u>
Net debt contracting margin			78,090,821
Percentage of net debt contracting margin available			75.70%
Percentage of net debt contracting power exhausted			24.30%

Last Ten Fiscal Years

<u>Year</u>	<u>Constitutional Debt Limit</u>	<u>Outstanding Indebtness September 30</u>	<u>Percentage of Net Debt Contracting Margin Available</u>
2013	103,162,838	25,072,017	75.70%
2012	98,614,432	26,524,950	73.10%
2011	92,101,940	28,209,000	69.37%
2010	83,145,606	24,227,000	70.86%
2009	72,864,154	24,958,000	65.75%
2008	63,171,483	19,406,000	69.28%
2007	54,210,926	19,753,000	63.56%
2006	46,647,594	20,101,000	56.91%
2005	41,741,448	8,218,000	80.31%
2004	38,325,616	6,317,000	83.52%

CITY OF HARKER HEIGHTS
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

Fiscal Year	Water and Sewer Fund			Drainage Fund			Debt Service Requirements			
	Gross Revenues	Operating Expenses ¹	Net Revenue Available for Debt Service	Gross Revenues	Operating Expenses ¹	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
2013	8,988	4,925	4,063	738	204	534	1,171	814	1,985	2.32
2012	9,098	4,719	4,379	729	165	564	4,101	912	5,013	0.99
2011	9,381	4,875	4,506	716	189	527	1,133	405	1,538	3.27
2010	7,635	4,497	3,138	706	192	514	1,073	934	2,007	1.82
2009	7,622	4,415	3,207	684	181	503	932	718	1,650	2.25
2008	7,072	4,240	2,832	557	155	402	737	630	1,367	2.37
2007	5,852	3,418	2,434	295	98	197	652	655	1,307	2.01
2006	6,175	3,115	3,060	280	124	156	605	456	1,061	3.03
2005	5,060	2,534	2,526	263	24	239	580	456	1,036	2.67
2004	4,059	2,172	1,887	243	22	221	490	408	898	2.35

Source: Audited Financial Statements.

¹Total operating expenses, exclusive of depreciation.

**CITY OF HARKER HEIGHTS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

Fiscal Year	Population ¹	Median Age ²	Per Capita Income ³	Personal Income ³	Education Attainment, 25 Years and Over ²		Peak School Enrollment ⁴	Unemployment Rate ⁵
					High School Graduate or Higher	Four or More Years of College		
2013	28,154		n/a	n/a			41,969	6.7%
2012	27,654		39,471	16,592,415			41,172	6.9%
2011	27,312		39,630	16,343,016			40,609	7.3%
2010	26,700	31.6	38,174	15,583,379	90.70%	27.50%	40,463	6.9%
2009	26,232		38,762	15,325,705			39,964	5.5%
2008	25,581		37,860	14,850,197			38,761	4.4%
2007	25,005		35,404	13,481,806			36,895	3.9%
2006	24,148		33,377	12,197,837			34,743	4.3%
2005	23,437		30,972	11,073,671			33,518	4.2%
2004	21,208		28,601	10,003,053			32,651	5.4%

Sources: ¹ Population is estimated by the City of Harker Heights Planning Department with the exception of the 2010 data which is from Census 2010.

² Census 2010.

³ Texas Workforce Commission information for Killeen-Temple-Fort Hood, TX Metropolitan Statistical Area. Personal income is shown in thousands.

⁴ Killeen Independent School District.

⁵ US Bureau of Labor Statistics.

**CITY OF HARKER HEIGHTS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

Employer	2013			2004		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Killeen Independent School District ¹	690.0	1	5.61%	n/a	1	
Wal-Mart Supercenter	537.0	2	4.37%			
HEB Store	243.0	3	1.51%	193.0	2	2.27%
City of Harker Heights	235.0	4	1.98%	155.0	3	1.82%
Indian Oaks	186.0	5	1.91%	100.0	4	1.18%
Target	155.0	6	1.26%			
Cheddar's Restaurant	140.0	7	1.14%			
Cracker Barrel	101.0	8	0.82%			
Razzoo's Cajun Café	76.0	9	0.62%			
McDonald's Restaurant	58.0	10	0.47%			
Winn-Dixie				60.0	5	0.71%
Cooper & Bright Plumbing				48.0	6	0.56%
Pizza Hut				45.0	7	0.53%
Extraco Banks - Harker Heights Branch				22.0	8	0.26%
Texas Department of Protective/Regulatory Service				18.0	9	0.21%
U.S. Postal Service				17.0	10	0.20%
	2,421.0		19.69%	658.0		7.74%

Source: Human Resource Department (or person) of each business.

¹Killeen Independent School District numbers only include campuses in Harker Heights.

CITY OF HARKER HEIGHTS
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

Fiscal Year	Property Value ¹			Commercial Construction ²		Residential Construction ²		Bank Deposits ³	
	Commercial	Residential	Exemptions	Total	Number of Units	Value	Number of Units		Value
	2013	223,105	1,257,787	137,688	1,343,204	9	21,801		219
2012	213,902	1,250,016	127,787	1,336,131	41	12,329	184	41,389	1,045,296,830 ^(c)
2011	212,744	1,212,457	122,373	1,302,828	34	112,383	113	24,058	999,452,924 ^(c)
2010	209,511	1,181,173	116,507	1,274,177	27	8,638	188	35,936	842,872,885 ^(c)
2009	151,564	1,135,363	86,790	1,200,137	31	8,665	156	30,024	1,840,455 ^(b)
2008	135,163	1,021,406	83,360	1,073,209	62	29,854	270	52,979	1,686,403 ^(b)
2007	124,702	875,667	79,397	920,972	28	13,995	349	66,425	817,687 ^(a)
2006	95,052	712,132	58,843	748,341	11	7,331	449	86,413	52,590 ^(a)
2005	87,513	606,137	44,606	649,044	27	32,912	915	150,851	137,352 ^(a)
2004	84,168	547,407	43,063	588,512	10	13,038	359	59,217	42,269 ^(a)

Sources: ¹Bell County Appraisal District

²Harker Heights Planning and Development Department

³FDIC Call Report for (a) Extraco Bank, (b) add Union State Bank and First National Bank Texas, (c) add Chase Bank and Bank of America, and (d) add First State Bank

**CITY OF HARKER HEIGHTS
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

As of September 30,

Function/Program	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Government:										
Mayor and Council	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Municipal Services	26.5	26.5	26.0	26.0	25.0	24.5	21.5	19.5	18.5	18.5
Planning and Building	9.0	8.0	8.0	8.0	8.0	7.0	7.0	7.0	7.0	7.0
Public Safety:										
Police	62.0	62.0	61.0	61.0	59.0	56.0	52.0	50.0	49.0	44.0
Fire	43.5	43.5	43.5	43.5	38.5	36.5	33.5	29.5	29.5	29.5
Streets	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Culture and Recreation:										
Parks and Recreation	46.0	45.0	45.0	43.0	43.0	35.0	34.0	33.0	27.0	26.0
Library	10.5	10.5	10.5	10.5	10.5	6.5	6.5	6.5	6.5	5.5
Public Works	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.0	5.0	5.0
Water and Sewer	17.0	16.0	16.0	16.0	16.0	15.0	14.0	13.0	13.0	12.0
Drainage	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	1.0
Sanitation	1.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Total	238.5	235.5	234.0	232.0	224.0	203.5	191.5	180.5	171.5	161.5

Source: City of Harker Heights Finance Department

**CITY OF HARKER HEIGHTS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Planning and Building										
Building Permits Issued	1,763	1,502	1,479	1,796	1,811	2,091	2,320	586	942	369
Value of Building Permits ¹	75,077	59,115	144,518	50,070	44,377	92,218	102,179	111,733	183,763	72,255
Police										
Physical Arrest	1,320	1,593	1,528	1,493	1,552	1,969	1,842	1,693	1,367	1,289
Parking Violations	58	139	30	0	3	19	23	76	85	116
Traffic Violations	8,800	8,776	7,989	7,282	7,626	8,727	8,530	8,697	8,215	6,267
Fire										
Calls Answered	3,627	3,643	3,405	3,137	2,818	2,763	2,409	3,965	3,410	2,952
Fire and Emergency Responses	3,558	3,582	3,300	3,042	2,964	2,715	3,571	3,671	3,415	2,684
Fires Extinguished	91	111	193	116	134	197	101	117	50	59
Inspections	933	540	561	514	552	678	216	251	244	129
Parks and Recreation										
Aquatic Center Usage	12,773	13,069	15,498	12,420	15,086	16,458	17,743	14,148	15,486	12,840
Program Participants	9,948	9,497	8,780	7,157	5,994	5,418	6,500	4,917	4,827	4,388
Library										
Annual Circulation	150,124	152,117	146,130	131,477	101,194	76,002	68,726	63,552	60,520	53,156
Water and Sewer										
Average daily water consumption in gallons ¹	4,325	4,534	4,940	3,770	4,390	4,093	3,309	3,820	2,670	2,680
Residential water rate										
Base	\$9.98	\$9.98	\$9.98	\$9.98	\$9.05	\$8.62	\$8.21	\$7.82	\$7.45	\$6.96
Per 1,000 gallons	\$3.11	\$3.11	\$3.11	\$3.11	\$2.82	\$2.69	\$2.56	\$2.44	\$2.32	\$2.17
Average daily sewage treatment in gallons ¹	1,880	1,760	1,900	1,800	1,700	1,700	1,700	1,700	1,700	1,700
Residential sewer rates										
1,000 - 3,000 gallons	\$17.99	\$17.99	\$17.99	\$17.99	\$16.31	\$15.53	\$14.79	\$14.09	\$13.42	\$12.54
Per 1,000 gallons (3,000 - 10,000 gallons)	\$3.01	\$3.01	\$3.01	\$3.01	\$2.73	\$2.60	\$2.48	\$2.36	\$2.25	\$2.10

NOTE: The City of Harker Heights was incorporated in 1961 as a Home Rule form of government

Source: Various City of Harker Heights departments.

¹ amounts expressed in thousands

**CITY OF HARKER HEIGHTS
CAPITAL ASSETS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Area (square miles)	15.4	15.4	15.4	15.24	15.23	14.2	14.2	14.2	14.2	14.2
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Cars	33	33	33	38	38	38	36	33	33	26
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Fire Trucks	5	5	5	5	5	3	3	4	6	7
Ambulances	3	3	3	3	3	3	3	4	3	3
Command Van	1	1	1	1	1	1	1	1	0	0
Street (miles)	140	166.49	164.65	175	170.26	132	130	120	106	104
Street lights	1,379	1,262	1,275	1,250	1,211	1,154	1,100	1,015	963	849
Parks and Recreation										
Recreation/community center	1	1	1	1	1	1	1	1	1	1
Parks	7	6	8	7	10	8	9	6	6	7
Acreage	194	177	194	230	230	230	227	103.665	103.665	59
Baseball/softball diamonds	9	8	9	8	6	3	3	4	4	4
Soccer/football fields ¹	6	6	6	6	6	3	11	13	13	13
Swimming pools	1	1	1	1	1	1	1	1	1	1
Library/Activity Center										
Building	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	172.66	171.13	168.06	171.48	171.48	153	148	139	135	117.5
Service connections	9,666	9,740	9,533	9,445	9,415	9,043	8,825	8,407	7,656	6,737
Fire hydrants	1,090	1,080	1,060	1,050	980	885	881	832	803	682
Maximum daily capacity	13,500,000	13,500,000	10,000,000	13,500,000	13,500,000	13,500,000	13,500,000	9,000,000	9,000,000	9,000,000
Sewer										
Sanitary sewer (miles)	121.43	120.62	116.97	116.84	117.64	117	116	110	104	94.7
Service connections	8,586	8,580	8,314	8,286	8,257	8,199	7,570	7,093	6,556	5,884
Storm sewer (miles)	9.0	9.0	8.5	8.0	8.0	7.0	7.0	6.0	6.0	6.0
Treatment capacity (gallons)	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000

Source: Various City of Harker Heights departments.

¹2000-2007 numbers reflect small sized fields used; 2008-2009 reflect full size fields



**YELLOW BOOK
AUDIT**



LOTT, VERNON & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

20 SOUTH FOURTH STREET 254/778/4783
POST OFFICE BOX 160 800/460/4783
TEMPLE, TEXAS 76503 FAX 254/778/4792

KILLEEN • COPPERAS COVE • TEMPLE

Member of
American Institute & Texas Society of
Certified Public Accountants

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 STANDARD*

To the Honorable Major and
Members of the City Council
City of Harker Height, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Harker Heights, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Harker Heights, Texas's basic financial statements, and have issued our report thereon dated December 15, 2013.

Internal Control Over Financial Reporting

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

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 STANDARD* (CONTINUED)

Compliance and Other Matters

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

Purpose of this Report

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.

Jett, Vernon & Co., P.C.
Killeen, Texas
December 15, 2013