

the comprehensive
annual financial report
of the city of hudson
oaks, tx for the fiscal
year ending september
30, 2015



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CITY OF HUDSON OAKS, TEXAS
 Comprehensive Annual Financial Report
 For the Year Ended September 30, 2015

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INTRODUCTORY SECTION

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February 10, 2016

Honorable Mayor and City Council
City of Hudson Oaks, TX

Dear Mayor and City Council:

The City Administrator's Office is pleased to present the Comprehensive Annual Financial Report for the City of Hudson Oaks, Texas, for the fiscal year ended September 30, 2015.

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

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

THE REPORT

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

This report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a listing of the City's Officials, and an organized chart for the City. The financial section includes the MD&A, Government-wide and Major Fund presentation, Required Supplementary Information, Combining and Individual Fund Statements and Schedules, as well as the independent auditor's report on the basic financial statements. The statistical section includes financial and demographic information, usually presented on a multi-year basis which is relevant to the financial statement reader.

The Basic Financial Statements of the City include all governmental activities, organizations, and functions for which the City is financially accountable as defined by the Governmental Accounting Standards Board (GASB). Based on these criteria, no other governmental organizations are included in this report.

CITY PROFILE

Location

Hudson Oaks is located in Parker County, just 20 miles west of Fort Worth. Hudson Oaks is home to approximately 1,952 people, and serves as a prime location for residents who desire a short commute time with the luxury of living in a city with no property tax. There are currently 2.6 square miles of land within the City's boundaries.

Government Structure

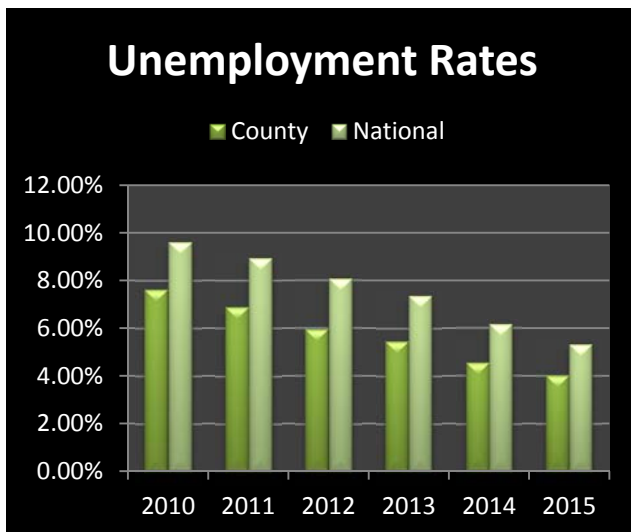
Founded in 1978, Hudson Oaks is a Type A General Law Municipality that operates under a Council-Manager form of government. The City Council is comprised of a mayor and five at-large council members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing members of various statutory and advisory boards, the City Administrator, City Attorney, the City Secretary and the Municipal Judge. The City Administrator is responsible for the enforcement of laws and ordinances, the appointment and supervision of the directors and department heads, and the performance of functions within the municipal organization.

Services Provided

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

ECONOMIC CONDITIONS AND OUTLOOK

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

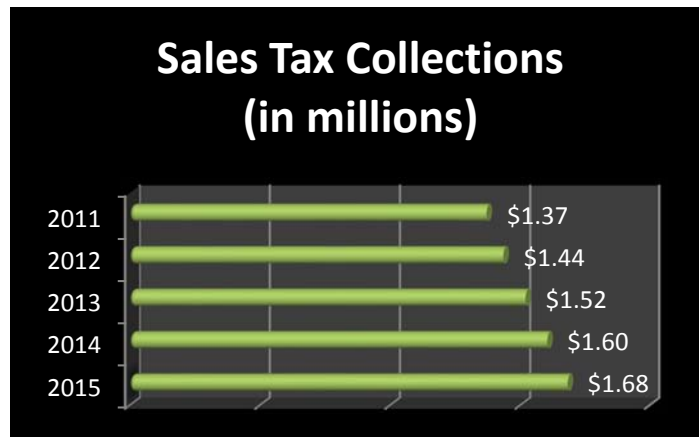


Regional Economy

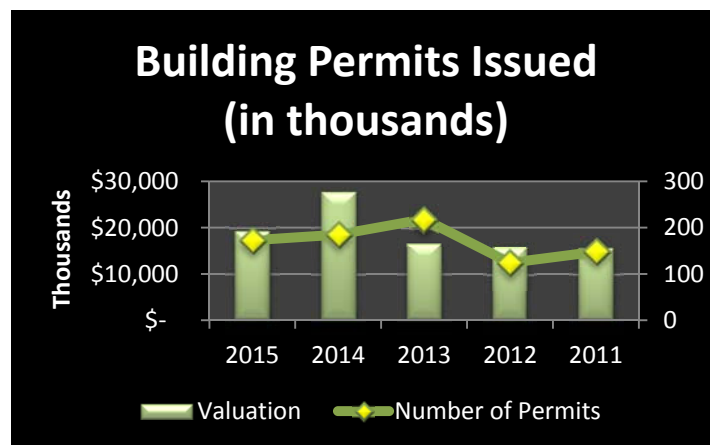
Hudson Oaks is 20 miles west of downtown Fort Worth, which makes it an ideal location for people to live and commute. Hudson Oaks has had strong economic growth over the past years, thriving on commercial development as a sales tax dependent City. Unemployment rates have dropped, while City and County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

Local Economy

Hudson Oaks is a thriving economy between Weatherford and Fort Worth. Customers come from all over to shop in Hudson Oaks. Approximately 70,000 vehicles a day travel through Hudson Oaks, which makes it an ideal place to do business. The stability of the local Wal-Mart combined with the vast amount of car dealerships consistently brings consumers to the area. These establishments, along with other retail stores and restaurants, provide outlets to meet the needs of area residents as well as a solid and growing retail base for the City. Sales tax collections are up 5% compared to the prior year. The sales tax revenue for 2015-2016 has been conservatively budgeted even though future growth is likely due to new businesses coming into the city.



New residential developments continue to grow the city's population in the Red Eagle subdivision and a planned future mixed-use development, Creekside at Hudson Oaks. The value and number of permits declined slightly from the previous year, only due to multiple residential permits issued for Red Eagle Ranch in the prior year.



FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting records for general governmental operations are maintained on a modified accrual basis, revenues are recorded when available and measurable, and expenditures are

recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's utilities are maintained on the accrual basis.

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

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

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

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

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

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

Cash Management

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

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

The ending balance of the City's investment portfolio for Fiscal Year 2014-2015 was approximately \$344,519. The overall portfolio provided \$150 in investment income, representing interest revenue net of realized gains, unrealized gains and losses and investment expenses.

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

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

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

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

Long-Term Financing

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

Long-Term Financial Planning

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

OTHER INFORMATION

Independent Audit

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

It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that, in their opinion, the statements herein present fairly, in all material aspects, the financial position of the City at September 30, 2015, and the results of its operations and the cash flows of its proprietary fund type for the year ended in conformity with accounting principles generally accepted in the United States of America.

Acknowledgements

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

Sincerely,



Patrick Lawler
City Administrator

CITY OF HUDSON OAKS, TEXAS

MAYOR

Pat Deen

MAYOR PRO-TEM

Tom Fitzpatrick

COUNCIL MEMBERS

Place 1 – Tom Marquardt

Place 2 – Brian Lixey

Place 3 – Marty Schrantz

Place 5 – Marc Povero

CITY ADMINISTRATOR

Patrick Lawler

ASSISTANT CITY ADMINISTRATOR

Chad Janicek

DEPARTMENT DIRECTORS

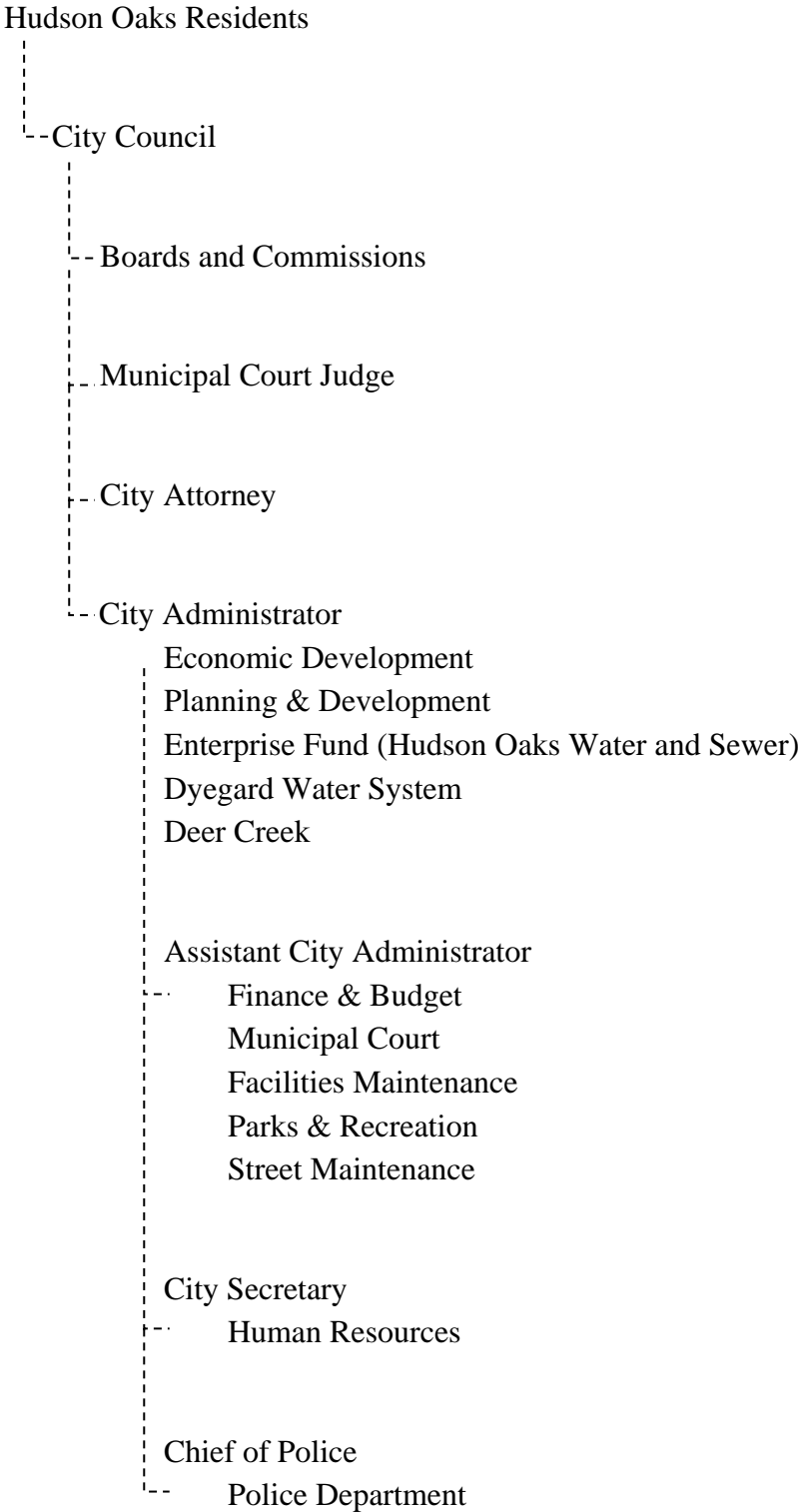
Ricky King – Public Works

Danny Woolery – Parks & Recreation

Shelley Major – City Secretary

Paul Conner – Municipal Court Judge

ORGANIZATIONAL CHART



FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hudson Oaks, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 3-13 and budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions and related ratios on pages 52 – 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016, on our consideration of the City of Hudson Oaks, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hudson Oaks, Texas' internal control over financial reporting and compliance.

George Morgan-Sneed, P.C.

Weatherford, Texas
February 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The City of Hudson Oaks, Texas, we offer readers of The City of Hudson Oaks' financial statements this narrative overview and analysis of the financial activities of The City of Hudson Oaks for the year ended September 30, 2015.

FINANCIAL HIGHLIGHTS

- The assets of the City of Hudson Oaks exceeded its liabilities at the close of the most recent fiscal year by \$11,766,651 (*net position*) compared to \$11,452,084 for the prior year. Of this amount, \$2,970,570 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$314,567. The City's operations increased the governmental activities and business-type activities by \$597,514 and \$295,790 respectively. Net position was decreased by a \$578,737 prior period adjustment as a result of implementing new accounting standards. See note 14 to the financial statements for a description of the new standards.
- As of the close of the current fiscal year, the City of Hudson Oaks' governmental funds reported combined ending fund balances of \$1,586,481 compared to \$1,852,261 for the prior year. 70% is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,132,955, or 51% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets and parks and planning and development. The business-type activities of the City include waterworks and wastewater.

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

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

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

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

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

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

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

Proprietary funds. The City maintains one type of proprietary fund. The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and wastewater operations.

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-51 of this report.

Other information.

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$11,766,651 as of September 30, 2015. Below is a summary of the City’s Statement of Net Position.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,187,250	\$ 2,342,454	\$ 2,301,308	\$ 3,282,496	\$ 4,488,558	\$ 5,624,950
Capital assets	7,050,862	6,589,454	10,370,024	9,393,408	17,420,886	15,982,862
Total Assets	9,238,112	8,931,908	12,671,332	12,675,904	21,909,444	21,607,812
Deferred Outflow of Resources	93,957	-	41,701	-	135,658	-
Total Deferred Outflow of Resources	93,957	-	41,701	-	135,658	-
Current liabilities	116,967	154,109	188,851	138,285	305,818	292,394
Long-term liabilities	3,391,338	3,193,103	6,516,817	6,670,231	9,908,155	9,863,334
Total liabilities	3,508,305	3,347,212	6,705,668	6,808,516	10,213,973	10,155,728
Deferred Inflow of Resources	44,922	-	19,556	-	64,478	-
Total Deferred Inflow of Resources	44,922	-	19,556	-	64,478	-
Net Position:						
Invested in capital assets net of related debt	4,525,800	4,153,576	4,087,015	3,819,660	8,612,815	7,973,236
Restricted Net Position (expendable)	44,541	693,884	138,725	115,489	183,266	809,373
Unrestricted Net Position	1,208,501	737,236	1,762,069	1,932,239	2,970,570	2,669,475
Total Net Position	\$ 5,778,842	\$ 5,584,696	\$ 5,987,809	\$ 5,867,388	\$11,766,651	\$11,452,084

The largest portion of the City's net position (73%) reflects its investment in capital assets (e.g. land, buildings, equipment, automobiles, improvements, infrastructure and construction in progress); less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$2,970,570 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following is a summary of the City's Statement of Activities.

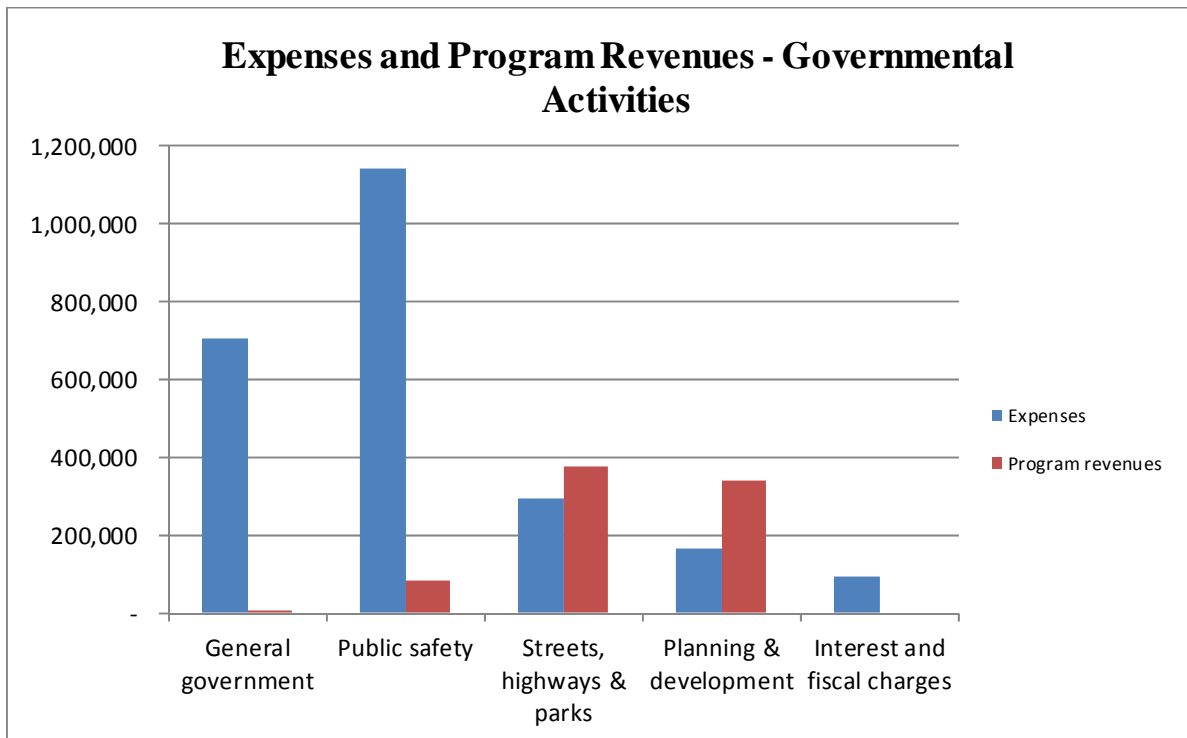
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 423,587	\$ 537,689	\$ 2,016,359	\$ 1,866,868	\$ 2,439,946	\$ 2,404,557
Capital grants and contributions	375,567	-	188,161	113,440	563,728	113,440
General revenues:						
Sales taxes	1,703,568	1,615,229	-	-	1,703,568	1,615,229
Franchise taxes	193,272	169,518	-	-	193,272	169,518
Investment earnings	3,478	4,464	898	814	4,376	5,278
Other Revenue	105,022	57,547	-	-	105,022	57,547
Total revenues	<u>2,804,494</u>	<u>2,384,447</u>	<u>2,205,418</u>	<u>1,981,122</u>	<u>5,009,912</u>	<u>4,365,569</u>
Expenses						
General government	705,554	695,185	-	-	705,554	695,185
Public safety	1,140,082	1,127,251	-	-	1,140,082	1,127,251
Highways and streets and parks	292,149	296,496	-	-	292,149	296,496
Planning and development	165,319	-	-	-	165,319	-
Interest and fiscal charges	91,412	117,554	-	-	91,412	117,554
Waterworks	-	-	1,054,715	999,905	1,054,715	999,905
Dyegard Water System	-	-	297,909	292,818	297,909	292,818
Deercreek Management	-	-	111,352	121,835	111,352	121,835
Wastewater	-	-	258,116	288,412	258,116	288,412
Total expenses	<u>2,394,516</u>	<u>2,236,486</u>	<u>1,722,092</u>	<u>1,702,970</u>	<u>4,116,608</u>	<u>3,939,456</u>
Increase (decrease) in net position before transfers	409,978	147,961	483,326	278,152	893,304	426,113
Transfers	187,536	115,556	(187,536)	(115,556)	-	-
Increase (decrease) in net position	<u>597,514</u>	<u>263,517</u>	<u>295,790</u>	<u>162,596</u>	<u>893,304</u>	<u>426,113</u>
Net Position, Beginning	5,584,696	5,321,179	5,867,388	5,704,792	11,452,084	11,025,971
Prior Period Adjustment	(403,368)	-	(175,369)	-	(578,737)	-
Net Position, Ending	<u>\$ 5,778,842</u>	<u>\$ 5,584,696</u>	<u>\$ 5,987,809</u>	<u>\$ 5,867,388</u>	<u>\$ 11,766,651</u>	<u>\$ 11,452,084</u>

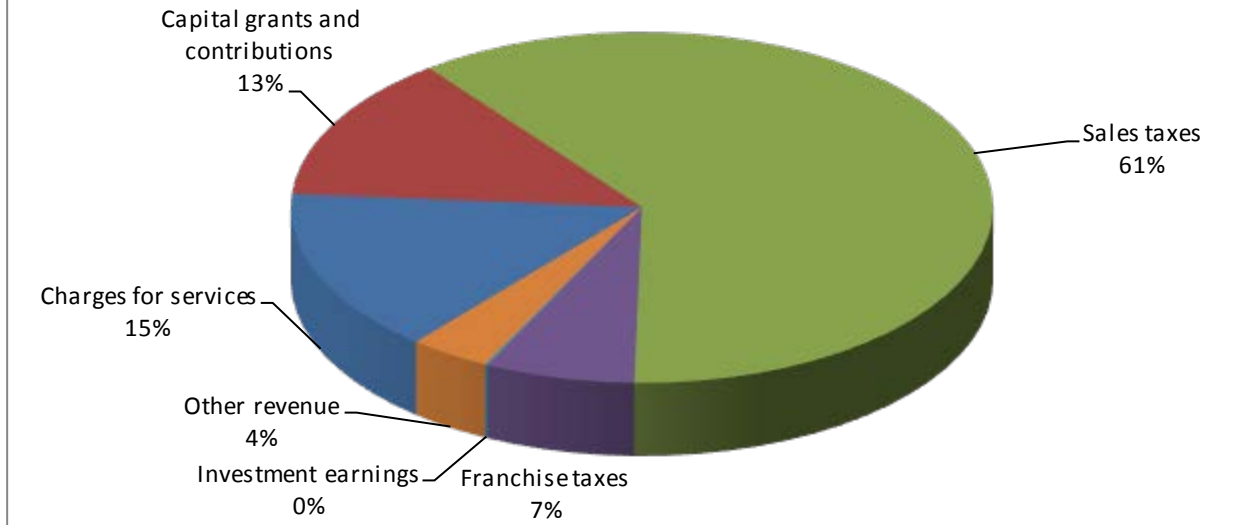
Governmental Activities. Governmental activities increased the City’s net position by \$597,514. Key elements are as follows.

- Revenues increased \$420,047. Charges for service decreased primarily due to a decrease in permits issued for new construction in the City which caused the licenses and permits revenue to decrease approximately \$90,000. Sales tax increased approximately \$88,000 due to the continued growth in the City. Capital grants and contributions increased due to a \$268,852 grant received from the Texas Department of Transportation for the Lakeshore Bridge project and \$106,715 in infrastructure improvements donated by developers.
- Expenses increased \$158,030. During the year, the City created a new planning and development department and moved professional services and building inspections which reduced general government expenditures \$165,319. Incentives paid during the year under economic development agreements increased general government expenditures by \$179,140.

Below are two graphs summarizing governmental revenue and expense:



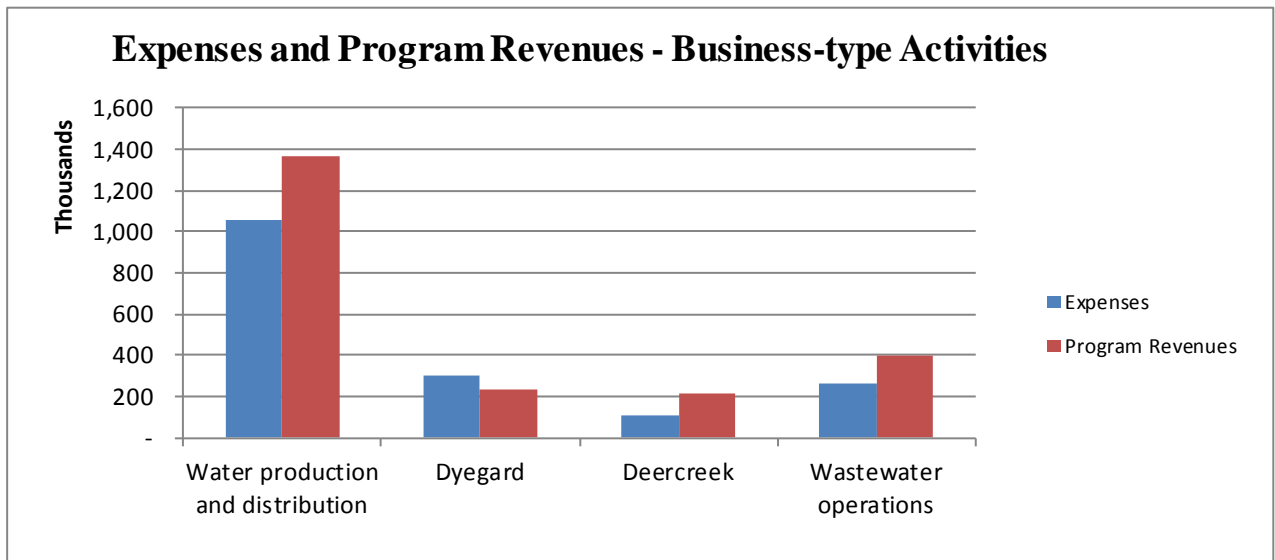
Revenues by Source - Governmental Activities

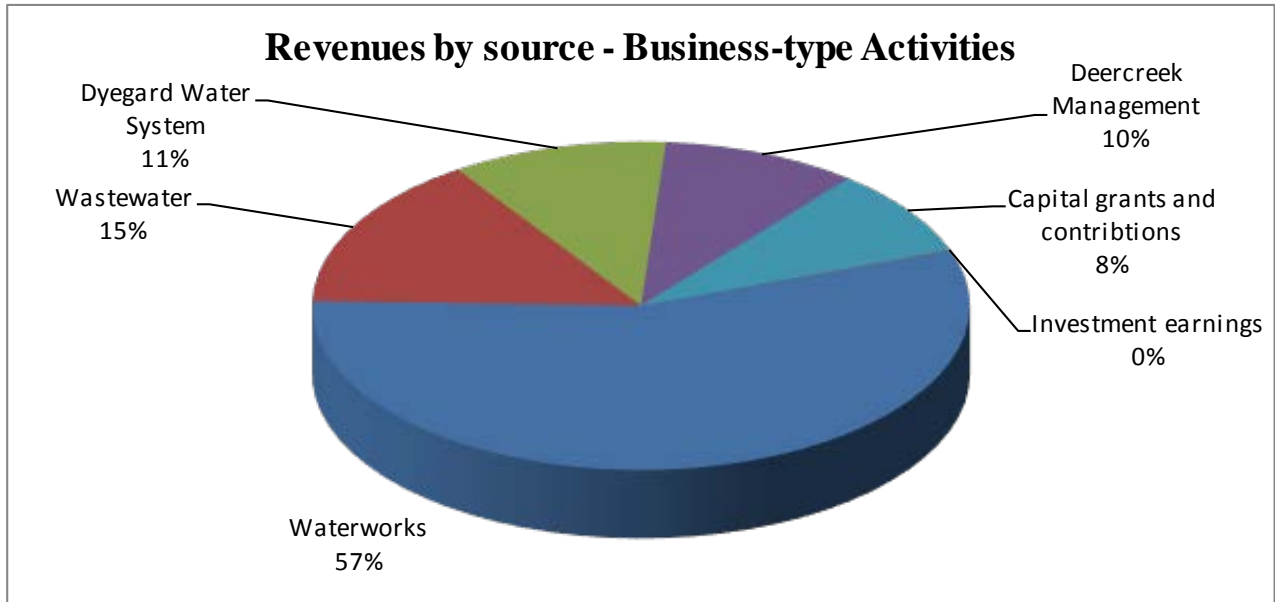


Business-type activities. Business-type activities increased the City’s net position by \$295,790. Key elements are as follows.

- Revenues increased \$224,296. Charges for service increased \$149,491 due to an increase in water rates of \$122,431 and an increase in the management fee charged to Annetta of \$41,000. Capital contributions consisting of developer contributions of water and wastewater system improvements increased \$74,721.
- Expenses increased \$19,122. Waterworks expenses increased \$54,810 due primarily to an increase in water purchased from the City of Weatherford.

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





Financial Analysis of the Government's Funds

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

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

At year end, the City's governmental funds reported combined ending fund balances of \$1,586,481. (71%) of the ending fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,132,955. During the current fiscal year the fund balance of the City's general fund increased by \$287,987. Key factors in this growth are as follows:

- Revenues increased \$52,256. Sales tax increased \$79,189 due to a growing retail base in the City. Licenses and permits decreased \$75,495 due to a decrease in the number and value of permits issued. Miscellaneous revenues increased \$33,440.
- Total expenditures increased \$73,061. The City created a new planning and development department and moved professional services and building inspections totaling \$165,319 from general government. During the year City Hall was remodeled for \$75,978 and incentives paid under economic development agreements increased \$179,140 resulting in an increase in general government expenditures. Public safety and highways and streets and parks decreased because of the purchase of 2 police vehicles and the Oakridge St reconstruction in the prior year.
- During the year the City sold land for \$185,000.

Below is a comparison of the general fund's net change in fund balance for the fiscal year ended September 30, 2015 and September 30, 2014.

	2015	2014	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Taxes				
Sales and use	\$ 1,687,718	\$1,608,529	\$ 79,189	5%
Franchise	183,415	165,438	17,977	11%
Licenses and permits	339,196	414,691	(75,495)	-18%
Charges for services	751	15,146	(14,395)	-95%
Municipal court fines	109,521	98,372	11,149	11%
Interest	1,951	1,560	391	25%
Miscellaneous	90,981	57,541	33,440	58%
Total revenues	<u>2,413,533</u>	<u>2,361,277</u>	<u>52,256</u>	<u>2%</u>
Expenditures:				
Current:				
General government	719,191	653,351	65,840	10%
Public safety	1,063,555	1,110,364	(46,809)	-4%
Highways and streets and parks	176,048	299,554	(123,506)	-41%
Planning and development	165,319	-	165,319	100%
Debt service				
Principal	90,177	78,822	11,355	14%
Interest and fiscal charges	1,526	664	862	130%
Total expenditures	<u>2,215,816</u>	<u>2,142,755</u>	<u>73,061</u>	<u>-3%</u>
Other financing sources (uses):				
Transfers In	218,128	119,176	98,952	83%
Transfers Out	(312,858)	(290,822)	(22,036)	8%
Proceeds from capital lease	-	34,220	(34,220)	-100%
Proceeds from sale of capital	185,000	-	185,000	100%
Net change in fund balance	<u>\$ 287,987</u>	<u>\$ 81,096</u>	<u>\$ 206,891</u>	<u>255%</u>

The fund balance of the Lakeshore Bridge fund decreased \$513,811 due to engineering, right of way acquisition and the City's share of construction costs. 100% of the fund balance is restricted for this construction project.

The General Debt Service fund has a total fund balance of \$14,506, all of which is restricted for the payment of debt service.

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

Unrestricted net position of the Proprietary Fund at the end of the fiscal year amounted to \$1,762,069. The change in net position was a \$295,790 increase. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City amended the general fund budget once during fiscal year 2015. Budgeted revenues and transfers in were increased \$69,220 and \$245,780 respectively. Budgeted expenditures and transfers out were increased \$344,038 and \$7,100 respectively. The most significant changes were to move professional services and building inspections from the general government to the new planning and development department and to increase expenditures for economic development agreements by \$199,000.

General fund expenditures and transfers out were over budgeted by \$13,150 and \$10,524 respectively. These budget variances were funded with revenues that exceeded budget by \$154,313.

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2015, amounts to \$17,420,886 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and wastewater systems, improvements, equipment, and infrastructure.

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

Governmental Activities:

- \$75,978 for improvements to City Hall.
- \$106,715 developer contribution of infrastructure improvements.
- \$659,038 for engineering and right of way acquisition on the Lakeshore Bridge project.
- \$48,223 for street infrastructure.

Business-type activities:

- \$188,161 developer contributions of water and wastewater system improvements.
- \$1,122,705 for construction of Lakeshore I-20 Sanitary and Sewer Lift Station.
- \$81,805 related to the completion of the Automated Meter System project
- \$55,550 for the Dyegard tie in projects.

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

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 460,487	\$ 637,287	\$ 255,339	\$ 255,339	\$ 715,826	\$ 892,626
Buildings	1,877,298	1,935,596	35,943	37,131	1,913,241	1,972,727
Water plant	-	-	2,975,534	3,115,021	2,975,534	3,115,021
Distribution systems	-	-	3,077,061	2,985,959	3,077,061	2,985,959
Wastewater systems	-	-	1,556,224	1,574,755	1,556,224	1,574,755
Automobiles	53,637	73,768	36,525	61,064	90,162	134,832
Intangible Assets	-	-	1,090,916	1,134,951	1,090,916	1,134,951
Equipment	4,003	5,338	87,553	96,964	91,556	102,302
Improvements	155,814	88,427	-	-	155,814	88,427
Infrastructure	2,554,996	2,563,450	-	-	2,554,996	2,563,450
Construction in progress	1,944,627	1,285,588	1,254,929	132,224	3,199,556	1,417,812
Total	<u>\$ 7,050,862</u>	<u>\$ 6,589,454</u>	<u>\$ 10,370,024</u>	<u>\$ 9,393,408</u>	<u>\$ 17,420,886</u>	<u>\$ 15,982,862</u>

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

Long-Term Debt

At the end of the current fiscal year, the City of Hudson Oaks had total bonded debt, notes payable and capital leases payable of \$9,096,899.

City of Hudson Oaks' Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capital leases	\$ 23,172	\$ 44,599	\$ -	\$ -	\$ 23,172	\$ 44,599
Certificates of Obligation	1,981,381	2,095,046	5,743,611	5,972,898	7,724,992	8,067,944
General Obligation bonds	740,587	821,764	539,398	676,277	1,279,985	1,498,041
Notes Payable	68,750	137,500	-	-	68,750	137,500
Total	<u>\$ 2,813,890</u>	<u>\$ 3,098,909</u>	<u>\$ 6,283,009</u>	<u>\$ 6,649,175</u>	<u>\$ 9,096,899</u>	<u>\$ 9,748,084</u>

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

Economic factors and the Next Year's Budgets and Rates

The City of Hudson Oaks realized positive growth in a number of areas during fiscal year 2015. Sales and use tax revenue increased 5% over fiscal year 2014. License and permit revenue declined, mainly due to a decline in residential permits issued since Red Eagle Phase 3 was complete during the year. The City expects this number to increase again as there is plenty of commercial development on the horizon. General fund revenues for fiscal year 2015 of \$2,413,533 exceeded fiscal year 2014 revenues of \$2,361,227 by \$52,256 or 2%.

Fiscal year 2015 was a busy year which will set the stage for plenty of new commercial development to impact the City's future. Phase 2 of the Shops in Hudson Oaks are expected to begin in fiscal year 2016; a new apartment complex, Creekside at Hudson Oaks, is set to begin in fiscal year 2016; Red Eagle Phase 4 is currently under way bringing additional homes for future residents; The Oykey Corridor

development engineering is underway bringing additional office space, retail and restaurant options. In addition to these projects, the Lakeshore Bridge project is nearing construction, allowing for better transportation along IH-20 and US-180.

The fiscal year 2016 general fund budget continues the City's conservative approach to fiscal matters. The budget includes additional funds for street maintenance, police protection, and employee retention while holding sales tax projections related to the aforementioned developments to a minimum. This will allow the City to more easily absorb expected debt service costs in fiscal year 2017 related to the IH-20/Center Point Bridge project.

Request for Information

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

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BASIC FINANCIAL STATEMENTS

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CITY OF HUDSON OAKS, TEXAS

Statement of Net Position
September 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 1,108,665	\$ 1,825,228	\$ 2,933,893
Investments	256,920	87,599	344,519
Receivables (Net of allowances for uncollectibles)			
Accounts	-	325,084	325,084
Sales tax	283,546	-	283,546
Franchise taxes	86,736	-	86,736
Fines	137,678	-	137,678
Miscellaneous receivables	275,335	-	275,335
Prepaid items	36,720	8,875	45,595
Internal Balances	1,650	(1,650)	-
Restricted assets:			
Cash and cash equivalents	-	56,172	56,172
Capital assets (net of accumulated depreciation):			
Nondepreciable	2,405,114	1,510,268	3,915,382
Depreciable, net of accumulated depreciation	4,645,748	8,859,756	13,505,504
Total Assets	9,238,112	12,671,332	21,909,444
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pensions	93,957	41,701	135,658
Total Deferred Outflow of Resources	93,957	41,701	135,658
LIABILITIES:			
Accounts Payable	93,928	152,797	246,725
Accrued payroll	7,801	3,375	11,176
Accrued interest payable	15,238	32,679	47,917
Noncurrent liabilities:			
Due within one year	386,478	399,618	786,096
Due in more than one year	3,004,860	6,117,199	9,122,059
Total Liabilities	3,508,305	6,705,668	10,213,973
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pensions	44,922	19,556	64,478
Total Deferred Inflow of Resources	44,922	19,556	64,478
NET POSITION:			
Investments in Capital Assets, Net of Debt	4,525,800	4,087,015	8,612,815
Restricted Net Position - Public Safety	14,795	-	14,795
Restricted Net Position - Debt Service	14,506	44,249	58,755
Restricted Net Position - Impact Fees	-	94,476	94,476
Restricted Net Position - Other	15,240	-	15,240
Unrestricted Net Position	1,208,501	1,762,069	2,970,570
Total Net Position	\$ 5,778,842	\$ 5,987,809	\$ 11,766,651

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

CITY OF HUDSON OAKS, TEXAS

Statement of Activities

For the Year Ended September, 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 705,554	\$ 751	\$ -	\$ -
Public safety	1,140,082	83,640	-	-
Highways and streets and parks	292,149	-	-	375,567
Planning & Development	165,319	339,196	-	-
Interest and fiscal charges	91,412	-	-	-
Total governmental activities	<u>2,394,516</u>	<u>423,587</u>	<u>-</u>	<u>375,567</u>
Business-type activities:				
Waterworks	1,054,715	1,234,884	-	127,317
Wastewater	258,116	333,832	-	60,844
Dyegard Water System	297,909	234,643	-	-
Deercreek Management	111,352	213,000	-	-
Total business-type activities	<u>1,722,092</u>	<u>2,016,359</u>	<u>-</u>	<u>188,161</u>
Total primary government	<u>4,116,608</u>	<u>2,439,946</u>	<u>-</u>	<u>563,728</u>

General Revenues:

Taxes:

Sales Taxes

Franchise Taxes

Investment Earnings

Gain (Loss) on sale of capital assets

Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1

Prior Period Adjustment

Net Position September 30

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (704,803)	\$ -	\$ (704,803)
(1,056,442)	-	(1,056,442)
83,418	-	83,418
173,877	-	173,877
(91,412)	-	(91,412)
<u>(1,595,362)</u>	<u>-</u>	<u>(1,595,362)</u>
-	307,486	307,486
-	136,560	136,560
-	(63,266)	(63,266)
-	101,648	101,648
<u>-</u>	<u>482,428</u>	<u>482,428</u>
<u>(1,595,362)</u>	<u>482,428</u>	<u>(1,112,934)</u>
1,703,568	-	1,703,568
193,272	-	193,272
3,478	898	4,376
8,200	-	8,200
96,822	-	96,822
187,536	(187,536)	-
<u>2,192,876</u>	<u>(186,638)</u>	<u>2,006,238</u>
597,514	295,790	893,304
5,584,696	5,867,388	11,452,084
(403,368)	(175,369)	(578,737)
<u>\$ 5,778,842</u>	<u>\$ 5,987,809</u>	<u>\$ 11,766,651</u>

CITY OF HUDSON OAKS, TEXAS

Balance Sheet
Governmental Funds
September 30, 2015

	General	Lakeshore Bridge Capital Projects Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash	\$ 966,142	\$ 61,592	\$ 12,856	\$ 68,075	\$ 1,108,665
Investments	256,920	-	-	-	256,920
Receivables					
Sales Tax	283,546	-	-	-	283,546
Franchise Tax	86,736	-	-	-	86,736
Fines and fees	137,678	-	-	-	137,678
Miscellaneous	6,483	268,852	-	-	275,335
Prepaid items	34,170	-	-	2,550	36,720
Due from other funds	79,537	-	1,650	-	81,187
	<u>1,851,212</u>	<u>330,444</u>	<u>14,506</u>	<u>70,625</u>	<u>2,266,787</u>
Total assets					
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	79,078	9,285	-	5,565	93,928
Accrued payroll	7,801	-	-	-	7,801
Due to Other Funds	-	73,111	-	6,426	79,537
	<u>86,879</u>	<u>82,396</u>	<u>-</u>	<u>11,991</u>	<u>181,266</u>
Total liabilities					
Deferred inflows of resources:					
Deferred revenue	359,468	139,572	-	-	499,040
	<u>359,468</u>	<u>139,572</u>	<u>-</u>	<u>-</u>	<u>499,040</u>
Fund balances:					
Nonspendable	34,170			-	34,170
Restricted fund balance					
Public, educational, and government access fees	2,740	-	-	-	2,740
Public Safety	-	-	-	14,795	14,795
Parks	-	-	-	12,500	12,500
Capital Projects	-	108,476	-	40,780	149,256
Debt Service	-	-	14,506	-	14,506
Assigned fund balance					
Construction Projects	235,000	-	-	-	235,000
Unassigned fund balance	1,132,955	-	-	(9,441)	1,123,514
	<u>1,404,865</u>	<u>108,476</u>	<u>14,506</u>	<u>58,634</u>	<u>1,586,481</u>
Total fund balances					
Total liabilities, deferred inflows and fund balances	<u>\$ 1,851,212</u>	<u>\$ 330,444</u>	<u>\$ 14,506</u>	<u>\$ 70,625</u>	<u>\$ 2,266,787</u>

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

CITY OF HUDSON OAKS, TEXAS
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Position
 September 30, 2015

Total Fund Balances - Governmental Funds	\$	1,586,481
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$9,891,117 and the accumulated depreciation was \$2,840,255.		7,050,862
Long-term liabilities, including \$2,721,968 bonds payable, \$68,750 notes payable, \$23,172 of capital leases payable, and \$113,923 compensated absences payable are not due and payable in the current period, and, therefore are not reported as a liability in the fund financial statements.		(2,927,813)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.		(15,238)
Franchise taxes receivable, sales tax receivable, and fines and fees receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.		499,040
Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$463,525, a deferred resource inflow related to pensions of \$44,922 and a deferred resource outflow related to pensions in the amount of \$93,957. This resulted in a decrease to net position.		(414,490)
 Net Position of Governmental Activities	 <u>\$</u>	 <u>5,778,842</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

	General	Lakeshore Bridge Capital Projects Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes					
Sales and Use	\$ 1,687,718	\$ -	\$ -	\$ -	\$ 1,687,718
Franchise	183,415	-	-	-	183,415
Licenses and permits	339,196	-	-	-	339,196
Charges for services	751	-	-	-	751
Municipal court fines	109,521	-	-	3,853	113,374
Interest	1,951	1,458	28	41	3,478
Intergovernmental	-	129,280	-	-	129,280
Miscellaneous	90,981	-	-	5,841	96,822
Total revenues	<u>2,413,533</u>	<u>130,738</u>	<u>28</u>	<u>9,735</u>	<u>2,554,034</u>
EXPENDITURES:					
Current:					
General government	719,191	-	-	10,032	729,223
Public safety	1,063,555	-	-	10,556	1,074,111
Highways and streets and parks	176,048	-	-	-	176,048
Planning & development	165,319	-	-	-	165,319
Capital outlay	-	659,038	-	-	659,038
Debt service					
Principal	90,177	-	192,400	-	282,577
Interest and fiscal charges	1,526	-	104,508	-	106,034
Total expenditures	<u>2,215,816</u>	<u>659,038</u>	<u>296,908</u>	<u>20,588</u>	<u>3,192,350</u>
Excess (deficiency) of revenues over (under) expenditures	<u>197,717</u>	<u>(528,300)</u>	<u>(296,880)</u>	<u>(10,853)</u>	<u>(638,316)</u>
OTHER FINANCING SOURCES (USES):					
Transfers In	218,128	14,489	311,386	-	544,003
Transfers Out	(312,858)	-	-	(43,609)	(356,467)
Proceeds from sale of capital assets	185,000	-	-	-	185,000
Total other financing sources (uses):	<u>90,270</u>	<u>14,489</u>	<u>311,386</u>	<u>(43,609)</u>	<u>372,536</u>
Net change in fund balance	287,987	(513,811)	14,506	(54,462)	(265,780)
Fund balance, October 1	<u>1,116,878</u>	<u>622,287</u>	<u>-</u>	<u>113,096</u>	<u>1,852,261</u>
Fund balance, September 30	<u>\$ 1,404,865</u>	<u>\$ 108,476</u>	<u>\$ 14,506</u>	<u>\$ 58,634</u>	<u>\$ 1,586,481</u>

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

CITY OF HUDSON OAKS, TEXAS
 Reconciliation of Statement of Revenues,
 Expenditures and Changes in Fund Balances of
 The Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2015

Total Net Change in Fund Balances - Governmental Funds	\$ (265,780)
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 \$889,954 of capital outlays and \$282,577 of debt principal payments is to increase net position.	1,172,531
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(251,753)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and disposals) is to decrease net position.	(176,800)
Current year interest payable and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements. The net effect of the \$12,180 decrease in interest payable, \$19,729 increase in compensated absences payable and \$2,442 amortization of deferred charges, premiums and discounts is to decrease net position.	(5,107)
Sales tax, franchise tax and fines and fees revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the fund statements.	135,545
GASB required the City to recognize their net pension liability, deferred resource inflow related to pensions and deferred resource outflow related to pensions. The changes in these balances decreased net position.	(11,122)
Change in Net Position of Governmental Activities	\$ 597,514

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

CITY OF HUDSON OAKS, TEXAS
Statement of Net Position
Proprietary Fund
September 30, 2015

Assets

Current Assets:

Cash	\$ 1,825,228
Investments	87,599
Accounts receivable (net of allowance for doubtful accounts)	325,084
Prepaid expense	8,875
Restricted Assets - Cash- water debt sinking funds	<u>56,172</u>
Total current assets	<u>2,302,958</u>

Noncurrent Assets:

Capital Assets:	
Nondepreciable	1,510,268
Depreciable, net of accumulated depreciation	<u>8,859,756</u>
Total noncurrent assets	<u>10,370,024</u>

Total assets	<u>12,672,982</u>
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Deferred Outflow of Resources

Deferred Outflow Related to Pensions	<u>41,701</u>
Total deferred outflow of resources	<u>41,701</u>

Liabilities

Current Liabilities:

Accounts payable	152,797
Accrued payroll	3,375
Compensated absences payable	32,018
Due to other funds	1,650
Current liabilities payable from restricted assets:	
Current portion of long-term debt	367,600
Accrued interest payable	<u>32,679</u>
Total current liabilities	<u>590,119</u>

Noncurrent Liabilities:

Net pension liability	201,790
Certificates of obligation	<u>5,915,409</u>
Total noncurrent liabilities	<u>6,117,199</u>

Total liabilities	<u>6,707,318</u>
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Deferred Inflow of Resources

Deferred Inflow Related to Pensions	<u>19,556</u>
Total deferred outflow of resources	<u>19,556</u>

Net Position

Investment in capital assets, net of debt	4,087,015
Restricted for debt service (expendable)	44,249
Restricted for impact fees (expendable)	94,476
Unrestricted	<u>1,762,069</u>
Total net position	<u>\$ 5,987,809</u>

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

CITY OF HUDSON OAKS, TEXAS
 Statement of Revenues, Expenses and Changes in Fund Net Position
 Proprietary Fund
 For the Year Ended September 30, 2015

	2015
Operating revenues:	
Water & Sewer	\$ 1,689,171
Management contract charges	213,000
Late payment charges	12,331
Tap Fees	26,000
Impact fees	19,666
Customer assessment fees	1,120
Miscellaneous fees and charges	55,071
Total operating revenues	2,016,359
Operating expenses:	
Personnel services	456,563
Supplies	81,300
Contractual Services	431,031
Well utilities	79,864
Depreciation	464,080
Total operating expenses	1,512,838
Operating income (loss)	503,521
Nonoperating revenues (expenses)	
Interest income	898
Interest expense	(196,336)
Gain or (Loss) on Disposal of Assets	(12,918)
Total nonoperating revenues (expenses)	(208,356)
	295,165
Contributions and transfers:	
Capital contribution	188,161
Transfer in	30,214
Transfer out	(217,750)
	295,790
Change in net position	295,790
Net Position, October 1	5,867,388
Prior Period Adjustment	(175,369)
Net Position, September 30	\$ 5,987,809

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

CITY OF HUDSON OAKS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2015

	2015
Cash flows from operating activities:	
Cash received from customers and users	\$ 1,958,693
Cash paid to suppliers	(593,654)
Cash paid to employees	(439,963)
Net cash provided (used) by operating activities	925,076
Cash flow from noncapital financing activities:	
Due to other funds	(11,408)
Due from other funds	29,900
Transfers in (out)	(187,536)
Net cash provided (used) by noncapital financing activities	(169,044)
Cash flows from capital and related financing activities:	
Principal payments - certificates of obligation	(357,600)
Purchase of property, plant and equipment	(1,212,337)
Interest payments	(207,310)
Net cash flows provided by (used in) capital and related financing activities	(1,777,247)
Cash flows from investing activities:	
Interest received	898
(Purchase) sale of investments	(45)
Net cash provided by (used in) investing activities	853
Net increase (decrease) in cash	(1,020,362)
Cash, October 1	2,901,762
Cash, September 30	\$ 1,881,400
Reconciliation of income from operations to net cash provided by operating activities:	
Income (loss) from operations	\$ 503,521
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities	
Depreciation	464,080
(Increase) decrease in accounts receivable	(57,666)
(Increase) decrease in prepaid expenses	46
(Increase) decrease in deferred outflow of resources	(10,526)
Increase (decrease) in accounts payable	(1,505)
Increase (decrease) in accrued payroll	1,362
Increase (decrease) in compensated absences	10,962
Increase (decrease) in net pension liability	(4,754)
Increase (decrease) in deferred inflow of resources	19,556
Net adjustments	421,555
Net cash provided by operating activities	\$ 925,076
Noncash Investing, Capital and Financing Activities	
Contributions of capital assets	\$ 188,161

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

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

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

B. Financial Reporting Entity

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

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

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

C. Government-wide and Fund Financial Statements

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

The City reports the following major governmental fund:

General Fund –

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Service Fund –

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

Lakeshore Bridge Capital Projects Funds –

The Lakeshore Bridge capital project fund is used to account for the proceeds of the 2007 certificates of obligation and the expenditures related to the Lakeshore Bridge capital project.

The City reports the following major proprietary fund:

Water and Wastewater Fund –

The Water and Wastewater Fund is used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City's enterprise fund is comprised of the Water and Wastewater Fund.

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

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

Proprietary funds, distinguish operating revenue and expense from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Net Position or Equity

1) Deposits and Investments

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

Investments - Investments are generally recorded at fair value except short-term, highly liquid investments are recorded at amortized cost, provided that the fair value of these investments has not been significantly impaired.

2) Receivables and Payables

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

All receivables are presented net of allowance for uncollectible accounts. Water, Dyegard, and wastewater fund accounts receivable with final status comprise the allowance for uncollectible accounts of \$41,840. In the governmental activities the fines and fees receivable is reported net of an allowance of \$550,037 which is 75% of the outstanding receivable.

3) Unbilled Services

Utility operating revenues (water and wastewater) are billed on monthly cycles. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year. \$128,408 of unbilled services is reported with accounts receivable in the proprietary fund.

4) Restricted Assets

The City has established Interest and Sinking Fund accounts in the water and wastewater proprietary fund. The use of these accounts is limited by bond ordinances and other legal restrictions.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5) Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in the proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the proprietary fund during the current year was \$196,336. Of this amount, \$0 was included as part of the cost of capital assets under construction in connection with water and wastewater construction projects.

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

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

6) Deferred Outflows/Inflows of Resources

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Revenue	
Franchise taxes	\$ 81,728
Sales taxes	140,230
Court fines	137,510
Intergovernmental	139,572
Total	<u>\$ 499,040</u>

7) Compensated Absences

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

8) Pensions

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9) Long-term Obligations

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

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

10) Fund Balances – Governmental Funds

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

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

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

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

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

Unassigned – all amounts not included in other spendable classifications.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

11) Use of Restricted/Unrestricted Net Position

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

12) Comparative Data

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

13) Use of Estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

The City invests idle funds in the Texas Local Government Investment Pool (Tex-Pool). The City's investment pool operates in a manner consistent with the SEC's Rule 2A7 of the Investment Act of 1940. The Pool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the City's position is the same as the value of the City's shares.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Consistent with the requirements of State law, it is the policy of the City to require full collateralization of all City deposits. An appropriate third party safekeeping agent, as designated by the City, shall maintain collateral on deposits. This policy applies to any deposits held in an approved depository in excess on the amount protected by Federal Deposit Insurance Corporation insurance. The City's deposits were fully insured or collateralized as required by the state statutes at September 30, 2015. The collateral is held by Frost National Bank in the City's name under a joint safekeeping agreement with First Financial Bank N.A.

Credit Risk - Investments

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

Interest Rate Risk – Investments

The City manages interest rate risk by limiting the weighted average maturity of investments to less than 270 days. The final stated maturity of any given investment shall not exceed 2 years from the date of purchase.

The City's investments consisted of the following at September 30, 2015.

Description	Amount	Value	Percentage of Total Investments	Standard & Poor's	Weighted Average Maturity
TexPool	\$ 344,519	\$ 344,519	100.00%	AAAm	40 days
	<u>\$ 344,519</u>	<u>\$ 344,519</u>			

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 3 - CAPITAL ASSETS

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

Governmental activities:

	Balance 9/30/2014	Additions	Retirements	Reclassifications	Balance 9/30/2015
Non - Depreciable Assets:					
Land	\$ 637,287	\$ -	\$ (176,800)	\$ -	\$ 460,487
Construction in Progress	1,285,589	659,038	-	-	1,944,627
Total non-depreciable assets	<u>1,922,876</u>	<u>659,038</u>	<u>(176,800)</u>	<u>-</u>	<u>2,405,114</u>
Depreciable Assets:					
Equipment	304,374	-	-	-	304,374
Automobiles	148,939	-	-	-	148,939
Buildings	2,329,801	-	-	-	2,329,801
Improvements	191,451	75,978	-	-	267,429
Infrastructure	4,280,522	154,938	-	-	4,435,460
Total capital assets being depreciated	<u>7,255,087</u>	<u>230,916</u>	<u>-</u>	<u>-</u>	<u>7,486,003</u>
Accumulated Depreciation:					
Equipment	(299,036)	(1,335)	-	-	(300,371)
Automobiles	(75,170)	(20,132)	-	-	(95,302)
Buildings	(394,205)	(58,298)	-	-	(452,503)
Improvements	(103,024)	(8,591)	-	-	(111,615)
Infrastructure	(1,717,068)	(163,396)	-	-	(1,880,464)
Total accumulated depreciation	<u>(2,588,503)</u>	<u>(251,752)</u>	<u>-</u>	<u>-</u>	<u>(2,840,255)</u>
Governmental activities capital assets, net	<u>\$ 6,589,460</u>	<u>\$ 638,202</u>	<u>\$ (176,800)</u>	<u>\$ -</u>	<u>\$ 7,050,862</u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 3 - CAPITAL ASSETS (continued)

Business-type activities:

	Balance 9/30/2014	Additions	Retirements	Reclassifications	Balance 9/30/2015
Non-Depreciable Assets:					
Land	\$ 255,339	\$ -	\$ -	\$ -	\$ 255,339
Construction in Progress	132,224	1,122,705	-	-	1,254,929
Total non-depreciable assets	<u>387,563</u>	<u>1,122,705</u>	<u>-</u>	<u>-</u>	<u>1,510,268</u>
Buildings	46,413	-	-	-	46,413
Water plant	4,070,170	-	(15,503)	-	4,054,667
Water distribution	4,579,905	264,672	-	-	4,844,577
Wastewater systems	2,320,411	60,844	-	-	2,381,255
Automobiles	122,692	-	-	-	122,692
Equipment	162,853	5,395	(3,350)	-	164,898
Intangible assets	<u>1,463,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,463,092</u>
Total capital assets being depreciated	<u>12,765,536</u>	<u>330,911</u>	<u>(18,853)</u>	<u>-</u>	<u>13,077,594</u>
Accumulated Depreciation:					
Buildings	(9,282)	(1,188)	-	-	(10,470)
Water plant	(955,149)	(126,567)	2,583	-	(1,079,133)
Water distribution	(1,593,946)	(173,570)	-	-	(1,767,516)
Wastewater lines	(745,656)	(79,375)	-	-	(825,031)
Automobiles	(61,628)	(24,539)	-	-	(86,167)
Equipment	(65,889)	(14,806)	3,350	-	(77,345)
Intangible assets	<u>(328,141)</u>	<u>(44,035)</u>	<u>-</u>	<u>-</u>	<u>(372,176)</u>
Total accumulated depreciation	<u>(3,759,691)</u>	<u>(464,080)</u>	<u>5,933</u>	<u>-</u>	<u>(4,217,838)</u>
Business-type activities capital assets, net	<u>\$ 9,393,408</u>	<u>\$ 989,536</u>	<u>\$ (12,920)</u>	<u>\$ -</u>	<u>\$10,370,024</u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 3 - CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 41,673
Public safety	46,238
Highways and streets and parks	163,841
Total depreciation expense - governmental activities	<u>\$ 251,752</u>
Business-type activities:	
Waterworks	\$ 269,222
Wastewater	96,261
Dyegard Water System	98,597
Total depreciation expense - business-type activities	<u>\$ 464,080</u>

Intangible Assets

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

The total cost associated with the buy-ins was \$867,322. This cost was financed with the Combination Tax and Revenue Certificates of Obligation, Series 2003. The debt was refunded with the General Obligation Refunding Bonds, Series 2010.

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

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 3 - CAPITAL ASSETS (continued)

A summary of intangible assets as of September 30, 2015, follows:

	Term	Asset	Accumulated Depreciation	Net Asset
Depreciated intangible assets				
TRWD Raw Water Buy-in	28 years	\$ 134,839	\$ (51,068)	\$ 83,771
TRWD Raw Water Capacity	30 years	490,834	(66,813)	424,021
Benbrook Pipeline Buy-in	50 years	526,502	(128,993)	397,509
Treatment Facilities Buy-in	30 years	148,704	(60,721)	87,983
Legal Fees For Buy-ins	30 years	162,213	(64,581)	97,632
Total depreciated intangible assets		<u>1,463,092</u>	<u>(372,176)</u>	<u>1,090,916</u>

Aggregate Intangible Depreciation Expense:

For the year ended September 30, 2015 \$ 44,035

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of the interfund balances for the City’s individual major funds and nonmajor funds as of September 30, 2015, is as follows:

Receivable Fund	Payable Fund	Amount
General	Lakeshore Bridge Capital Projects	\$ 73,111
General	Other Governmental Funds	6,426
Water and wastewater	Debt Service	1,650
Total Governmental Funds		<u>\$ 81,187</u>

The composition of the interfund transfers for the City’s individual major funds and nonmajor funds as of September 30, 2015, is as follows:

Transfer In	Transfer Out	Amount	Purpose
General	Water and wastewater	\$ 217,750	Debt Service and Economic Development
General	Other Governmental Funds	378	Debt Service
Lakeshore Bridge	General	14,489	Capital Outlay
Debt Service	General	268,155	Debt Service
Debt Service	Other Governmental Funds	43,231	Debt Service
Total Governmental Funds Transfer In		<u>\$ 544,003</u>	
Water and wastewater fund	General	\$ 30,214	Capital Outlay
Total Proprietary Funds Transfer In		<u>\$ 30,214</u>	

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 5 – LONG-TERM DEBT

A. Capital Leases

Governmental Activities:

On July 11, 2014, the General Fund acquired two police vehicles with a capital lease. The lease requires three annual payments of \$12,212 beginning June 2015. The interest rate is 3.50%. The outstanding balance at September 30, 2015 was \$23,171.

The following is an analysis of capital assets purchased under capital leases as of September 30, 2015:

	Governmental Activities
Automobiles	45,618
Less accumulated depreciation	(12,165)
	\$ 33,453

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at September 30, 2015:

	Governmental Activities
2016	\$ 12,212
2017	12,212
Total minimum lease payments	24,424
Amount representing interest	(1,252)
Present value of future minimum payments	\$ 23,172

B. Note Payable

May 10, 2013, the City entered into an agreement to purchase 3217 Inspiration Drive. Hudson Oaks agreed to pay \$71,063 upon signing of the agreement. Three additional annual payments of principal only, each in the amount of \$68,750, are to be paid on the 1st day of April in 2014, 2015 and 2016. The outstanding balance at September 30, 2015 was \$68,750.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 5 – LONG-TERM DEBT (continued)

Governmental Activities:

Combination Tax and Revenue Certificates of Obligation, Series 2007

On October 25, 2007, the City authorized the issuance and sale of \$1,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2007. The certificates were issued for paying, in whole or in part, the City's contractual Obligations incurred to acquire and construct street, bridge, curb, and sidewalk improvements, together with utility relocation and drainage improvements incidental thereto, pay for professional services rendered in connection therewith and paying for costs of issuance. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the certificates, however, if surplus revenues or other lawfully available moneys of the City are budgeted for deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of ad valorem taxes that otherwise would have been required to be levied may be reduced to the extent and by the amount of such funds then budgeted to be on deposit in the Interest and Sinking Fund. Interest is due semiannually on March 1 and September 1 of each year at an interest rate of 3.176% per annum and maturing August 1, 2027. Interest paid during the year totaled \$55,350.

Certificates of Obligation, Series 2012

On April 26, 2012, the City authorized the issuance and sale of \$2,910,000 Certificates of Obligation, Series 2012 with an interest rate of 2%-3.5%. The certificates are split between the governmental and business-type activities at approximately 27% and 73%, respectively. The bonds were issued for paying the U.S. 180 middle median improvements, the loan payable to Parker County Special Utility District, improvements to Red Eagle water facility, improvements to the City's water metering system, a replacement of a water well, and a water system study. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the Certificates, however, if surplus revenues or other lawfully available moneys of the City are budgeted for deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of ad valorem taxes that otherwise would have been required to be levied may be reduced to the extent and by the amount of such funds then budgeted to be on deposit in the Interest and Sinking Fund. Interest is due semiannually on February 1 and August 1 of each year and matures August 1, 2032. Interest paid during the year totaled \$77,250.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 5 – LONG-TERM DEBT (continued)

C. Bonds Payable

Business-type Activities:

General Obligation Refunding Bonds, Series 2010

On November 22, 2010 the City issued the \$2,075,000 General Obligation Refunding Bonds, Series 2010 with interest rates ranging from 2.0% to 4.0% maturing August 1, 2023. The bonds are split between the governmental and business-type activities at approximately 43% and 57% respectively. The proceeds of the General Obligation Refunding Bonds plus a contribution of \$217,452 from the City were used to refund \$1,075,000 of the 2008 Texas Tax Notes of the governmental activities and \$720,000 of the Texas Combination Tax and Revenue Certificates of Obligation, Series 2000B, and \$430,000 of the Combination Tax and Revenue Certificates of Obligation, Series 2003 of the business-type activities. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year. Interest paid during the year totaled \$47,900.

Combination Tax and Revenue Certificates, Series 2010

On August 15, 2010, the City authorized the issuance and sale of \$2,915,000 Combination Tax and Revenue Certificates of Obligation, Series 2010 dated September 20, 2010. The Certificates were issued in connection with the acquisition of the Dyegard Water System. Surplus revenues from the Dyegard water system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year bearing an interest rate of 4.25% per annum and maturing August 1, 2035. Interest paid during the year totaled \$100,750.

Combination Tax and Revenue Certificates, Series 2014

On May 15, 2014, the City authorized the issuance and sale of \$1,235,000 Combination Tax and Revenue Certificates of Obligation, Series 2014 dated June 12, 2014. The Certificates were issued in order to acquire, construct, expand and equip extensions and improvements to the City's sanitary wastewater system including, but not limited to, an expansion of the wastewater main south of I-20 from Lakeshore Drive to Parker Oaks Drive and the acquisition of easements, the installation of a lift station, and the construction of a gravity main and a force main related thereto. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year bearing an interest rate of 2.15% per annum and maturing August 1, 2024. Interest paid during the year totaled \$30,167.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 5 – LONG-TERM DEBT (continued)

The annual requirements to amortize all bonded debt outstanding as of September 30, 2015 are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2016	192,400	98,980	291,380	367,600	196,076	563,676
2017	203,750	92,652	296,402	381,250	187,248	568,498
2018	208,750	85,941	294,691	391,250	177,666	568,916
2019	220,100	79,026	299,126	399,900	167,784	567,684
2020	225,100	70,830	295,930	409,900	158,053	567,953
2021-2025	1,046,700	222,186	1,268,886	1,788,300	627,646	2,415,946
2026-2030	493,150	54,916	548,066	1,296,850	372,635	1,669,485
2031-2035	99,900	4,870	104,770	1,115,100	124,092	1,239,192
Debt service requirements	\$ 2,689,850	\$ 709,401	\$ 3,399,251	\$ 6,150,150	\$ 2,011,200	\$ 8,161,350
Add: Unamortized premium	32,118	-	32,118	132,858	-	132,858
Total	<u>\$ 2,721,968</u>	<u>\$ 709,401</u>	<u>\$ 3,431,369</u>	<u>\$ 6,283,008</u>	<u>\$ 2,011,200</u>	<u>\$ 8,294,208</u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 5 – LONG-TERM DEBT (continued)

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2015:

	10/1/14	Additions	Retirements	9/30/15	Due within one year
Governmental Activities:					
Certificates of Obligation, 2007	\$ 1,350,000	\$ -	\$ 80,000	\$ 1,270,000	\$ 80,000
General Obligation Refunding, 2010	810,000	-	80,000	730,000	80,000
2010 Premium on bond	11,764	-	1,176	10,588	-
Certificates of Obligation, 2012	722,250	-	32,400	689,850	32,400
2012 Premium on Bond	22,796	-	1,266	21,530	-
Capital Leases	44,599	-	21,427	23,172	11,405
Note Payable	137,500	-	68,750	68,750	68,750
Net pension liability	-	463,525	-	463,525	-
Compensated Absences	94,194	113,923	94,194	113,923	113,923
Total Governmental Activities	3,193,103	577,448	379,213	3,391,338	386,478
Business-type Activities:					
Certificates of Obligation, 2010	2,655,000	-	90,000	2,565,000	90,000
2010 Premium on bond	68,512	-	3,263	65,249	-
General Obligation Refunding, 2010	665,000	-	135,000	530,000	140,000
2010 Premium on bond	11,277	-	1,879	9,398	-
Certificates of Obligation 2012	1,952,750	-	87,600	1,865,150	87,600
2012 Premium on Bond	61,636	-	3,424	58,212	-
Certificates of Obligation, 2014	1,235,000	-	45,000	1,190,000	50,000
Capital Leases	33,972	-	33,972	-	-
Net pension liability	-	201,790	-	201,790	-
Compensated Absences	21,056	32,018	21,056	32,018	32,018
Total Business-type Activities	6,704,203	233,808	421,194	6,516,817	399,618
Total Long-Term Debt	\$ 9,897,306	\$ 811,256	\$ 800,407	\$ 9,908,155	\$ 786,096

For governmental activities, compensated absences payable are liquidated by the general fund.

NOTE 6 – CONDUIT DEBT AGREEMENTS

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 6 – CONDUIT DEBT AGREEMENTS (continued)

During the year ended December 31, 2005, the board of directors of the Hudson Oaks Education Finance Corporation (the “Corporation”) entered into a \$4,000,000 loan agreement with Lakehill Preparatory School (the “Borrower”) and Frost National Bank (the “Lender”). According to the terms of the loan agreement the Lender is making a loan to the Corporation and the Corporation is making a loan to the Borrower. The proceeds will be used by Borrower to refinance the construction, improvement, and equipping of school buildings and athletic facilities on Borrower’s campus and payment of the costs of issuance. The Corporation’s obligations under the loan agreement are payable solely from the loan payments received from the Borrower and other amounts received, if any, from the enforcement of the security provided by the Borrower Note, and do not constitute, give rise to or impose upon the Corporation or the City of Hudson Oaks, Texas, a pecuniary liability, a charge upon the general credit thereof or a pledge of the general revenues of the City or the Corporation. The Corporation has assigned the Borrower Note to the Lender; therefore, the Lender will make loan payments directly to the Lender. The amount of Hudson Oaks Education Finance Corporation conduit debt obligations outstanding at September 30, 2015 are as follows:

Lakehill Preparatory School Loan Agreement	\$ 2,965,000
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June 10, 2004, the City passed an ordinance authorizing and approving the creation of the Hudson Oaks Health Development Corporation (a non-profit corporation) to acquire, construct, provide, improve, finance, and refinance health facilities to assist the maintenance of the public health, subject to the Texas Health Facilities Development Act. As of September 30, 2015 this corporation has not issued any debt.

NOTE 7 – Defined Benefit Pension Plans

A. 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.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 7 – Defined Benefit Pension Plans (continued)

B. BENEFITS PROVIDED

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City for 2015 and 2014 were the same and were as follows:

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

EMPLOYEES COVERED BY BENEFIT TERMS

Employees covered by benefit terms

Inactive employees or beneficiaries currently receiveing benefits	9
Inactive employees entitled to but not receiving benefits	15
Active employees	<u>23</u>
	47

C. CONTRIBUTIONS

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 7 – Defined Benefit Pension Plans (continued)

C. CONTRIBUTIONS (continued)

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.48% and 11.97% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$146,854, and were equal to the required contributions.

D. NET PENSION LIABILITY

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

ACTUARIAL ASSUPMTIONS:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Rates are multiplied by a factor of 100%, which adds an additional layer of conservatism. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 7 – Defined Benefit Pension Plans (continued)

ACTUARIAL ASSUMPTIONS (continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core-Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100%	

DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 7 – Defined Benefit Pension Plans (continued)

<u>CHANGES IN THE NET PENSION LAIBILITY</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at 12/31/2013	\$ 2,714,141	\$ 2,033,154	\$ 680,987
Changes for the Year			
Service Cost	199,076		199,076
Interest	195,208		195,208
Change of benefit terms	-		-
Difference between expected and actual performance	(78,250)		(78,250)
Changes of assumptions			0
Contributions- employer		134,567	(134,567)
Contributions- employee		82,097	(82,097)
Net investment income		116,357	(116,357)
Benefit payments, including refunds of employee contributions	(49,985)	(49,985)	-
Administrative expense		(1,214)	1,214
Other changes		(100)	100
Net Changes	<u>266,049</u>	<u>281,722</u>	<u>(15,673)</u>
Balance at 12/31/2014	<u>\$ 2,980,190</u>	<u>\$ 2,314,876</u>	<u>\$ 665,314</u>

SENSITIVITY OF THE NET POSITION LIABILITY TO CHANGES IN THE DISCOUNT RATE

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

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	<u>\$1,301,972</u>	<u>\$665,314</u>	<u>\$165,961</u>

PENSION PLAN FIDUCIARY NET POSITION

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 7 – Defined Benefit Pension Plans (continued)

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

For the year ended September 30, 2015, the city recognized pension expense of \$162,601.

At September 30, 2015 the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 64,478
Changes in actuarial assumptions	-	-
Differences between projected and actual investment earnings	20,771	-
Contributions subsequent to the measurement date	114,887	-
Total	<u>\$ 135,658</u>	<u>\$ 64,478</u>

\$114,887 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

	<u>Net deferred outflows (inflows) of resources</u>
2016	\$ (8,579)
2017	(8,579)
2018	(8,579)
2019	(8,580)
2020	(9,390)
Thereafter	-
	<u>\$ (43,707)</u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

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

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

Your City offers supplemental death to:	Plan Year 2014	Plan Year 2015
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

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

The city’s contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$1,086, \$963 and \$922, respectively, which equaled the required contributions each year.

NOTE 9 – RISK MANAGEMENT

The City is a member of the Texas Municipal League and participates in the Intergovernmental Risk Pool insurance coverage and are 100% covered through third-party insurance policies. The City has maintained insurance coverage in all major categories of risk comparable to that of the prior year with no reduction in coverage.

NOTE 10 – CONTINGENT LIABILITIES

A. Federal and State Programs

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

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 11 – WATER AND WASTEWATER SERVICE CONTRACTS

A. Treated Water

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

B. Wastewater Service

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

NOTE 12 – CONTRACTS AND COMMITMENTS

- A. On October 25, 2007, the City issued the \$1,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2007. The certificates were issued to fund street, bridge, curb, and sidewalk improvements, consisting principally of the Lakeshore Bridge project. As of September 30, 2015 \$1,643,442 has been incurred on the project.
- B. August 28, 2008, the City entered into an economic development agreement where the City agreed to rebate developer up to a maximum of one-half (50%) of the estimated construction costs, additional paving costs and bond costs (\$53,510) for infrastructure improvements subject to the following terms and conditions:
- a. If the amount of all sales tax revenues received from the retail use of the property exceed \$130,000 calculated on a cumulative basis the city will rebate one-half of the total rebate amount (\$26,755).
 - b. If the amount of sales tax revenues received from the retail use of the property exceeds \$260,000 on a cumulative basis the City will rebate the remaining one-half (\$26,755).
 - c. In the event the amount of sales tax revenues received from the retail use of the property do not exceed \$130,000 during the term of this agreement, no rebate shall be paid by the City to developer. If one-half of the rebate is paid but cumulative sales tax revenues received from the retail use of the property do not exceed \$260,000 prior to expiration of the term of this agreement the remaining one-half shall not be paid by the City to developer.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 12 – CONTRACTS AND COMMITMENTS (continued)

The agreement shall be effective from January 1, 2009 through December 31, 2015, or until all obligations under the agreement are fulfilled, whichever occurs first. As of September 30, 2015 these sales tax goals have not been met therefore no rebate is payable.

- C. On August 26, 2010 the City entered into an interlocal agreement with the Town of Annetta, Texas in whereby the City agreed to assist Annetta in the operations and management of Annetta's water system.
- D. In November 2014, the City created the Hudson Oaks Public Improvements District No. 1, for the purposes of designing, acquiring and constructing public improvement projects in the District. The District includes approximately 46 acres in the City. The City has committed to fund improvements of up to \$3,534,000 in the District with \$2,000,000 being funded within 120 days of issuance of a notice to proceed on a new grocery store and once the store opens the remaining actual costs up to \$1,534,000. The City will issue new bonds to fund the initial \$2,000,000. There was no activity during the year ended September 30, 2015.

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

During 2015 the City sold property to be used as the location of a grocery store for \$185,000. The City has agreed to refund the \$185,000 once the grocery store opens.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 10, 2016, which is the date the financial statements were available to be issued.

NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This Statement was issued to improve the accounting and financial reporting by state and local governments for pensions. This Statement requires government-wide and propriety fund statements to recognize a liability equal to the net pension liability and changes in the net pension liability be included in pension expense in the period of change.

The City implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This Statement addresses issues related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Beginning net position of the governmental activities and business-type activities was reduced by the following prior period adjustments:

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2015

NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS (continued)

	Governmental Activities	Business-type Activities	Total
Net Pension Liability (12/31/13 measurement date)	\$ (474,444)	\$ (206,544)	\$ (680,988)
Deferred Outflows of Resources	71,076	31,175	102,251
	<u>\$ (403,368)</u>	<u>\$ (175,369)</u>	<u>\$ (578,737)</u>

NOTE 15: FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HUDSON OAKS, TEXAS
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual
 For the Year Ended September 30, 2015

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 1,816,951	\$ 1,820,150	\$ 1,871,133	\$ 50,983
Licenses and permits	179,500	292,025	339,196	47,171
Charges for services	700	580	751	171
Municipal court fines	107,250	75,250	109,521	34,271
Interest	2,000	1,580	1,951	371
Miscellaneous	83,599	69,635	90,981	21,346
Total revenues	<u>2,190,000</u>	<u>2,259,220</u>	<u>2,413,533</u>	<u>154,313</u>
Expenditures:				
Current:				
General government	498,236	715,985	719,191	(3,206)
Public safety	1,032,084	1,041,912	1,063,555	(21,643)
Highways and streets and parks	305,601	252,862	176,048	76,814
Planning & development	-	169,200	165,319	3,881
Debt service				
Principal	22,707	22,707	90,177	(67,470)
Interest and fiscal charges	-	-	1,526	(1,526)
Total expenditures	<u>1,858,628</u>	<u>2,202,666</u>	<u>2,215,816</u>	<u>(13,150)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>331,372</u>	<u>56,554</u>	<u>197,717</u>	<u>141,163</u>
Other Financing Sources (Uses):				
Transfers In	-	245,780	218,128	(27,652)
Transfers Out	(295,234)	(302,334)	(312,858)	(10,524)
Proceeds from sale of capital assets	-	-	185,000	185,000
Total other financing sources (uses):	<u>(295,234)</u>	<u>(56,554)</u>	<u>90,270</u>	<u>146,824</u>
Net change in fund balance	36,138	-	287,987	287,987
Fund balance, October 1	<u>1,116,878</u>	<u>1,116,878</u>	<u>1,116,878</u>	<u>-</u>
Fund balance, September 30	<u>\$ 1,153,016</u>	<u>\$ 1,116,878</u>	<u>\$ 1,404,865</u>	<u>\$ 287,987</u>

The accompanying notes are an integral part of this schedule.

CITY OF HUDSON OAKS, TEXAS
 Schedule of Changes in Net Pension Liability
 and Related Ratios
 For the Year Ended September 30, 2015

	2014
Total Pension Liability	
Service Cost	\$ 199,076
Interest (on the Total Pension Liability)	195,208
Changes of benefit terms	-
Differences between expected and actual experience	(78,250)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(49,985)
	266,049
Net Change in Total Pension Liability	266,049
Total Pension Liability-Beginning	\$ 2,714,141
Total Pension Liability-Ending (a)	\$ 2,980,190
Plan Fiduciary Net Position	
Contributions-Employer	134,567
Contributions-Employee	82,097
Net Investment Income	116,357
Benefit payments, including refunds of employee contributions	(49,985)
Administrative Expense	(1,214)
Other	(100)
	281,722
Net Change in Plan Fiduciary Net Position	281,722
Plan Fiduciary Net Position-Beginning	2,033,154
Plan Fiduciary Net Position-Ending (b)	\$ 2,314,876
Net Pension Liability-Ending (a) - (b)	\$ 665,314
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	77.68%
Covered Employee Payroll	\$ 1,172,812
Net Pension Liability as a Percentage of Covered Employee Payroll	56.73%

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

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

CITY OF HUDSON OAKS, TEXAS
 Schedule of Employer Contributions
 and Related Ratios
 For the Year Ended September 30, 2015

Actuarially Determined Contribution	\$ 136,130	\$ 146,854
Contributions in relation to the actuarially determined contribution	\$ 136,130	\$ 146,854
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 1,204,317	\$ 1,237,245
Contributions as a percentage of covered employee payroll	11.30%	11.87%

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

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

CITY OF HUDSON OAKS, TEXAS
Notes to Required Supplementary Information
September 30, 2015

NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Budget

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

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

2) Encumbrances

The City does not record encumbrances for goods and services.

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

Public safety and debt service had expenditures of \$21,643 and \$68,996 in excess of appropriations. Total general fund expenditures were \$13,150 more than appropriations and were funded with revenue that was \$154,313 more than budgeted.

CITY OF HUDSON OAKS, TEXAS
Notes to Required Supplementary Information
September 30, 2015

NOTE 2- DEFINED BENEFIT PENSION PLANS

Notes to Schedule of Contributions

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage of Payroll, Closed

Remaining Amortization Period

29 years

Asset Valuation Method

10 Year smoothed market; 15% soft corridor

Inflation

3.00%

Salary Increases

3.50% to 12.00% including inflation

Investment Rate of Return

7.00%

Retirement Age

Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009

Mortality

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

Other Information:

Notes

There were no changes during the year.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

DEBT SERVICE FUNDS

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

CAPITAL PROJECTS FUNDS

The U.S. 180 Sewer Improvement capital projects fund is used to account for the Waste Water project on U.S. 180.

The Lakeshore Bridge capital project fund is used to account for the proceeds of the 2007 certificates of obligation and the expenditures related to the Lakeshore Bridge capital project.

The 2012 Bond capital project fund is used to account for amounts accumulated by the 2012 certificates of obligation and expenditures related to the U.S. 180 Middle Median Improvements for the governmental funds.

CITY OF HUDSON OAKS, TEXAS
 Nonmajor Funds
 Combining Balance Sheet
 September 30, 2015

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Special Events Fund	Total Special Revenue Funds
Assets:						
Cash	\$ 3,587	\$ 2,227	\$ 8,981	\$ 12,500	\$ -	\$ 27,295
Prepaid expenses	-	-	-	-	2,550	2,550
Total assets	<u>3,587</u>	<u>2,227</u>	<u>8,981</u>	<u>12,500</u>	<u>2,550</u>	<u>29,845</u>
Liabilities and Fund Balance:						
Liabilities:						
Accounts payable	-	-	-	-	5,565	5,565
Due to Other Funds	-	-	-	-	6,426	6,426
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,991</u>	<u>11,991</u>
Fund Balance:						
Restricted fund balance	3,587	2,227	8,981	12,500		27,295
Unassigned fund balance	-	-	-	-	(9,441)	(9,441)
Total Fund Balance	<u>3,587</u>	<u>2,227</u>	<u>8,981</u>	<u>12,500</u>	<u>(9,441)</u>	<u>17,854</u>
Total Liabilities and Fund Balance	<u>\$ 3,587</u>	<u>\$ 2,227</u>	<u>\$ 8,981</u>	<u>\$ 12,500</u>	<u>\$ 2,550</u>	<u>\$ 29,845</u>

Exhibit B-1

U.S. 180 Sewer Improvement Capital Projects	2012 Bond Fund	Total Capital Projects Funds	Debt Service Fund	Facilities Capital Fund	CO Series 2012 Sinking Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ 40,780	\$ 40,780	\$ -	\$ -	\$ -	\$ -	\$ 68,075
-	-	-	-	-	-	-	2,550
<u>-</u>	<u>40,780</u>	<u>40,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,625</u>
-	-	-	-	-	-	-	5,565
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,426</u>
-	-	-	-	-	-	-	11,991
-	40,780	40,780	-	-	-	-	68,075
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,441)</u>
-	40,780	40,780	-	-	-	-	58,634
<u>\$ -</u>	<u>\$ 40,780</u>	<u>\$ 40,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,625</u>

CITY OF HUDSON OAKS, TEXAS

Nonmajor Funds

Combining Statement of Revenues, Expenditures and Changes

In Fund Balance

For the Year Ended September 30, 2015

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Special Events Fund	Total Special Revenue Funds
Revenue:						
Municipal court fees	\$ -	\$ 2,150	\$ 1,703	\$ -	\$ -	\$ 3,853
Interest	-	-	-	-	-	-
Miscellaneous				5,250	591	5,841
Total Revenues	-	2,150	1,703	5,250	591	9,694
Expenditures:						
Current						
General Government	-	-	-	-	10,032	10,032
Public safety	-	10,556	-	-	-	10,556
Total Expenditures	-	10,556	-	-	10,032	20,588
Excess (deficiency) of revenues over (under) expenditures	-	(8,406)	1,703	5,250	(9,441)	(10,894)
Other Financing Sources (Uses):						
Transfers Out	-	-	-	-	-	-
Total other financing sources (uses):	-	-	-	-	-	-
Net change in fund balance	-	(8,406)	1,703	5,250	(9,441)	(10,894)
Fund balance, October 1	3,587	10,633	7,278	7,250	-	28,748
Fund balance, September 30	\$ 3,587	\$ 2,227	\$ 8,981	\$ 12,500	\$ (9,441)	\$ 17,854

Exhibit B-2

U.S. 180 Sewer Improvement Capital Projects	2012 Bond Fund	Total Capital Projects Funds	Debt Service Fund	Facilities Capital Fund	CO Series 2012 Sinking Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,853
-	41	41	-	-	-	-	41
-	-	-	-	-	-	-	5,841
-	41	41	-	-	-	-	9,735
-	-	-	-	-	-	-	10,032
-	-	-	-	-	-	-	10,556
-	-	-	-	-	-	-	20,588
-	41	41	-	-	-	-	(10,853)
(378)	-	(378)	(11,363)	(14,489)	(17,379)	(43,231)	(43,609)
(378)	-	(378)	(11,363)	(14,489)	(17,379)	(43,231)	(43,609)
(378)	41	(337)	(11,363)	(14,489)	(17,379)	(43,231)	(54,462)
378	40,739	41,117	11,363	14,489	17,379	43,231	113,096
\$ -	\$ 40,780	\$ 40,780	\$ -	\$ -	\$ -	\$ -	\$ 58,634

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ENTERPRISE FUND SUPPLEMENTARY INFORMATION

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Statement of Net Position
September 30, 2015
(With Comparative Totals for September 30, 2014)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Totals	
					2015	2014
Assets						
Current Assets:						
Cash	\$ 1,242,990	\$ 574,110	\$ (103,473)	\$ 111,601	\$ 1,825,228	\$ 2,885,447
Investments	87,599	-	-	-	87,599	87,554
Accounts receivable (net of allowance for doubtful accounts)	225,540	36,930	43,841	18,773	325,084	267,417
Due from other funds	-	-	-	-	-	29,900
Prepaid Expense	8,875	-	-	-	8,875	8,921
Restricted Assets:						
Cash- water debt sinking funds	56,172	-	-	-	56,172	16,315
Total current assets	<u>1,621,176</u>	<u>611,040</u>	<u>(59,632)</u>	<u>130,374</u>	<u>2,302,958</u>	<u>3,295,554</u>
Noncurrent Assets:						
Capital Assets:						
Nondepreciable	279,673	1,230,595	-	-	1,510,268	387,563
Depreciable, net of accumulated depreciation	4,771,080	1,640,191	2,448,485	-	8,859,756	9,005,845
Total assets	<u>6,671,929</u>	<u>3,481,826</u>	<u>2,388,853</u>	<u>130,374</u>	<u>12,672,982</u>	<u>12,688,962</u>
Deferred Outflow of Resources						
Deferred Outflow Related to Pensions	33,263	-	-	8,438	41,701	-
Total deferred outflow of resources	<u>33,263</u>	<u>-</u>	<u>-</u>	<u>8,438</u>	<u>41,701</u>	<u>-</u>
Liabilities						
Current Liabilities:						
Accounts payable	74,628	69,794	6,394	1,981	152,797	102,026
Accrued payroll	2,698	-	-	677	3,375	1,172
Compensated absences payable	27,248	-	-	4,770	32,018	21,056
Due to other funds	1,650	-	-	-	1,650	13,058
Current liabilities payable from restricted assets:						
Current portion of long-term debt	227,600	50,000	90,000	-	367,600	357,600
Accrued interest payable	11,923	4,264	16,492	-	32,679	35,087
Total current liabilities	<u>345,747</u>	<u>124,058</u>	<u>112,886</u>	<u>7,428</u>	<u>590,119</u>	<u>529,999</u>
Noncurrent Liabilities:						
Net pension liability	158,212	-	-	43,578	201,790	-
Certificates of obligation	2,235,159	1,140,000	2,540,250	-	5,915,409	6,291,575
Total liabilities	<u>2,739,118</u>	<u>1,264,058</u>	<u>2,653,136</u>	<u>51,006</u>	<u>6,707,318</u>	<u>6,821,574</u>
Deferred Inflow of Resources						
Deferred Inflow Related to Pensions	15,333	-	-	4,223	19,556	-
Total deferred outflow of resources	<u>15,333</u>	<u>-</u>	<u>-</u>	<u>4,223</u>	<u>19,556</u>	<u>-</u>
Net Position						
Investment in capital assets, net of debt	2,587,994	1,680,786	(181,765)	-	4,087,015	3,819,660
Restricted for debt service (expendable)	44,249	-	-	-	44,249	40,678
Restricted for impact fees	94,476	-	-	-	94,476	74,811
Unrestricted	1,224,022	536,982	(82,518)	83,583	1,762,069	1,932,239
Total net position	<u>\$ 3,950,741</u>	<u>\$ 2,217,768</u>	<u>\$ (264,283)</u>	<u>\$ 83,583</u>	<u>\$ 5,987,809</u>	<u>\$ 5,867,388</u>

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended September 30, 2015
(With Comparative Totals for the Year Ended September 30, 2014)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Elimination	Totals	
						2015	2014
Operating revenues:							
Water & Wastewater	\$ 1,133,462	\$ 323,332	\$ 232,377	\$ -	\$ -	\$ 1,689,171	\$ 1,575,128
Management contract charges	-	-	-	213,000	-	213,000	172,000
Late payment charges	10,065	-	2,266	-	-	12,331	11,694
Tap Fees	15,500	10,500	-	-	-	26,000	24,000
Impact fees	19,666	-	-	-	-	19,666	30,657
Customer assessment fees	1,120	-	-	-	-	1,120	640
Miscellaneous fees & Charges	55,071	-	-	-	-	55,071	52,749
Total operating revenues	<u>1,234,884</u>	<u>333,832</u>	<u>234,643</u>	<u>213,000</u>	<u>-</u>	<u>2,016,359</u>	<u>1,866,868</u>
Operating expenses:							
Personal services	358,464	-	-	98,099	-	456,563	447,921
Supplies	53,803	-	15,682	11,815	-	81,300	72,885
Contractual Services	251,495	133,054	45,044	1,438	-	431,031	415,685
Well utilities	51,384	-	28,480	-	-	79,864	103,168
Depreciation	269,222	96,261	98,597	-	-	464,080	448,362
Total operating expenses	<u>984,368</u>	<u>229,315</u>	<u>187,803</u>	<u>111,352</u>	<u>-</u>	<u>1,512,838</u>	<u>1,488,021</u>
Operating income (loss)	<u>250,516</u>	<u>104,517</u>	<u>46,840</u>	<u>101,648</u>	<u>-</u>	<u>503,521</u>	<u>378,847</u>
Nonoperating revenues (expenses)							
Interest income	487	411	-	-	-	898	814
Interest expense	(70,347)	(28,801)	(97,188)	-	-	(196,336)	(179,949)
Debt issuance costs	-	-	-	-	-	-	(35,000)
Gain or (Loss) on Disposal of Assets	-	-	(12,918)	-	-	(12,918)	-
Total nonoperating revenues (expenses)	<u>(69,860)</u>	<u>(28,390)</u>	<u>(110,106)</u>	<u>-</u>	<u>-</u>	<u>(208,356)</u>	<u>(214,135)</u>
Income (loss) before transfers	<u>180,656</u>	<u>76,127</u>	<u>(63,266)</u>	<u>101,648</u>	<u>-</u>	<u>295,165</u>	<u>164,712</u>
Contributions and transfers:							
Capital Contribution	127,317	60,844	-	-	-	188,161	113,440
Transfer In	30,257	-	13,612	-	(13,655)	30,214	-
Transfer out	(13,612)	(68,793)	-	(149,000)	13,655	(217,750)	(115,556)
Change in net position	324,618	68,178	(49,654)	(47,352)	-	295,790	162,596
Net Position, Beginning	3,763,918	2,149,590	(214,629)	168,509	-	5,867,388	5,704,792
Prior Period Adjustment	(137,795)	-	-	(37,574)	-	(175,369)	-
Net Position, Ending	<u>\$ 3,950,741</u>	<u>\$ 2,217,768</u>	<u>\$ (264,283)</u>	<u>\$ 83,583</u>	<u>\$ -</u>	<u>\$ 5,987,809</u>	<u>\$ 5,867,388</u>

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Statement of Cash Flows
For the Year Ended September 30, 2015
(With Comparative Totals for the Year Ended September 30, 2014)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Total	
					2015	2014
Cash flows from operating activities:						
Cash received from customers and users	\$ 1,188,979	\$ 333,236	\$ 225,986	\$ 210,492	\$ 1,958,693	\$ 1,884,683
Cash paid to suppliers	(349,513)	(135,264)	(97,946)	(10,931)	(593,654)	(689,911)
Cash paid to employees	(348,718)	-	-	(91,245)	(439,963)	(446,977)
Net cash provided (used) by operating activities	<u>490,748</u>	<u>197,972</u>	<u>128,040</u>	<u>108,316</u>	<u>925,076</u>	<u>747,795</u>
Cash flow from noncapital financing activities:						
Due to other funds	(9,138)	-	(2,270)	-	(11,408)	-
Due from other funds	29,900	-	-	-	29,900	-
Transfers in (out)	16,645	(68,793)	13,612	(149,000)	(187,536)	(115,556)
Net cash provided (used) by noncapital financing activities	<u>37,407</u>	<u>(68,793)</u>	<u>11,342</u>	<u>(149,000)</u>	<u>(169,044)</u>	<u>(115,556)</u>
Cash flows from capital and related financing activities:						
Principal payments - certificates of obligation	(222,600)	(45,000)	(90,000)	-	(357,600)	(307,600)
Principal payments - capital leases	-	-	-	-	-	(33,972)
Purchase of property, plant and equipment	(142,750)	(1,069,587)	-	-	(1,212,337)	(238,216)
Proceeds from bond issuance	-	-	-	-	-	1,200,000
Interest payments	(73,127)	(30,167)	(104,016)	-	(207,310)	(184,909)
Net cash flows provided by (used in) capital and related financing activities	<u>(438,477)</u>	<u>(1,144,754)</u>	<u>(194,016)</u>	<u>-</u>	<u>(1,777,247)</u>	<u>435,303</u>
Cash flows from investing activities:						
Interest received	487	411	-	-	898	814
(Purchase) sale of investments	(45)	-	-	-	(45)	(29)
Net cash provided by (used in) investing activities	<u>442</u>	<u>411</u>	<u>-</u>	<u>-</u>	<u>853</u>	<u>785</u>
Net increase (decrease) in cash	90,120	(1,015,164)	(54,634)	(40,684)	(1,020,362)	1,068,327
Cash, October 1	1,209,042	1,589,274	(48,839)	152,285	2,901,762	1,833,435
Cash, September 30	<u>\$ 1,299,162</u>	<u>\$ 574,110</u>	<u>\$ (103,473)</u>	<u>\$ 111,601</u>	<u>\$ 1,881,400</u>	<u>\$ 2,901,762</u>
Reconciliation of income from operations to net cash provided by operating activities:						
Income (loss) from operations	\$ 250,516	\$ 104,517	\$ 46,840	\$ 101,648	\$ 503,521	\$ 378,847
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities						
Depreciation	269,222	96,261	98,597	-	464,080	448,362
(Increase) decrease in accounts receivable	(45,905)	(596)	(8,657)	(2,508)	(57,666)	17,815
(Increase) decrease in prepaid expenses	(1,653)	-	1,699	-	46	-
(Increase) decrease in deferred outflow of resources	(9,119)	-	-	(1,407)	(10,526)	-
Increase (decrease) in accounts payable	8,822	(2,210)	(10,439)	2,322	(1,505)	(98,173)
Increase (decrease) in accrued payroll	1,067	-	-	295	1,362	751
Increase (decrease) in compensated absences	6,192	-	-	4,770	10,962	193
Increase (decrease) in net pension liability	(3,727)	-	-	(1,027)	(4,754)	-
Increase (decrease) in deferred inflow of resources	15,333	-	-	4,223	19,556	-
Net adjustments	<u>240,232</u>	<u>93,455</u>	<u>81,200</u>	<u>6,668</u>	<u>421,555</u>	<u>368,948</u>
Net cash provided by operating activities	<u>\$ 490,748</u>	<u>\$ 197,972</u>	<u>\$ 128,040</u>	<u>\$ 108,316</u>	<u>\$ 925,076</u>	<u>\$ 747,795</u>
Noncash Investing, Capital and Financing Activities						
Contributions of capital assets	<u>\$ 127,317</u>	<u>\$ 60,844</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,161</u>	<u>\$ 113,440</u>

STATISTICAL SECTION (Unaudited)

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STATISTICAL SECTION (Unaudited)

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

Financial Trends

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

Government-wide Net Position by Component	64 - 65
Government-wide Changes in Net Position	66 - 67
Fund Balances, Governmental Funds	68 - 69
Changes in Fund Balances, Governmental Funds	70 - 71
Principal Sources of Revenue	72 - 73

Revenue Capacity

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

Sales Tax Revenue by Business Type	74
Water and Wastewater Sales by Type of Customer	75 - 76
Top Ten Utility Rate Payers	77
Utility Service Rates	78

Debt Capacity

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

Government-wide Outstanding Debt	79 - 80
Ratio of Annual Debt Service to Total General Expenditures	81

Demographic and Economic Information

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

Demographic Statistics	82
City Employees by Job Type	83
Capital Assets Information	84 - 85
Operating Indicators	86 - 87

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

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

	2015	2014	2013	2012
Governmental Activities				
Invested in capital assets, net of related debt	\$ 4,525,800	\$ 4,153,576	\$ 3,945,645	\$ 3,572,025
Restricted	44,541	693,884	26,372	12,764
Unrestricted	1,208,501	737,230	1,349,162	1,442,408
Total governmental activities net position	\$ 5,778,842	\$ 5,584,690	\$ 5,321,179	\$ 5,027,197
Business-type activities				
Invested in capital assets, net of related debt	\$ 4,087,015	\$ 3,819,660	\$ 4,845,486	\$ 4,743,012
Restricted	138,725	115,489	132,025	197,820
Unrestricted	1,762,069	1,932,239	727,281	881,405
Total business-type activities net position	\$ 5,987,809	\$ 5,867,388	\$ 5,704,792	\$ 5,822,237
Primary government				
Invested in capital assets, net of related debt	\$ 8,612,815	\$ 7,973,236	\$ 8,791,131	\$ 8,315,037
Restricted	183,266	809,373	158,397	210,584
Unrestricted	2,970,570	2,669,469	2,076,443	2,323,813
Total primary government net position	\$ 11,766,651	\$ 11,452,078	\$ 11,025,971	\$ 10,849,434

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

2011	2010	2009	2008	2007	2006
\$ 3,457,023	\$ 3,116,516	\$ 2,860,525	\$ 2,493,355	\$ 2,174,620	\$ 679,150
14,228	-	-	-	-	-
1,546,941	2,023,326	2,072,919	2,589,491	1,107,900	1,122,380
<u>\$ 5,018,192</u>	<u>\$ 5,139,842</u>	<u>\$ 4,933,444</u>	<u>\$ 5,082,846</u>	<u>\$ 3,282,520</u>	<u>\$ 1,801,530</u>
\$ 4,977,526	\$ 4,921,044	\$ 4,993,315	\$ 5,043,241	\$ 4,874,415	\$ 2,565,970
53,565	31,056	18,283	11,208	24,584	123,121
747,361	749,107	789,660	791,892	755,148	660,380
<u>\$ 5,778,452</u>	<u>\$ 5,701,207</u>	<u>\$ 5,801,258</u>	<u>\$ 5,846,341</u>	<u>\$ 5,654,147</u>	<u>\$ 3,349,471</u>
\$ 8,434,549	\$ 8,037,560	\$ 7,853,840	\$ 7,536,596	\$ 7,049,035	\$ 3,245,120
67,793	31,056	18,283	11,208	24,584	123,121
2,294,302	2,772,433	2,862,579	3,381,383	1,863,048	1,782,760
<u>\$ 10,796,644</u>	<u>\$ 10,841,049</u>	<u>\$ 10,734,702</u>	<u>\$ 10,929,187</u>	<u>\$ 8,936,667</u>	<u>\$ 5,151,001</u>

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

	2015	2014	2013	2012
Expenses				
Governmental Activities				
General government	\$ 705,554	\$ 695,185	\$ 622,322	\$ 611,863
Public safety	1,140,082	1,127,251	1,032,743	1,004,471
Highways and streets and parks	292,149	296,496	248,484	316,225
Planning and development	165,319	-	-	-
Economic development grants	-	-	150,000	-
Interest and fiscal charges	91,412	117,554	111,547	106,219
Total governmental activities expenses	<u>\$ 2,394,516</u>	<u>\$ 2,236,486</u>	<u>\$ 2,165,096</u>	<u>\$ 2,038,778</u>
Business-type activities				
Water	\$ 1,054,715	\$ 999,905	\$ 1,151,086	\$ 1,069,189
Economic development grants	-	-	150,000	-
Dyegard water system	297,909	292,818	256,581	249,488
Deercreek management	111,352	121,835	132,622	135,193
Wastewater	258,116	288,412	240,266	242,478
Total business-type activities net position	<u>1,722,092</u>	<u>1,702,970</u>	<u>1,930,555</u>	<u>1,696,348</u>
Total primary government expenses	<u>\$ 4,116,608</u>	<u>\$ 3,939,456</u>	<u>\$ 4,095,651</u>	<u>\$ 3,735,126</u>
Program Revenues				
Governmental Activities				
Charges for services	\$ 423,587	\$ 537,689	\$ 460,030	\$ 352,724
Operating grants and contributions	-	-	-	-
Capital grants and contributions	375,567	-	301,627	-
Total governmental activities	<u>\$ 799,154</u>	<u>\$ 537,689</u>	<u>\$ 761,657</u>	<u>\$ 352,724</u>
Business-type activities				
Water and sewer sales	\$ 2,016,359	\$ 1,866,868	\$ 1,831,601	\$ 1,730,715
Capital grants and contributions	188,161	113,440	82,450	-
Total business-type activities	<u>2,204,520</u>	<u>1,980,308</u>	<u>1,914,051</u>	<u>1,730,715</u>
Total primary government revenues	<u>\$ 3,003,674</u>	<u>\$ 2,517,997</u>	<u>\$ 2,675,708</u>	<u>\$ 2,083,439</u>
Net (Expense) Revenue				
Governmental Activities	\$ (1,595,362)	\$ (1,698,797)	\$ (1,403,439)	\$ (1,686,054)
Business-type Activities	482,428	277,338	(16,504)	34,367
Total primary government net expense	<u>\$ (1,112,934)</u>	<u>\$ (1,421,459)</u>	<u>\$ (1,419,943)</u>	<u>\$ (1,651,687)</u>
General Revenues and Other Changes in Net Position				
Governmental Activities				
Sales tax	\$ 1,703,568	\$ 1,615,229	\$ 1,527,473	\$ 1,443,331
Franchise tax	193,272	169,518	137,113	161,210
Investment earnings	3,478	4,464	7,004	7,519
Other revenue	96,822	57,541	71,699	82,999
Transfers	187,536	115,556	(93)	-
Extraordinary items	-	-	-	-
Gain on sale of capital assets	8,200	-	-	-
Total governmental activities	<u>\$ 2,192,876</u>	<u>\$ 1,962,308</u>	<u>\$ 1,743,196</u>	<u>\$ 1,695,059</u>
Business-type activities				
Investment earnings	\$ 898	\$ 814	\$ 182	\$ 9,418
Transfers	(187,536)	(115,556)	93	-
Total business-type activities	<u>\$ (186,638)</u>	<u>\$ (114,742)</u>	<u>\$ 275</u>	<u>\$ 9,418</u>
Total primary government	<u>\$ 2,006,238</u>	<u>\$ 1,847,566</u>	<u>\$ 1,743,471</u>	<u>\$ 1,704,477</u>
Change in Net Position				
Governmental Activities	\$ 597,514	\$ 263,511	\$ 339,757	\$ 9,005
Business-type Activities	295,790	162,596	(16,229)	43,785
Total primary government	<u>\$ 893,304</u>	<u>\$ 426,107</u>	<u>\$ 323,528</u>	<u>\$ 52,790</u>

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

2011	2010	2009	2008	2007	2006
\$ 555,859	\$ 572,233	\$ 569,225	\$ 788,582	\$ 657,991	\$ 574,090
971,556	852,514	1,047,950	1,050,286	648,411	837,550
338,921	292,173	229,557	208,020	81,291	78,333
-	-	-	-	-	-
-	-	-	-	-	-
106,873	114,881	132,368	96,799	-	-
<u>\$ 1,973,209</u>	<u>\$ 1,831,801</u>	<u>\$ 1,979,100</u>	<u>\$ 2,143,687</u>	<u>\$ 1,387,693</u>	<u>\$ 1,489,973</u>
\$ 1,065,916	\$ 900,658	\$ 878,212	\$ 862,805	\$ 533,639	\$ 702,749
-	-	-	-	-	-
291,458	-	-	-	-	-
114,719	-	-	-	-	-
239,880	189,660	186,509	174,176	127,211	136,607
1,711,973	1,090,318	1,064,721	1,036,981	660,850	839,356
<u>\$ 3,685,182</u>	<u>\$ 2,922,119</u>	<u>\$ 3,043,821</u>	<u>\$ 3,180,668</u>	<u>\$ 2,048,543</u>	<u>\$ 2,329,329</u>
\$ 277,133	\$ 430,174	\$ 290,717	\$ 469,887	\$ 339,181	\$ 398,450
35,760	34,959	32,370	57,963	1,396	2,938
-	41,407	-	-	1,601,600	-
<u>\$ 312,893</u>	<u>\$ 506,540</u>	<u>\$ 323,087</u>	<u>\$ 527,850</u>	<u>\$ 1,942,177</u>	<u>\$ 401,388</u>
\$ 1,781,677	\$ 990,090	\$ 954,547	\$ 933,941	\$ 624,291	\$ 898,344
-	-	-	292,269	2,335,760	54,875
1,781,677	990,090	954,547	1,226,210	2,960,051	953,219
<u>\$ 2,094,570</u>	<u>\$ 1,496,630</u>	<u>\$ 1,277,634</u>	<u>\$ 1,754,060</u>	<u>\$ 4,902,228</u>	<u>\$ 1,354,607</u>
\$ (1,660,316)	\$ (1,325,261)	\$ (1,656,013)	\$ (1,615,837)	\$ 554,484	\$ (1,088,585)
69,704	(100,228)	(110,174)	189,229	2,299,201	113,863
<u>\$ (1,590,612)</u>	<u>\$ (1,425,489)</u>	<u>\$ (1,766,187)</u>	<u>\$ (1,426,608)</u>	<u>\$ 2,853,685</u>	<u>\$ (974,722)</u>
\$ 1,364,008	\$ 1,349,689	\$ 1,369,692	\$ 1,432,180	\$ 938,695	\$ 1,176,741
150,734	124,812	136,827	122,466	81,697	134,199
12,639	20,613	33,377	88,253	36,236	36,153
11,285	36,545	31,081	117,400	-	-
-	-	(64,365)	-	-	-
-	-	-	-	(130,122)	-
-	-	-	1,655,864	-	-
<u>\$ 1,538,666</u>	<u>\$ 1,531,659</u>	<u>\$ 1,506,612</u>	<u>\$ 3,416,163</u>	<u>\$ 926,506</u>	<u>\$ 1,347,093</u>
\$ 7,541	\$ 177	\$ 726	\$ 2,965	\$ 5,475	\$ 12,367
-	-	64,365	-	-	-
7,541	177	65,091	2,965	5,475	12,367
<u>\$ 1,546,207</u>	<u>\$ 1,531,836</u>	<u>\$ 1,571,703</u>	<u>\$ 3,419,128</u>	<u>\$ 931,981</u>	<u>\$ 1,359,460</u>
\$ (121,650)	\$ 206,398	\$ (149,401)	\$ 1,800,326	\$ 1,480,990	\$ 258,508
77,245	(100,051)	(45,083)	192,194	2,304,676	126,230
<u>\$ (44,405)</u>	<u>\$ 106,347</u>	<u>\$ (194,484)</u>	<u>\$ 1,992,520</u>	<u>\$ 3,785,666</u>	<u>\$ 384,738</u>

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

	2015	2014	2013	2012	2011
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Designated	-	-	-	-	-
Unreserved, Undesignated	-	-	-	-	-
Nonspendable	34,170	-	8,396	-	-
Restricted	2,740	1,732	1,732	886	-
Committed	-	-	-	-	-
Assigned	235,000	-	-	27,745	-
Unassigned	1,132,955	1,115,147	1,025,655	1,014,467	1,174,811
Total general fund	<u>\$ 1,404,865</u>	<u>\$ 1,116,879</u>	<u>\$ 1,035,783</u>	<u>\$ 1,043,098</u>	<u>\$ 1,174,811</u>
All Other Governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Designated	-	-	-	-	-
Unreserved, Undesignated	-	-	-	-	-
Nonspendable	-	-	-	-	-
Restricted	191,057	692,152	859,124	1,775,663	1,085,857
Committed	-	-	-	-	-
Assigned	-	43,231	53,563	70,855	57,773
Unassigned	(9,441)	-	-	-	-
Total other governmental funds	<u>\$ 181,616</u>	<u>\$ 735,383</u>	<u>\$ 912,687</u>	<u>\$ 1,846,518</u>	<u>\$ 1,143,630</u>

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

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

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

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

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

2010	2009	2008	2007	2006
\$ -	\$ -	\$ -	\$ -	\$ -
333,792	333,792	296,636	296,637	251,241
769,543	615,496	697,361	495,645	504,285
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 1,103,335</u>	<u>\$ 949,288</u>	<u>\$ 993,997</u>	<u>\$ 792,282</u>	<u>\$ 755,526</u>
\$ -	\$ -	\$ -	\$ -	\$ -
1,844,808	31,422	70,831	59,359	58,503
-	2,487,500	2,894,343	378	373
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 1,844,808</u>	<u>\$ 2,518,922</u>	<u>\$ 2,965,174</u>	<u>\$ 59,737</u>	<u>\$ 58,876</u>

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

	2015	2014	2013	2012
Revenues				
Taxes	\$ 1,871,133	\$ 1,773,967	\$ 1,669,995	\$ 1,598,179
Licenses, fees, permits	339,196	414,691	322,735	240,289
Fines and penalties	113,374	103,801	121,207	103,065
Charges for services	751	15,146	7,390	4,084
Intergovernmental	129,280	-	216,000	-
Investment earnings	3,478	4,464	7,004	7,519
Other revenues	96,822	57,541	78,965	69,055
Total revenues	\$ 2,554,034	\$ 2,369,610	\$ 2,423,296	\$ 2,022,191
Expenditures				
General government	\$ 729,223	\$ 653,351	\$ 584,677	\$ 598,326
Public safety	1,074,111	1,111,307	964,123	1,004,933
Highways and streets and parks	176,048	299,554	496,790	207,942
Planning and development	165,319	-	-	-
Capital outlay	659,038	174,276	1,149,639	289,173
Other	-	-	150,000	-
Debt service:				
Principal	282,577	266,232	110,797	80,846
Interest	106,034	110,874	114,572	100,590
Bond issuance costs	-	-	-	21,280
Total expenditures	\$ 3,192,350	\$ 2,615,594	\$ 3,570,598	\$ 2,303,090
Other financing sources (uses)				
Proceeds from sale of capital assets	\$ 185,000	\$ -	\$ -	\$ -
Proceeds from borrowings	-	34,220	206,250	852,074
Other resources	-	-	-	-
Transfers in	544,003	406,378	197,279	194,423
Transfers out	(356,467)	(290,822)	(197,372)	(194,423)
Total other financing sources (uses)	\$ 372,536	\$ 149,776	\$ 206,157	\$ 852,074
Net change in fund balances	\$ (265,780)	\$ (96,208)	\$ (941,145)	\$ 571,175
Debt service as a percentage of noncapital expenditures	16.88%	16.93%	9.31%	9.01%

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

2011	2010	2009	2008	2007	2006
\$ 1,518,938	\$ 1,459,645	\$ 1,517,316	\$ 1,544,875	\$ 1,042,719	\$ 1,288,971
162,110	200,229	151,918	268,749	164,965	139,921
137,495	166,567	151,991	135,836	132,906	176,176
1,288	3,515	1,769	2,302	2,647	2,441
-	-	-	-	-	-
12,639	20,613	33,377	88,253	36,236	36,153
48,443	73,065	67,127	203,673	66,696	74,021
<u>\$ 1,880,913</u>	<u>\$ 1,923,634</u>	<u>\$ 1,923,498</u>	<u>\$ 2,243,688</u>	<u>\$ 1,446,169</u>	<u>\$ 1,717,683</u>
\$ 513,843	\$ 505,215	\$ 510,772	\$ 745,896	\$ 622,164	\$ 539,314
952,699	796,753	974,369	964,872	641,053	753,497
229,355	308,554	261,292	260,229	27,534	53,294
-	-	-	-	-	-
190,273	411,807	107,903	2,372,332	-	77,180
210,000	-	-	-	-	-
320,806	305,446	362,670	98,366	32,581	62,022
93,638	115,926	133,089	80,388	4,806	3,565
25,903	-	-	74,500	-	-
<u>\$ 2,536,517</u>	<u>\$ 2,443,701</u>	<u>\$ 2,350,095</u>	<u>\$ 4,596,583</u>	<u>\$ 1,328,138</u>	<u>\$ 1,488,872</u>
\$ -	\$ -	\$ -	\$ 2,260,000	\$ -	\$ -
25,902	-	-	3,662,547	-	77,180
-	-	-	(462,500)	(80,414)	-
120,771	131,750	1,103,960	1,821,926	-	-
(120,771)	(131,750)	(1,168,325)	(1,821,926)	-	-
<u>\$ 25,902</u>	<u>\$ -</u>	<u>\$ (64,365)</u>	<u>\$ 5,460,047</u>	<u>\$ (80,414)</u>	<u>\$ 77,180</u>
<u>\$ (629,702)</u>	<u>\$ (520,067)</u>	<u>\$ (490,962)</u>	<u>\$ 3,107,152</u>	<u>\$ 37,617</u>	<u>\$ 305,991</u>
17.66%	20.74%	22.11%	8.04%	2.81%	4.65%

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

Revenue Source	2015	2014	2013	2012
Principal General Government Revenue Sources				
Sales Tax	\$ 1,687,718	\$ 1,608,529	\$ 1,524,171	\$ 1,439,506
Franchise Tax	183,415	165,438	145,824	158,673
Licenses and Permits	339,196	414,691	322,735	240,289
All Other Sources	343,705	180,952	430,566	183,723
Total General Government Revenue	\$ 2,554,034	\$ 2,369,610	\$ 2,423,296	\$ 2,022,191

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

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

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

Principal Enterprise Funds Revenue Sources

Water Sales - Hudson Oaks	\$ 1,133,462	\$ 1,011,033	\$ 980,713	\$ 927,508
Wastewater Sales	323,332	333,576	334,771	271,811
All Other Sources	559,565	522,259	516,117	531,396
Total Enterprise Fund Revenue	\$ 2,016,359	\$ 1,866,868	\$ 1,831,601	\$ 1,730,715

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

2011	2010	2009	2008	2007	2006	Change: 2006-2015
\$ 1,375,636	\$ 1,328,584	\$ 1,386,912	\$ 1,424,371	\$ 966,365	\$ 1,163,589	45.04%
143,302	131,061	130,404	120,504	76,354	125,382	46.28%
162,110	200,229	151,918	268,749	164,965	139,921	142.42%
199,865	263,760	254,264	430,064	238,485	288,791	19.02%
<u>\$ 1,880,913</u>	<u>\$ 1,923,634</u>	<u>\$ 1,923,498</u>	<u>\$ 2,243,688</u>	<u>\$ 1,446,169</u>	<u>\$ 1,717,683</u>	

tax.

\$ 930,997	\$ 748,413	\$ 736,755	\$ 696,819	\$ 436,650	\$ 692,996	63.56%
222,902	183,420	179,969	170,064	137,952	180,086	79.54%
627,778	58,257	37,823	67,058	49,689	25,262	2115.05%
<u>\$ 1,781,677</u>	<u>\$ 990,090</u>	<u>\$ 954,547</u>	<u>\$ 933,941</u>	<u>\$ 624,291</u>	<u>\$ 898,344</u>	

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

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

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

Source:

2014 - 2015 - Zaccheus Sales Tax Data

2008 - 2013 - MuniServices Sales Tax Analysis and Reporting Service

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

WATER SALES

Type of Customer	2015	2014	2013	2012
Residential	\$ 1,021,365	\$ 933,875	\$ 897,228	\$ 930,683
Commercial	\$ 356,589	\$ 307,777	\$ 311,011	\$ 236,309
Other	\$ 91,573	\$ 112,740	\$ 107,591	\$ 94,162
Total	\$ 1,469,527	\$ 1,354,392	\$ 1,315,830	\$ 1,261,154

WASTEWATER SALES

Type of Customer	2015	2014	2013	2012
Residential	\$ 41,515	\$ 40,257	\$ 50,308	\$ 40,969
Commercial	\$ 281,817	\$ 293,219	\$ 284,463	\$ 230,842
Other	\$ 10,500	\$ 7,000	\$ 9,000	\$ 7,000
Total	\$ 333,832	\$ 340,476	\$ 343,771	\$ 278,811

Note: Source data from monthly billing registers including adjustments.

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

WATER SALES

2011	2010	2009	2008	2007	2006
\$ 963,707	\$ 578,745	\$ 570,233	\$ 569,402	\$ 325,809	\$ 638,369
\$ 218,917	\$ 169,668	\$ 166,522	\$ 127,417	\$ 110,841	\$ 54,627
\$ 157,651	\$ 40,217	\$ 32,547	\$ 52,508	\$ 40,989	\$ 25,262
<u>\$ 1,340,275</u>	<u>\$ 788,630</u>	<u>\$ 769,302</u>	<u>\$ 749,327</u>	<u>\$ 477,639</u>	<u>\$ 718,258</u>

WASTEWATER SALES

2011	2010	2009	2008	2007	2006
\$ 31,040	\$ 14,655	\$ 8,166	\$ 8,358	\$ 5,774	\$ 1,541
\$ 191,862	\$ 168,765	\$ 171,802	\$ 161,706	\$ 132,178	\$ 178,545
\$ 1,500	\$ 18,040	\$ 5,276	\$ 14,550	\$ 8,700	\$ -
<u>\$ 224,402</u>	<u>\$ 201,460</u>	<u>\$ 185,244</u>	<u>\$ 184,614</u>	<u>\$ 146,652</u>	<u>\$ 180,086</u>

CITY OF HUDSON OAKS
 Top Ten Utility Rate Payers
 by Rate Type
 Compared to Five Years Ago
 (Unaudited)
 September 30, 2015

Ten Largest Water Customers

Annual Gallons Consumed
 (in hundreds of gallons)

Customers	Rank	2015	Rank	2010
Jerry's Express Car Wash	1	402,200		
Jerry's Hyundai	2	291,000	2	254,400
Walmart Stores Inc	3	290,100	4	208,600
Jerry's Chevrolet	4	236,100	8	129,500
Boyd, Ann	5	209,400	3	216,700
Southwest Ford	6	183,200		
Jerry's Collision Center	7	168,500	7	130,900
New River Fellowship Church	8	162,500		
Durant Toyota	9	156,500	1	610,700
Sonic Drivein	10	131,600		
Durant Toyota Parking Lot			5	189,600
Taco Bell			6	136,100
Southwest Nissan			9	120,000
Jerry;s Hyundai Irrigation			10	93,100

CITY OF HUDSON OAKS
 Utility Service Rates
 Water, Dyegard Water and Wastewater
 September 30, 2015
 (Unaudited)

Hudson Oaks Water Rate Structure

Residential

Base Rate - Meter Charge		Usage Charges - Consumption	
0.75 inch meter	\$35.50	Monthly Consumption	Monthly Rate
1.00 inch meter	\$70.00	0 to 5,000	\$3.21 per 1,000 gallons
1.50 inch meter	\$100.00	5,001 to 10,000	\$3.71 per 1,000 gallons
2.00 inch meter	\$220.00	10,001 to 30,000	\$4.74 per 1,000 gallons
3.00 inch meter	\$270.00	30,001 to above	\$5.31 per 1,000 gallons

Commercial

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

Dyegard Water Rate Structure

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

Wastewater charge: \$9.28 per 1,000 winter averaged gallons of water use.

CITY OF HUDSON OAKS
Government Wide Outstanding Debt
Last Ten Years
September 30, 2015

Fiscal Year	Governmental Activities			Business-type Activities		
	General Obligation Bonds	Combined Tax & Revenue Certificates of Obligation	Notes and Lease/Purchases	General Obligation Bonds	Combined Tax & Revenue Certificates of Obligation	Notes and Lease/Purchases
2006	\$ -	\$ -	\$ 97,321	\$ -	\$ 1,540,000	\$ 2,187
2007	\$ -	\$ -	\$ 64,740	\$ -	\$ 1,445,000	\$ 17,737
2008	\$ -	\$ 3,550,000	\$ 78,922	\$ -	\$ 1,350,000	\$ 117,483
2009	\$ -	\$ 3,255,000	\$ 11,252	\$ -	\$ 1,250,000	\$ 579,428
2010	\$ -	\$ 2,955,000	\$ 5,806	\$ -	\$ 4,065,000	\$ 490,834
2011	\$ 890,000	\$ 1,565,000	\$ -	\$ 1,050,000	\$ 2,915,000	\$ 490,834
2012	\$ 890,000	\$ 2,280,700	\$ 30,198	\$ 925,000	\$ 4,954,300	\$ 65,745
2013	\$ 890,000	\$ 2,179,650	\$ 226,701	\$ 795,000	\$ 4,785,350	\$ 31,773
2014	\$ 810,000	\$ 2,072,250	\$ 182,099	\$ 665,000	\$ 4,607,750	\$ -
2015	\$ 730,000	\$ 1,959,850	\$ 91,922	\$ 530,000	\$ 5,620,150	\$ -

CITY OF HUDSON OAKS
 Government Wide Outstanding Debt
 Last Ten Years
 September 30, 2015

Total Government-wide Indebtedness

Total Government-wide Indebtedness	Estimated Population	Total Debt per Capita	Per Capita Income	Debt as Percent of Personal Income
\$ 1,639,508	1887	868.84	\$ 33,165	3%
\$ 1,527,477	1959	779.72	\$ 35,053	2%
\$ 5,096,405	2082	2,447.84	\$ 36,941	7%
\$ 5,095,680	2178	2,339.61	\$ 38,829	6%
\$ 7,516,640	1684	4,463.56	\$ 40,717	11%
\$ 6,910,834	1741	3,969.46	\$ 42,605	9%
\$ 9,145,943	1870	4,890.88	\$ 44,847	11%
\$ 8,908,474	1659	5,369.79	\$ 47,645	11%
\$ 8,337,099	1871	4,455.96	\$ 45,999	10%
\$ 8,931,922	1952	4,575.78	\$ 43,821	10%

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

Fiscal Year	Principal	Interest and Charges	Total Debt Service	Total General Expenditures	Ratio of Debt Service to Total General Expenditures
2006	\$ -	\$ -	\$ -	\$ 1,483,518	0.00%
2007	\$ -	\$ -	\$ -	\$ 1,320,859	0.00%
2008	\$ 295,000	\$ 125,186	\$ 420,186	\$ 2,087,267	20.13%
2009	\$ 300,000	\$ 115,183	\$ 415,183	\$ 1,774,686	23.39%
2010	\$ 315,000	\$ 104,942	\$ 419,942	\$ 1,614,073	26.02%
2011	\$ 70,000	\$ 94,065	\$ 164,065	\$ 1,670,016	9.82%
2012	\$ 101,050	\$ 113,322	\$ 214,372	\$ 1,991,797	10.76%
2013	\$ 187,400	\$ 109,831	\$ 297,231	\$ 2,205,826	13.47%
2014	\$ 187,400	\$ 110,210	\$ 297,610	\$ 2,142,755	13.89%
2015	\$ 192,400	\$ 104,508	\$ 296,908	\$ 2,215,816	13.40%

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

Year Ended September 30	Estimated Population	Unemployment Rate for Parker County	School Enrollment	Per Capita Income
2006	1887	3.9%	Unavailable	\$ 33,165
2007	1959	3.8%	Unavailable	\$ 35,053
2008	2082	4.9%	Unavailable	\$ 36,941
2009	2178	7.8%	365	\$ 38,829
2010	1684	6.5%	292	\$ 40,717
2011	1741	5.5%	347	\$ 42,605
2012	1870	6.2%	393	\$ 44,847
2013	1659	5.9%	288	\$ 47,645
2014	1871	7.8%	294	\$ 45,999
2015	1952	5.7%	340	\$ 43,821

Sources:

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

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

Count of Employees by Year

Job Classification	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Waterworkers	7	8	6	7	7	4	5	6	5	4
Police Officers	11	11	11	11	12	11	14	12	13	14
Clerical-Office	7	8	9	7	7	8	8	7	6	8
Total	25	27	26	25	26	23	27	25	24	26

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

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

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>
City-owned Equipment				
Vehicles	14	14	14	14
Mobile Equipment	4	4	4	3
Street Department				
Miles of Roadway	21.46 miles	21.46 miles	21.46 miles	21.46 miles
City Parks				
Maintained Public Parks	4 acres	4 acres	4 acres	4 acres
Water Department				
Water Lines (in miles)	25.53	24.46	21.22	21.22
Wells	27	27	27	27
Water Plant	2	2	2	2
Wastewater Department				
Lift Stations	5	5	5	5
Sewer Lines (in miles)	10.51	9.7	9.7	9.7

Source: City of Hudson Oaks records

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

<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>
14	12	12	10	9	9
3	2	2	2	2	1
21.31 miles	21.31 miles	21.31 miles	21.31 miles	21.31 miles	21.31 miles
4 acres	4 acres	4 acres	4 acres	4 acres	4 acres
21.22	21.22	21.22	21.22	19.56	18.98
27	19	19	19	19	19
2	1	1	1	1	1
4	4	4	4	4	4
8.9	8.9	7.4	7.4	7.4	7.4

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

	FY 2015	FY 2014	FY 2013	FY 2012
Municipal Court				
Citations issued	746	923	1,023	808
Police Department				
Calls for Service	11,462	11,503	11,812	12,214
Arrests	282	291	305	407
Accidents	166	153	97	87
Community Services				
Building Permits Issues	173	185	218	124
Building Permits Value	\$ 19,321,918	\$ 27,702,865	\$ 16,627,435	\$ 15,778,748
Utility Department				
Water Connections	1,123	1,099	1,063	1,019
Sewer Connections	147	126	110	97
Water Department, in gallons (000)				
Water purchased or pumped	195,881,380	192,674,206	303,751,900	178,441,100
Water sold to customers	181,457,492	176,597,113	175,366,617	175,470,230

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

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

FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
1,073	1,297	994	960	886	1,118
12,841	11,720	11,272	12,104	11,551	10,546
328	326	273	314	292	342
77	73	69	64	57	63
148	127	141	122	128	N/A
\$ 15,513,979	\$ 20,977,889	\$ 25,632,936	\$ 81,206,525	\$ 28,594,307	N/A
987	734	733	711	688	667
84	76	64	57	39	41
184,669,900	152,864,468	145,797,700	152,826,700	89,959,710	177,514,797
178,692,200	128,961,390	125,155,500	122,013,459	67,695,600	134,664,400

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COMPLIANCE AND INTERNAL CONTROL

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

To the City Council
City of Hudson Oaks, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hudson Oaks, Texas (the “City”), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated February 10, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

George Morgan Ince, P.C.

Weatherford, Texas
February 10, 2016