

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

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REPORT ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Independent Auditors' Report

To the City Council
City of Haskell, Texas
P.O. Box 1003
Haskell, Texas 79521

Members of the Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Haskell, Texas (the City) as of and for the year ended September 30, 2016, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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.

Basis for Qualified Opinion

The City has not updated the net pension liability and the related deferred outflows, deferred inflows, and pension expense, and the related disclosures for actuarial calculations applicable as of and for the year ended September 30, 2016. Furthermore, the City has not evaluated subsequent events since the end of the fiscal year, accounted for accounts receivables, has not calculated liability for compensated absences at year end, and has not presented a statement of cash flows. In our opinion, accounting principles generally accepted in the United States of America (GAAP) require that the net pension liability and the related deferred outflows, deferred inflows, and pension expense and related disclosures be based on more current actuarial calculations. Also, in our opinion, GAAP requires that the City evaluate subsequent events after the end of the fiscal year but before the financial statements are issued, and that cash flow be included in the financial statements. The effect of these departures from GAAP on the financial statements and related disclosures has not been determined.

Qualified Opinion

In our opinion, except for the effects of departures as explained in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Haskell, as of September 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 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 nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

October 5, 2018



CITY OF HASKELL

P.O. Box 1003 • Haskell, Texas 79521 • 940 864-2333

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial, we, the administration of the City of Haskell, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2016. Please read it in conjunction with the independent auditors' report on page 1 and the City's Basic Financial Statements that begin on page 7.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 7 and 8-9). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 10) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 7. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets, liabilities, and deferred inflow/outflow of resources, with the difference reported as net position. The Statement of Activities presents information showing how the City'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 for some items that will only result in cash flows in future fiscal periods (accrual basis of accounting).

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as program revenues, and revenues provided by taxpayers (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the City's population or its property tax base.

In the Statement of Net Position and the Statement of Activities, we divide the City into three kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including street maintenance and public safety, as well as airport services, a country club and a civic center. Tax revenues and federal grants finance most of these activities.
- **Business-type activities**—The City provides water, sewer, landfill, and garbage services to its residents.
- **Component unit** — The City includes a separate legal entity in its report—the Development Corporation of Haskell (DCOH). Although legally separate, this “component unit” is important because the City is financially accountable for it.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about the most significant funds—not the City as a whole. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

• **Governmental funds**—Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

• **Proprietary funds**—The City reports these activities in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities, and are the business-type activities reported in the government-wide statements but contain more detail and additional information such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities decreased from \$2.497 million to \$2.368 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$1,210,092 at September 30, 2016. This decrease in governmental net position was due to the following:

Increased by:

- Capital asset acquisitions of \$113,000
- New loan for firetruck \$82,000

Decreased by:

- Depreciation of \$111,000
- Fund loss of \$129,000
- Loan payment of \$27,000

Table I
City of Haskell, Texas

NET POSITION
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 999	\$ 1,075	\$ 114	\$ 114	\$ 1,113	\$ 1,189
Capital assets, net	1,241	1,239	3,897	4,001	5,138	5,240
Net Pension Asset	252	252	265	265	517	517
Total assets	2,492	2,566	4,276	4,380	6,768	6,946
Deferred Outflow Related to Pension Plan	8	8	9	9	17	17
Current liabilities	23	23	181	179	204	202
Noncurrent liabilities	82	27	561	664	643	691
Total liabilities	105	50	742	843	847	893
Deferred Inflow Related to Pension Plan	27	27	28	28	55	55
Net Position:						
Net Investment in capital assets	1,158	1,212	3,337	3,337	4,495	4,549
Unrestricted	1,210	1,285	178	181	1,388	1,466
Total net position	\$ 2,368	\$ 2,497	\$ 3,515	\$ 3,518	\$ 5,883	\$ 6,015

Table II
City of Haskell, Texas

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues:						
Charges for Services	\$ 202	\$ 193	\$ 1,319	\$ 1,519	\$ 1,521	\$ 1,712
General Revenues:						
Property taxes	533	471	-	-	533	471
Other taxes	530	537	-	-	530	537
Other	55	115	6	35	61	150
Grants & Contributions	-	-	100	317	100	317
Total Revenue	1,320	1,316	1,425	1,871	2,745	3,187
Expenses:						
General Government	415	470	-	-	415	470
Judicial	29	35	-	-	29	35
Public Safety	359	346	-	-	359	346
Public Works	245	299	1,673	1,475	1,918	1,774
Culture & Recreation	155	269	-	-	155	269
Interest	1	1	-	-	1	1
Total Expenses	1,204	1,420	1,673	1,475	2,877	2,895
Increase/(Decrease) in net position before transfers	116	(104)	(248)	396	(132)	292
Transfers In (Out)	(245)	(77)	245	77	-	-
Changes in net position	(129)	(181)	(3)	473	(132)	292
Net position - Beginning	2,497	2,467	3,518	2,823	6,015	5,290
Prior Period Adjustment	-	211	-	222	-	433
Net position - Ending	\$ 2,368	\$ 2,497	\$ 3,515	\$ 3,518	\$ 5,883	\$ 6,015

The City's governmental revenues increased by \$4,000 and expenses decreased by \$216,000, and business-type revenues decreased by \$446,000 and expenses increased by \$196,000. In the general fund income decreased due to increases of taxes by \$54,000 and decreases in other income (TMC insurance proceeds received in 2015) and charges for services by \$58,000. Expenses decreased due to \$151,000 decreases in Highway and streets, \$55,000 decrease in general government and \$10,000 decrease of fire department expenses. Business- type revenues decreased by \$231,000. Water decreases \$192,000, sanitation by \$6,000 and other revenue decreased by \$32,000 due to TMC insurance received in 2015. Expenses increased due to increases in payments made for the special water project by \$43,000 other operating expenses \$6,000 water purchases and water line maintenance of \$151,000 and depreciation by \$15,000. There were decreases in supplies purchased by \$26,000 and employee benefits of \$12,000.

The cost of all governmental activities this year was \$1,205,000. However, as shown in the Statement of Activities on pages 8 and 9, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$533,000 because some of the costs were paid by other sources of tax revenue (\$469,000) and by those that directly benefited from the programs (\$203,000).

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$960,971 which is a decrease of \$95,000 in the general fund and a increase of \$16,000 in special revenue funds. The primary reasons for these changes mirror the governmental activities analysis highlighted on page 12.

No general fund budget amendments were made during the year. There were significant variations between general fund budget and actual; property tax and sales tax revenue was more than budgeted due to lower expectations, fine revenue was under budget, general government expenses were more than budgeted due to higher insurance cost and highway and streets were over budgeted due to many repairs that were not anticipated. Also, capital outlay were more than budget due to more equipment needed than planned.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of September 2016, the City had almost \$9 million invested in a broad range of capital assets, including facilities and equipment for administration, public safety, public works, and recreation.

Fixed Asset additions during the year follow:

General:		Water/Sewer/Garbage/Landfill:	
• Fire Truck	\$ 82,000	• 2003 Dodge Pickup	\$ 8,292
• 2016 Chevy Pickup- Hwy	\$ 24,411	• 2008 Dodge Pickup	\$ 7,600
• Lawn Mower	\$ 5,000	• Public Work Pickup	\$ 25,500
		• 2003 GMC Diesel	\$ 9,000

Also, prior construction in progress on water wells added to fixed assets during year totaled \$398,500.

DEBT

The City had \$82,250 loan payable to 1st Bank, Wichita Falls, TX for a firetruck. See Note III(E) for additional information.

The City also had \$561,148 capital leases payable at year end for enterprise fund equipment purchases. See note III (F) for additional information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rate. As a result, amounts available for appropriation in the General Fund budget are approximately \$1,080,650, a slight decrease from the originally adopted 2016 budget of \$1,084,771. If these estimates are realized, the City's budgetary General Fund balance is expected to decrease slightly by the close of September 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Secretary at 301 South 1st, Haskell, Texas 79521.

**CITY OF HASKELL, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

Exhibit A-1

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 789,249	\$ -	\$ 789,249	\$ 140,227
Investments	192,133	-	192,133	-
Receivables (net of allowance)	17,929	113,933	131,862	134,486
Capital assets not being depreciated	-	-	-	-
Land	134,330	154,647	288,977	-
Capital assets (net of accumulated depreciation)	-	-	-	-
Buildings	536,546	46,946	583,492	-
Machinery and equipment	569,514	3,696,098	4,265,612	95,238
Net Pension Asset	252,156	264,965	517,121	-
Total assets	<u>2,491,857</u>	<u>4,276,589</u>	<u>6,768,446</u>	<u>369,951</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	8,142	8,556	16,698	-
Total Deferred Outflows of Resources	<u>8,142</u>	<u>8,556</u>	<u>16,698</u>	<u>-</u>
LIABILITIES				
Meter Deposit Payable	-	47,032	47,032	-
Landfill Postclosure	-	120,503	120,503	-
Accrued Compensated Absences	22,815	13,538	36,353	-
Noncurrent Liabilities	-	-	-	-
Due within one year	-	257,467	257,467	-
Due in more than one year	82,250	303,682	385,932	-
Total liabilities	<u>105,065</u>	<u>742,222</u>	<u>800,255</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	26,702	28,058	54,760	-
Total Deferred Inflows of Resources	<u>26,702</u>	<u>28,058</u>	<u>54,760</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	1,158,390	3,336,542	4,494,932	95,238
Unrestricted	1,209,842	178,323	1,388,165	274,713
Total net position	<u>\$ 2,368,232</u>	<u>\$ 3,514,865</u>	<u>\$ 5,883,097</u>	<u>\$ 369,951</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HASKELL, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General Government	\$ 414,930	\$ 41,426	\$ -	\$ -
Judicial	28,801	0	-	-
Police	290,890	21,801	-	-
Fire Protection	67,720	0	-	-
Highways and Streets	117,693	0	-	-
Airport	16,985	19,290	-	-
Golf Course	112,573	100,383	-	-
Civic Center	29,157	3,476	-	-
Parks	125,853	16,437	-	-
Other Debt Interest	813	-	-	-
Total governmental activities	<u>1,205,415</u>	<u>202,813</u>	<u>-</u>	<u>-</u>
Business-type activities:				
Water and sewer	<u>1,673,231</u>	<u>1,319,260</u>	<u>-</u>	<u>99,711</u>
Total business-type activities	<u>1,673,231</u>	<u>1,319,260</u>	<u>-</u>	<u>99,711</u>
Total primary government	<u>\$ 2,878,646</u>	<u>\$ 1,522,073</u>	<u>\$ -</u>	<u>\$ 99,711</u>
Component unit				
Corinth Economic Development Corporation	<u>\$ 120,427</u>	<u>\$ 140,573</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Franchise taxes

Hotel occupancy tax

Grant and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of these financial statements.

Exhibit B-1

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Corinth Economic Development Corporation
\$ (373,504)	\$ -	\$ (373,504)	
(28,801)	-	(28,801)	
(269,089)	-	(269,089)	
(67,720)	-	(67,720)	
(117,693)	-	(117,693)	
2,305	-	2,305	
(12,190)	-	-	
(25,681)	-	-	
(109,416)	-	-	
(813)	-	(813)	
<u>(1,002,602)</u>	<u>-</u>	<u>(855,315)</u>	
-	(254,260)	(254,260)	
-	(254,260)	(254,260)	
(1,002,602)	(254,260)	(1,109,575)	
			\$ <u>20,146</u>
533,188	-	533,188	-
403,646	-	403,646	-
53,964	-	53,964	-
71,913	-	71,913	-
350	-	350	-
54,188	6,355	60,543	-
428	-	428	-
(244,616)	244,616	-	-
<u>873,061</u>	<u>250,971</u>	<u>1,124,032</u>	<u>-</u>
(129,541)	(3,289)	14,457	20,146
2,497,773	3,518,154	6,015,927	349,805
<u>\$ 2,368,232</u>	<u>\$ 3,514,865</u>	<u>\$ 6,030,384</u>	<u>\$ 369,951</u>

**CITY OF HASKELL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2016**

Exhibit C-1

	<u>General</u>	<u>Other Funds</u>	<u>Total Governmental</u>
ASSETS			
Cash and cash equivalents	\$ 746,526	\$ 42,723	\$ 789,249
Investments - Current	192,133	-	192,133
Taxes Receivable	31,049	-	31,049
Allowance for Uncollectible Taxes (credit)	(15,525)	-	(15,525)
Receivables (net)	-	2,405	2,405
			-
Total Assets	\$ <u>954,183</u>	\$ <u>45,128</u>	\$ <u>999,311</u>
LIABILITIES			
Key Deposit Payable	\$ -	\$ 1,650	\$ 1,650
Compensated Absences Payable	21,165	-	21,165
Total Liabilities	21,165	1,650	22,815
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	15,525	-	15,525
Total Deferred Inflows of Resources	15,525	-	15,525
FUND BALANCES			
Committed Fund Balance	-	43,478	43,478
Unassigned Fund Balance	917,493	-	917,493
Total Fund Balances	917,493	43,478	960,971
Total liabilities, deferred inflows of resources, and fund balances	\$ <u>954,183</u>	\$ <u>45,128</u>	\$ <u>999,311</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HASKELL, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2016**

Exhibit C-2

Total Fund Balances - Governmental Funds	\$ 960,971
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. At the beginning of the year, the cost of these assets were \$2,743,576 and the accumulated depreciation was \$1,504,307. In addition, long-term liabilities, and capital lease receivable of \$27,118, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	1,212,151
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase (decrease) net position.	291,125
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(111,290)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bond payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	15,275
Net position of governmental activities	\$ <u>2,368,232</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HASKELL, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Exhibit C-3

	General Fund	Other Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property Taxes	\$ 530,201	\$ -	\$ 530,201
General Sales and Use Taxes	403,646	-	403,646
Franchise Tax	53,964	-	53,964
Hotel / Motel Tax	71,913	-	71,913
Charges for Service	57,864	108,114	165,978
Fines	21,801	-	21,801
Investment Earnings	423	5	428
Rents and Royalties	-	36,490	36,490
Contributions & Donations from Private Sources	-	350	350
Other Revenue	32,117	615	32,732
Total Revenues	<u>1,171,929</u>	<u>145,574</u>	<u>1,317,503</u>
EXPENDITURES:			
Current:			
General Government	400,683	-	400,683
Judicial	28,801	-	28,801
Public Safety:			
Police	272,782	-	272,782
Fire Protection	36,520	-	36,520
Highways	104,914	-	104,914
Airport	-	4,981	4,981
Golf Course	-	108,820	108,820
Civic Center	-	20,877	20,877
Culture and Recreation:			
Parks	114,934	-	114,934
Capital Outlay:			
Capital Outlay	140,342	-	140,342
Total Expenses	<u>1,098,976</u>	<u>134,678</u>	<u>1,233,654</u>
Excess of Revenues Over Expenditures	72,953	10,896	83,849
OTHER FINANCING SOURCES (USES)			
Loan Proceeds	82,250	-	82,250
Transfers In	17,129	5,489	22,618
Transfers Out (Use)	(267,234)	-	(267,234)
Total Other Financing Sources (Uses)	<u>(167,855)</u>	<u>5,489</u>	<u>(162,366)</u>
Net Change in Fund Balance	(94,902)	16,385	(78,517)
Fund Balance - October 1 (Beginning)	1,012,395	27,093	1,039,488
Fund Balance - September 30 (Ending)	<u>\$ 917,493</u>	<u>43,478</u>	<u>960,971</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HASKELL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Exhibit C-4

Net Change in Fund Balances - Total Governmental Funds \$ (78,517)

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

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they are shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase the change in net position. 57,529

Depreciation is not recognized as an expenditure in governmental funds since it does not require the use of current financial resources. (111,290)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows of resources as revenue, adjusting current year revenue to include the revenue earned from current year's tax levy, and eliminating interfund transactions. These adjustments result in an increase in net position. 2,737

Change in Net Position of Governmental Activities \$ (129,541)

CITY OF HASKELL, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Exhibit C-5

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property Taxes	\$ 472,000	\$ 472,000	\$ 530,201	\$ 58,201
General Sales and Use Taxes	355,000	355,000	403,646	48,646
Franchise Tax	120,000	120,000	53,964	(66,036)
Hotel / Motel Tax	-	-	71,913	71,913
Intergovernmental Revenue and Grants	7,500	7,500	-	(7,500)
Charges for Service	58,250	58,250	57,864	(386)
Fines	2,250	2,250	21,801	19,551
Investment Earnings	650	650	423	(227)
Other Revenue	37,500	37,500	32,117	(5,383)
Total Revenues	<u>1,053,150</u>	<u>1,053,150</u>	<u>1,171,929</u>	<u>118,779</u>
EXPENDITURES:				
Current:				
General Government	332,527	332,527	400,683	(68,156)
Judicial	25,420	25,420	28,801	(3,381)
Public Safety:				
Police	295,686	295,686	272,782	22,904
Fire Protection	54,260	54,260	36,520	17,740
Highways	193,142	193,142	104,914	88,228
Culture and Recreation:				
Parks	116,958	116,958	114,934	2,024
Capital Outlay:				
Capital Outlay	68,300	68,300	140,342	(72,042)
Total Expenses	<u>1,086,293</u>	<u>1,086,293</u>	<u>1,098,976</u>	<u>(12,683)</u>
Excess of Revenues Over Expenditures	(33,143)	(33,143)	72,953	106,096
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	82,250	82,250
Transfers In	-	-	17,129	17,129
Transfers Out (Use)	(28,700)	(28,700)	(267,234)	(238,534)
Total Other Financing Sources (Uses)	<u>(28,700)</u>	<u>(28,700)</u>	<u>(167,855)</u>	<u>(139,155)</u>
Net Change in Fund Balance	(61,843)	(61,843)	(94,902)	(33,059)
End Balance - October 1 (Beginning)	1,012,395	1,012,395	1,012,395	-
End Balance - September 30 (Ending)	<u>\$ 950,552</u>	<u>950,552</u>	<u>917,493</u>	<u>(33,059)</u>

The accompanying notes are an integral part of these financial statements.

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

Exhibit D-1

	Business-Type Activities <u>Water, Sewer, Garbage & Landfill Fund</u>
ASSETS	
Current assets:	
Accounts Receivables - Net of Uncollectible Allowance	\$ 113,933
Total Current Assets	<u>113,933</u>
Non-current assets:	
Capital Assets	
Land	154,647
Buildings	46,946
Machinery and equipment	6,150,376
Less accumulated depreciation	(2,454,278)
Net Pension Asset	<u>264,965</u>
Total Noncurrent Assets	<u>4,162,656</u>
Total assets	<u>4,276,589</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	<u>8,556</u>
Total deferred outflows of resources	<u>8,556</u>
LIABILITIES	
Current liabilities:	
Meter Deposit Payable	47,032
Landfill Postclosure	120,503
Compensated absences	13,538
Capital Lease Payable - Current	<u>257,467</u>
Total current liabilities	<u>438,540</u>
Non-current liabilities:	
Capital Lease Payable - Noncurrent	<u>303,682</u>
Total Noncurrent Liabilities	<u>303,682</u>
Total Liabilities	742,222
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	<u>28,058</u>
Total Deferred Inflows of Resources	<u>28,058</u>
NET POSITION	
Net investment in capital assets	3,336,542
Unrestricted	<u>178,323</u>
Total net position	<u>\$ 3,514,865</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF HASKELL, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Exhibit D-2

	Business-Type Activities
	<u>Water, Sewer Garbage, & Landfill Fund</u>
OPERATING REVENUES	
Charges for sales and services:	
Water sales	\$ 553,264
Sewerage Services	262,525
Garbage	370,559
Landfill Collections	102,994
Late Charges	29,918
Other Revenue	6,355
Total Operating Revenues	<u>1,325,615</u>
OPERATING EXPENSES	
Wages & benefits	280,943
Wemmployee Benefits	103,138
Purchased Property Services	745,478
Other Operating Expenses	169,651
Supplies	53,739
Special Water Project	50,685
Interest Expense	13,324
Depreciation	235,794
Total Operating Expenses	<u>1,652,752</u>
Operating Income (Loss)	(327,137)
NONOPERATING REVENUES (EXPENSES)	
Transfers In	244,616
Grants (Not Capital Grants)	99,711
Administration Expense - Grants	(18,000)
Closure/Postclosure Expense	(2,479)
Total Non-operating Revenues (Expenses)	<u>323,848</u>
Change in Net Position	(3,289)
Net Position, Beginning	3,518,154
Net Position, Ending	<u>\$ 3,514,865</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HASKELL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Haskell, Texas is a governmental unit operating under the applicable laws and regulations of the State of Texas. It is governed by a mayor and five city council members (the "Council") elected by registered voters of the City. The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations); and it complies with the requirements of contracts and grants of agencies from which it receives funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. REPORTING ENTITY

The City Council (the "Council") is elected by the public and it has the authority to make decisions, appoint managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The City exercises significant influence over the Development Corporation of Haskell ("DCOH") and therefore accounts for it as a discretely presented component unit.

The DCOH promotes the creation of business, industry, and jobs in the City. The City Council appoints DCOH board members and reviews and approves the DCOH budget. DCOH financing is provided by a one-cent sales tax assessed within the City. The City pays employees of the DCOH; the DCOH then reimburses the City for this expense. The City provides office space to the DCOH at no cost.

Separate detailed information on these are located at Note III (P).

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City's nonfiduciary activities. *Governmental activities* include programs supported primarily by taxes and grants. *Business-type activities* include operations generally financed in whole or in part with fees charged to external customers for electricity, water and sewer sales.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include electricity, water and sewer charges. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues. The City does not allocate indirect expenses in the statement of activities.

Interfund activities between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statements of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and proprietary. The City considers the general and enterprise funds as major funds and reports their financial condition and results of operations in separate columns.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide and proprietary fund financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. Revenues the city considers to be available are delinquent taxes collected within 60 days of the current fiscal year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant.

The Proprietary Fund Type is accounted for on a flow of economic resources measurement focus and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted, and unrestricted net position.

D. FUND ACCOUNTING

The City reports the following major governmental fund:

General Fund – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The City reports the following major enterprise fund:

Water, Sewer, Garbage and Landfill Fund – This fund provides water, sewer and garbage collection services to City residents, and provides a landfill facility for waste disposal for both City residents and businesses as well as for users from other locations.

Additionally, the City reports the following nonmajor fund types:

Governmental Special Revenue Funds:

1. **Airport Fund** – The City provides airport hangars for rent and sells retail airplane fuel.
2. **Municipal Golf Course Fund** – The city provides a municipal golf course.
3. **Civic Center Fund** – The City provides a facility for rental for community and social functions.

E. GOVERNMENT FUND BALANCES

In the governmental fund financial statements, fund balances are classified as follows:

- Committed – Amounts available for the budgeting of future operations. The committed fund balance for governmental funds indicates funds that have been earmarked by Board Resolution for a specific purpose unless amended by future Board action. As of September 30, 2015, committed fund balances in Special Revenue Funds include Airport \$5,261, Golf Course \$24,192, and Civic Center \$14,025.
- Unassigned – All amounts not included in other spendable classification.

The City has no fund balance resources that are available in more than one classification.

The City has no formal minimum fund balance policy.

F. OTHER ACCOUNTING POLICIES

1. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, accordingly, actual results could differ from those estimates.
2. For purposes of the statement of cash flows for proprietary fund-types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
3. Inventories are not recorded by the City due to immateriality. Supplies are recorded as expenditures as they are purchased.
4. 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.
5. Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Equipment	5-10

Infrastructure assets built and/or acquired beginning fiscal year 2004 are capitalized; however, there have been no significant improvements during this time period.

6. Deferred outflows/inflows of resources are separate elements of the financial statements. The City has deferred inflows of resources, unavailable revenue from property taxes, and for its proportionate share of TMRS's deferred inflow related to pensions as described on Note III (G). These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City has deferred outflow of resources for its proportionate share of TMRS's deferred outflow related to pensions as described on Note III (G).

7. Pensions – The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The City Council adopts a budget for the General Fund, and is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October, 2015 the City prepared a budget.
2. A Council meeting is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. The budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended by approval of a majority of the members of the Council. No budget amendments were made by the Council during the year.
4. There were significant variations between budgeted and actual amounts in the general fund which are described on page 6.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

1. CASH DEPOSITS

At September 30, 2016, the City's bank balance was \$881,382. The City's cash deposits at September 30, 2016 and during the year ended September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

City Policies and Legal and Contractual Provisions Governing Deposits

State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent.

2. INVESTMENTS

City Policies and Legal and Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

At year end, all City funds were in checking or money market accounts at their depository bank.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures. GASB Statement 40 also requires the entity to disclose their policy related to credit risk. The City currently does not have policies in place for the items below. The following disclosures provide information about the city:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year end, the City was not exposed to credit risk.

b. Custodial Credit Risk

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

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

B. PROPERTY TAXES

Property taxes are levied on October 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, at which time a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Haskell County Appraisal District bills and collects the City's property taxes. Revenue is recognized when collections are made within the current period. The tax rate set to finance general government services for the year ended September 30, 2016 was \$.5624 per \$100 valuation.

Allowances for uncollectible taxes within the general fund are based on historical experience in collecting property taxes and currently are estimated at 50% of the taxes receivable balance.

C. INTERFUND TRANSFERS AND BALANCES

There were interfund transfers for the year ended September 30, 2016 of \$3,476 from general fund to civic center fund, \$19,142 to Golf Course, and \$244,616 to Water, Sewer, Garbage & Landfill Funds to subsidize expenses. The airport transferred funds to the general fund for \$17,129.

D. CAPITAL ASSET ACTIVITY

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

Primary Government				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 134,330	\$ -	\$ -	\$ 134,330
Buildings and Improvements	1,419,498	-	-	1,419,498
Machinery and Equipment	1,189,749	112,411	-	1,302,160
Totals at Historic Cost	<u>2,743,577</u>	<u>112,411</u>	<u>-</u>	<u>2,855,988</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(847,713)	(35,237)	-	(882,950)
Machinery and Equipment	(656,594)	(76,053)	-	(732,647)
Total Accumulated Depreciation	<u>(1,504,307)</u>	<u>(111,290)</u>	<u>-</u>	<u>(1,615,597)</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,239,270</u>	<u>\$ 1,121</u>	<u>\$ -</u>	<u>\$ 1,240,391</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-Type Activities:				
Land	\$ 154,647	\$ -	\$ -	\$ 154,647
Buildings and Improvements	46,946	-	-	46,946
Machinery and Equipment	5,701,484	448,891	-	6,150,376
Construction in Progress	316,789	-	316,789	-
Totals at Historic Cost	<u>6,219,866</u>	<u>448,891</u>	<u>316,789</u>	<u>6,351,969</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(10,563)	(1,174)	-	(11,837)
Machinery and Equipment	(2,207,821)	(234,620)	-	(2,442,441)
Total Accumulated Depreciation	<u>(2,218,484)</u>	<u>(235,794)</u>	<u>-</u>	<u>(2,454,278)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,001,382</u>	<u>\$ 213,098</u>	<u>\$ 316,789</u>	<u>\$ 3,897,691</u>

Development Corp of Haskell				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$ 38,530	\$ -	\$ -	\$ 38,530
Building	62,527	-	-	62,527
Less Depreciation	(4,256)	(1,563)	-	(5,819)
Totals	<u>\$ 96,801</u>	<u>\$ (1,563)</u>	<u>\$ -</u>	<u>\$ 95,238</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 14,247
Police	18,108
Fire	31,200
Streets	12,779
Airport	12,004
Park	10,919
Golf Complex	3,753
Civic Center	8,280
Total Depreciation Expense	<u>\$ 111,290</u>

E. NOTES PAYABLE**GOVERNMENTAL ACTIVITIES**

The City purchased a new fire truck with financing from First National Bank, Wichita Falls, TX at a 2.85% interest rate with first annual payment totaling \$17,894.85 due January 15, 2017.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Interest Paid</u>
<u>First National Bank:</u>					
Fire Truck	\$ -	\$ 82,250	\$ -	\$ 82,250	\$ -

The maturity schedule is as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	15,493	2,402	17,895
2018	15,992	1,903	17,895
2019	16,448	1,447	17,895
2020	16,917	978	17,895
2021	17,400	495	17,895
Total Payments	\$ 82,250	\$ 7,225	\$ 89,475

F. CAPITAL LEASE**BUSINESS - TYPE ACTIVITIES**

The City purchased three new pieces of equipment all with financing provided by American National Leasing Co. during 2012. A 2012 Motor Grader was purchased February 28, 2012 for \$252,500. A 2012 Landfill Compactor was purchased June 11, 2012 for \$410,865. A 2008 Scraper was purchased February 7, 2012 for \$199,665. Further, a new lease for a backhoe was obtained during 2014 for \$77,431; no payments were made on this lease prior to refinancing. All four leases were refinanced with First National Bank, Wichita Falls, TX in February 2014 at a 2.25% interest rate, with first monthly payment totaling \$9,034 due March 2014. The leases have balloon payments due at varying dates.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Interest Paid</u>
<u>First National Bank:</u>					
Scraper	\$ 121,834	\$ -	\$ 26,461	\$ 95,373	\$ 2,673
Motor Grader	196,358	-	18,235	178,123	3,748
Compactor	281,793	-	48,945	232,848	6,234
Backhoe	64,144	-	9,340	54,804	668
Total	\$ 664,129	\$ -	\$ 102,981	\$ 561,148	\$ 13,323

The maturity schedule of the capital lease obligations are as follows:

<u>Year Ending September 30</u>	<u>Total</u>
2017	257,467
2018	76,828
2019	226,853
Total Payments	\$ 561,148

Lease payments in 2016 totaled \$116,304 of which \$13,323 was interest.

G. OPERATING LEASE

The City has an operating lease for a copier. Monthly payments total \$347, including interest at the rate of 1.25%.

Future obligations are as follows:

Year Ending September 30	Lease Expense	Interest Expense	Lease Payment
2017	594	2	596
Total	\$ 594	\$ 2	\$ 596

Rental Expenditures in Fiscal Year 2016 \$ 4,165

H. DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest. A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City has adopted annuity increases as a rate equal to 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. The City has elected that members can retire at age 60 and above with 5 or more years of service or with 25 years of service regardless of age. The City does not provide supplemental death benefits. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

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

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>16</u>
Total	<u>33</u>

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The City did not change its employee contribution rate during the year. The contribution rates for the City were .21% and .22% in calendar years 2015 and 2016, respectively.

Net Pension Liability

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

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

Inflation	2.5% per year
Overall payroll growth	3.5% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103% [small cities should also include the additional factor used, which adds an additional layer of conservatism; see the GRS Reporting Package, section C]. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	6.00%
Total	<u>100.00%</u>	

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

The remaining information in this section has not been updated for the current year but is carried over from the prior year.

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balance at December 31, 2014	\$ 1,158,788	\$ 1,593,169	\$ (434,381)
Changes for the year:			
Service Cost	42,157	-	42,157
Interest	79,599	-	79,599
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(75,665)	-	(75,665)
Changes of assumptions	-	-	(91)
Contributions - employer	-	91	(38,660)
Contributions - employee	-	38,660	(59,628)
Net investment income	-	91,109	(91,109)
Benefit payments, including refunds of employee contributions	(85,474)	(85,474)	-
Administrative expense	-	(952)	952
Other changes	-	(78)	78
Net changes	<u>(39,383)</u>	<u>43,356</u>	<u>(82,739)</u>
Balance at December 31, 2015	<u>\$ 1,119,405</u>	<u>\$ 1,636,525</u>	<u>\$ (517,120)</u>

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability/(asset)	\$ (378,816)	\$ (517,120)	\$ (631,886)

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

SUPPLEMENTAL DEATH BENEFITS FUND

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

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

CONTRIBUTIONS

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. Annual contributions each of the last three years were equal to the required contribution rate, which was .21% for 2015 and 2014, and .19% for 2013.

I. CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its Municipal Solid Waste Landfill Facility site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$120,503 reported as landfill closure and postclosure care liability at September 30, 2016 represents the cumulative amount reported to date based on the use of 34 percent of the estimated capacity of the landfill. The remaining estimated life is 70 years. The City will recognize the remaining estimated cost of closure and post closure care of \$260,221 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City's financial strength allows it to self-insure to meet applicable financial assurance requirements.

J. COMPENSATED ABSENCES

Employees and management of the City are entitled to paid vacation depending on length of service and other factors in accordance with the city's written policy. Employees can accrue 6.6 hrs per month of sick leave with a maximum accrual of 480 hours. Vacation pay if not used is paid at the end of the year, while sick leave is accrued for future use but not paid upon retirement or termination. As of September 30, 2016, the City's liability for accrued sick leave was \$34,705.

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Compensated Absences	<u>\$34,705</u>	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$34,705</u>

K. LITIGATION AND CONTINGENCIES

The City was not involved in any litigation as of the end of the year under audit or as of the audit report date.

L. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters. During the fiscal year 2015, the City purchased commercial insurance to cover general liabilities. There were no significant reductions in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three (3) fiscal years.

M. SUBSEQUENT EVENTS

Due to timing of the audit, subsequent events were not evaluated.

N. DEVELOPMENT CORPORATION OF HASKELL (DCOH)

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

ASSETS	
Cash and Cash Equivalents	\$ 140,227
Loans Receivable *	134,486
Capital Assets – Net	<u>95,238</u>
Total Assets	<u>369,951</u>

LIABILITIES	
	-
Net Investment in Capital Assets	95,238
Unrestricted	<u>274,713</u>
Total Net Position	<u>\$ 369,951</u>

* New loan to Steele Fire for \$70,000,

**STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016**

General Revenue:	
Sales Tax	\$ 134,106
Investment Earnings	1,935
Farm Lease	1,000
Other Revenue	<u>3,532</u>
Total General Revenue	<u>140,573</u>

Operating Expense:	
Wages	59,184
Advertising & Bus. Recruitment	3,879
Professional Fees	1,500
Travel	9,181
Property Tax	522
Office	3,307
Depreciation	1,563
Other Operating Expenses	2,435
Nonoperating Expense:	
Water Project	3,719
Storefront Grants Awarded	<u>35,137</u>
Total Expenses	<u>120,427</u>

Change in Net Position	20,146
Beginning Net Position	<u>349,805</u>
Ending Net Position	<u>\$ 369,951</u>

CITY OF HASKELL
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

Data Control Codes	200	201	202	Total
	Airport Fund	Municipal Country Club	Civic Center	Nonmajor Governmental Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ 4,911	\$ 23,787	\$ 14,025	\$ 42,723
1150 Receivables (Net)	2,000	405	-	2,405
1000 Total Assets	<u>\$ 6,911</u>	<u>\$ 24,192</u>	<u>\$ 14,025</u>	<u>\$ 45,128</u>
LIABILITIES				
2020 Key Deposit Payable	\$ 1,650	\$ -	\$ -	\$ 1,650
2000 Total Liabilities	<u>1,650</u>	<u>-</u>	<u>-</u>	<u>1,650</u>
FUND BALANCES				
3545 Committed Fund Balance	5,261	24,192	14,025	43,478
3000 Total Fund Balances	<u>5,261</u>	<u>24,192</u>	<u>14,025</u>	<u>43,478</u>
4000 Total Liabilities and Fund Balances	<u>\$ 6,911</u>	<u>\$ 24,192</u>	<u>\$ 14,025</u>	<u>\$ 45,128</u>

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

CITY OF HASKELL
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Data Control Codes	200 Airport Fund	201 Municipal Country Club	202 Civic Center	Total Nonmajor Governmental Funds
REVENUES:				
5400 Charges for Services	\$ 7,731	\$ 100,383	\$ -	\$ 108,114
5610 Investment Earnings	-	5	-	5
5620 Rents and Royalties	19,290	-	17,200	36,490
5640 Contributions & Donations from Private Sources	-	200	150	350
5700 Other Revenue	-	465	150	615
5020 Total Revenues	<u>27,021</u>	<u>101,053</u>	<u>17,500</u>	<u>145,574</u>
EXPENDITURES:				
Current:				
0033 Airport	4,981	-	-	4,981
0034 Golf Course	-	108,820	-	108,820
0035 Civic Center	-	-	20,877	20,877
6030 Total Expenditures	<u>4,981</u>	<u>108,820</u>	<u>20,877</u>	<u>134,678</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>22,040</u>	<u>(7,767)</u>	<u>(3,377)</u>	<u>10,896</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	19,142	3,476	22,618
8911 Transfers Out (Use)	(17,129)	-	-	(17,129)
7080 Total Other Financing Sources (Uses)	<u>(17,129)</u>	<u>19,142</u>	<u>3,476</u>	<u>5,489</u>
1200 Net Change in Fund Balance	4,911	11,375	99	16,385
0100 Fund Balance - October 1 (Beginning)	<u>350</u>	<u>12,817</u>	<u>13,926</u>	<u>27,093</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 5,261</u>	<u>\$ 24,192</u>	<u>\$ 14,025</u>	<u>\$ 43,478</u>

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



**REPORT TO MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE REGARDING
SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING
IDENTIFIED IN THE AUDIT**

City Council
City of Haskell
P.O. Box 1003
Haskell, Texas 79521

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Haskell (the City) as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist and not be identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the City's internal control to be significant:

- Bank Reconciliations were not done during the year.

- The City does not have an internal control system designed to provide for the preparation of the financial statement and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statement and accompanying notes to the financial statement. Additionally, we recorded ten audit adjustments to the City's recorded account balances, which if not recorded would have resulted in a material misstatement of the City's financial statement.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, and participating entities, and is not intended to be and should not be used by anyone other than these specified parties.



Eide Bailly LLP
Seymour, Texas

October 5, 2018



CPAs & BUSINESS ADVISORS

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 5, 2018

City Council
City of Haskell, Texas
P.O. Box 1003
Haskell, Texas 79521

Members of the Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Haskell, Texas (the City) for the year ended September 30, 2016 and have issued our report thereon dated October 5, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 7, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note (I) to the financial statements. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimates are based on historical experience for allowances and time of usefulness for depreciation. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of its net pension asset is based on reports received from the Texas Municipal Retirement System (TMRS). The net pension asset reported by TMRS is based on actuarial valuations that utilize various assumptions including the remaining amortization period, discount rate, expected rates of investment return, salary increases, payroll growth rates and mortality rates. The financial statements of the TMRS plan were audited by KPMG, LLP. These financial statements received an unmodified opinion. We evaluated the audited financial statements, census data submitted by the City to TMRS and the City's controls over the census submission process that were used to develop the estimate of its net pension asset to determine that the estimate is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the defined benefit pension plan in Note III (I) to the financial statements is a sensitive disclosure. The disclosure is based on various reports provided by TMRS.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The performance of the audit was delayed due to the general ledger and other requested information not being available to us timely.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year in the normal course of our professional relationship.

The following issues were detected during the course of our audit that have not been previously discussed:

- As noted last year, the City's airport & water and sewer funds had overdrawn bank accounts at September 30, 2016. Accounts should be closely monitored to determine if cash balances are overdrawn; if such overdraft occurs a transfer from another source should be made.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis (MD&A), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on it.

The City has not updated the net pension liability and the related deferred outflows, deferred inflows, and pension expense, and the related disclosures for actuarial calculations applicable as of and for the year ended September 30, 2016. Furthermore, the City has not evaluated subsequent events since the end of the fiscal year accounted for accounts receivables, has not calculated liability for compensated absences at year end, and has not presented a statement of cash flows. In our opinion, accounting principles generally accepted in the United States of America (GAAP) require that the net pension liability and the related deferred outflows, deferred inflows, and pension expense and related disclosures be based on more current actuarial calculations. Also, in our opinion, GAAP requires that the City evaluate subsequent events after the end of the fiscal year but before the financial statements are issued, and that cash flow be included in the financial statements. The effect of these departures from GAAP on the financial statements and related disclosures has not been determined. Our opinion was qualified for these departures from GAAP.

We were engaged to report on the combining nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of board of trustees and management of the City of Haskell, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Erik Bailly LLP in cursive script.

Seymour, Texas

As indicated on p2, we had to modify our opinion since this was completed so long after the end of the audit year we couldn't confirm all asset and liability balances and those are listed there, otherwise we issued a clean opinion. We do have issues to discuss however that will come along as we go thru the audit. And also please note that the entire office staff has changed since the audit year.

You will see the current fixed asset additions on page 6 as well as total of debt outstanding.

Lets discuss general fund first-Skip ahead to page 12, general fund had a \$73k profit, then borrowed \$82k for new fire truck but transferred \$245k net to enterprise (water, sewer, garbage) for a net loss of \$95k. Note-enterprise fund should generate enough revenue to pay its own way, so an increase in rates should be considered but apparently has been done in the last two years. Significant differences from 2015-tax collections were up, and hotel motel tax was up as \$ that had been going to chamber were kept when contract ended. General government expense was down as there was no city manager for most of fy '16. Now lets look at balance sheet for general fund on page 10, still have over \$900k in bank so in good shape although cash did decrease by \$80k from the prior year, and although not reported here the only debt in the general fund is the new fire truck loan. Now skip ahead to page 14 to see comparison of general fund budget vs actual, you will note that no budget amendments were made during the year and that you overspent budget in general government; you should amend budget before overspending it in each category. You will also note that franchise tax revenue came in under budget, it appears the budget for this category was simply too high to start with. However, other revenue categories came in over budget so overall revenue exceeded budget by \$118k. The other expense item that exceeded budget significantly was capital outlay which was due to the fire truck purchase which we recorded on the books by a journal entry; the city didn't record this or the offsetting loan proceeds below it since they didn't get the money or write a check. Also the transfers to enterprise were not budgeted, as they were made with a journal entry by us as the enterprise fund showed an overdrawn balance which is not allowed if sharing a bank account with other funds as yours does.

Now lets discuss enterprise fund. You will see on p16 that it had an operating loss of \$327k but that included \$236k depreciation which is a noncash item. To offset that you got about \$100k in grants, and transferred in \$245k from general as discussed above. Significant differences from '15 were that water sales were down due to increased rainfall and purchased property services were up due to water leaks. Now turn back one page to p15, you will notice no cash, as discussed above there was an overdraft which we adjusted out by transfer from general. Biggest item here besides the fixed assets are the capital leases payable of \$560k.

To hit the hilites of the notes, page 20 indicates that all funds on deposit were collateralized at all times during the year. Bottom of page 21 indicates the interfund transfers to get funds out of the hole as needed. Debt amortization schedules are on page 23. The DCOH is on page 28, they made \$20k and provided a new loan of \$70k during the year.

Balance sheets and income statements for the airport, golf course and civic center are on p29/30.

P31/32 is report of internal controls. We reported two significant deficiencies, lack of bank reconciliations and inability of the City to generate financial statements including our need to record significant adjustments to the books.

Finally the last three pages are required communication with council. Main thing to note there is bottom of the second page, that as discussed above the enterprise fund was overdrawn on the books and shouldn't be in the future.



CPAs & BUSINESS ADVISORS

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 5, 2018

City Council
City of Haskell, Texas
P.O. Box 1003
Haskell, Texas 79521

Members of the Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Haskell, Texas (the City) for the year ended September 30, 2016 and have issued our report thereon dated October 5, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 7, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note (I) to the financial statements. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimates are based on historical experience for allowances and time of usefulness for depreciation. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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Management's estimate of its net pension asset is based on reports received from the Texas Municipal Retirement System (TMRS). The net pension asset reported by TMRS is based on actuarial valuations that utilize various assumptions including the remaining amortization period, discount rate, expected rates of investment return, salary increases, payroll growth rates and mortality rates. The financial statements of the TMRS plan were audited by KPMG, LLP. These financial statements received an unmodified opinion. We evaluated the audited financial statements, census data submitted by the City to TMRS and the City's controls over the census submission process that were used to develop the estimate of its net pension asset to determine that the estimate is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the defined benefit pension plan in Note III (I) to the financial statements is a sensitive disclosure. The disclosure is based on various reports provided by TMRS.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The performance of the audit was delayed due to the general ledger and other requested information not being available to us timely.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year in the normal course of our professional relationship.

The following issues were detected during the course of our audit that have not been previously discussed:

- As noted last year, the City's airport & water and sewer funds had overdrawn bank accounts at September 30, 2016. Accounts should be closely monitored to determine if cash balances are overdrawn; if such overdraft occurs a transfer from another source should be made.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis (MD&A), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on it.

The City has not updated the net pension liability and the related deferred outflows, deferred inflows, and pension expense, and the related disclosures for actuarial calculations applicable as of and for the year ended September 30, 2016. Furthermore, the City has not evaluated subsequent events since the end of the fiscal year accounted for accounts receivables, has not calculated liability for compensated absences at year end, and has not presented a statement of cash flows. In our opinion, accounting principles generally accepted in the United States of America (GAAP) require that the net pension liability and the related deferred outflows, deferred inflows, and pension expense and related disclosures be based on more current actuarial calculations. Also, in our opinion, GAAP requires that the City evaluate subsequent events after the end of the fiscal year but before the financial statements are issued, and that cash flow be included in the financial statements. The effect of these departures from GAAP on the financial statements and related disclosures has not been determined. Our opinion was qualified for these departures from GAAP.

We were engaged to report on the combining nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of board of trustees and management of the City of Haskell, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Erik Bailly LLP in black ink.

Seymour, Texas