

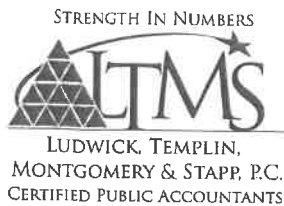
CITY OF HOLLAND, TEXAS

AUDITED FINANCIAL STATEMENTS AS OF
SEPTEMBER 30, 2016

TOGETHER WITH INDEPENDENT AUDITORS' REPORT
THEREON AND SUPPLEMENTARY INFORMATION

**CITY OF HOLLAND, TEXAS
TABLE OF CONTENTS**

Independent Auditors' Report	1
Management Discussion and Analysis	4
<i>Basic Financial Statements</i>	
Government Wide Statements:	
Statement of Net Position	10
Statement of Activities	11
<i>Fund Financial Statements</i>	
Balance Sheet - Governmental Funds	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	13
Statement of Revenues and Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund balances to the Statement of Activities	15
Statement of Net Position - Proprietary Fund	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	17
Statement of Cash Flows - Proprietary Fund	18
<i>Notes to the Financial Statements</i>	19
<i>Required Supplementary Information</i>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance: Budgetary Comparison - General Fund	40
Schedule of Revenues, Expenditures, and Changes in Net Position: Budgetary Comparison - Proprietary Fund	41
Note to the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Comparison - General and Proprietary Funds	42
Schedule of Changes in Net Pension Liability and Related Ratios	43
Schedule of Contributions	44
Notes to the Schedule of Contributions	45
Compliance and Internal Control Section	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46



1949 SCOTT BOULEVARD
TEMPLE, TEXAS 76504
254.771.0061 – VOICE
254.771.1445 – FAX
WWW.LTMS-CPA.COM

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Holland, Texas

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 Holland, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements. These financial statements collectively comprise the City of Holland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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.

Except for the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
General Fund	Unmodified
Water and Sewer Fund	Unmodified
Mayfield Library and Museum	Disclaimer

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the Mayfield Library and Museum (MLM) have not been audited, and we were not engaged to audit the MLM financial statements as part of our audit of the City's basic financial statements. MLM's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 100 percent, 100 percent, and 100 percent of the assets, net position, and revenues, respectively, of the City's aggregate discretely presented component units.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the City of Holland, Texas. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holland, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 40-42 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 of Holland, Texas's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules 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 July 7, 2017, on our consideration of the City of Holland, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Holland, Texas's internal control over financial reporting and compliance.

Ludwick, Jenkins, Montgomery & Stewart
P.C.

Temple, Texas
July 7, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas

For the Year Ended September 30, 2016

In this section of the Annual Financial Report, we, the managers of the City of Holland, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2016. Please read it in conjunction with the Independent Auditors' Report on page 1, and the City's Basic Financial Statements which begin on page 10.

FINANCIAL HIGHLIGHTS

- The City had an increase in net position of \$14,502 as a result of this year's operations.
- The General Fund ended the year with a fund balance of \$86,984.
- The resources available for appropriation were \$12,167 more than budgeted for the General Fund.
- During the year, the City had expenses that were \$35,810 less than the \$474,239 generated in tax and other revenues for governmental programs.
- The total cost of all the City's programs was \$1,047,286; of this amount, \$808,013 was directly attributed to Public Safety (Police Department) and Water and Sewer Services. The remainder of the cost was mainly for general government, debt service, and street repair.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position (on page 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas

For the Year Ended September 30, 2016

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period (e.g. uncollected taxes). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

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

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities.

Governmental activities - Most of the City's basic services are reported here, including police, and general government. Property taxes, sales taxes, and franchise fees finance most of these activities.

Business-type activities - The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer system activity are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City's two kinds of funds - governmental and proprietary - utilize different accounting approaches.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas

For the Year Ended September 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$2,284,925 as of September 30, 2016. Analyzing the net position and net expenses of governmental and business-type activities separately, the business type activities net position is \$2,106,521. The following tables focus on net position (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II).

Table I

Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current and other assets	\$ 128,721	\$ 121,004	\$ 416,191	\$ 327,500	\$ 544,912	\$ 448,504
Capital assets (net)	229,291	266,016	1,857,670	1,974,232	2,086,961	2,240,248
Total assets	358,012	387,020	2,273,861	2,301,732	2,631,873	2,688,752
Total deferred outflows of resources	25,093	9,744	28,165	10,937	53,258	20,681
LIABILITIES						
Current liabilities	27,618	20,777	90,163	79,916	117,781	100,693
Other liabilities	38,289	19,966	42,975	22,410	81,264	42,376
Long-term liabilities	137,158	213,427	60,530	82,514	197,688	295,941
Total Liabilities	203,065	254,170	193,668	184,840	396,733	439,010
Total deferred inflows of resources	1,636	-	1,837	-	3,473	-
NET POSITION						
Net investment in capital assets	92,133	52,589	1,797,140	1,891,718	1,889,273	1,944,307
Restricted	50,000	50,000	12,897	43,489	62,897	93,489
Unrestricted	36,271	40,005	296,484	192,622	332,755	232,627
Total net position	178,404	142,594	2,106,521	2,127,829	2,284,925	2,270,423
Total Liabilities, Deferred inflows of resources, and net position	\$ 383,105	\$ 396,764	\$ 2,302,026	\$ 2,312,669	\$ 2,685,131	\$ 2,709,433

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas

For the Year Ended September 30, 2016

Table II

Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for services	\$ 144,947	\$ 199,541	\$ 593,960	\$ 595,541	\$ 738,907	\$ 795,082
Grants and contributions	-	-	-	-	-	-
General Revenues						
Property tax	183,537	172,381	-	-	183,537	172,381
Sales/franchise tax	125,233	105,542	-	-	125,233	105,542
Investment earnings	1,482	1,277	3,089	2,754	4,571	4,031
Gain (loss) on sale of assets	-	-	-	-	-	-
Miscellaneous/Donations	9,540	106,631	-	-	9,540	106,631
Total Revenue	\$ 464,739	\$ 585,372	\$ 597,049	\$ 598,295	\$ 1,061,788	\$ 1,183,667
Expenses						
General government	229,346	227,123	-	-	229,346	227,123
Public safety	199,156	182,239	-	-	199,156	182,239
Interest on long-term debt	9,927	8,196	-	-	9,927	8,196
Water and sewer	-	-	608,857	596,643	608,857	596,643
Grant expenses	-	-	-	-	-	-
Total Expenses	438,429	417,558	608,857	596,643	1,047,286	1,014,201
Transfers	9,500	19,000	(9,500)	(19,000)	-	-
Increase (decrease) in net position	35,810	186,814	(21,308)	(17,348)	14,502	169,466
Net position - beginning	142,594	91,799	2,127,829	2,156,078	2,270,423	2,247,877
Adjustments for prior periods	-	(136,019)	-	(10,901)	-	(146,920)
Net position - beginning, as restated	<u>142,594</u>	<u>(44,220)</u>	<u>2,127,829</u>	<u>2,145,177</u>	<u>2,270,423</u>	<u>2,100,957</u>
Net position - ending	\$ 178,404	\$ 142,594	\$ 2,106,521	\$ 2,127,829	\$ 2,284,925	\$ 2,270,423

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas

For the Year Ended September 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

A large portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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 the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining, \$332,755 unrestricted portion of net assets, may be used to meet the City's ongoing obligations.

For the fiscal year 2016, revenues from governmental activities totaled \$474,239, which includes transfers totaling \$9,500 from other funds. Property taxes and other taxes are the largest components of revenue (40 percent).

For fiscal year 2016, expenses for governmental activities totaled \$438,429. The City's two largest funded programs are public safety and general government.

Revenues of the City's business-type activities were \$597,049 for the fiscal year ending September 30, 2016. Expenses for the City's business-type activities were \$618,357 which includes transfers of \$9,500 to other funds. The City's largest expense is personnel services and the purchase of water.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$86,984, which is less than last year's total \$91,687.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had invested \$2,086,961 in capital assets, including equipment and land. This amount represents a net decrease of \$153,287 primarily due to current year depreciation.

Debt

At year-end, the City had \$197,688 in bonds and notes outstanding, versus \$295,941 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered population growth and available resources from state revenues and tax revenues when setting the fiscal year budget and tax rate.

The City adopted a \$1,016,164 budget for fiscal year 2017. It will be funded through property taxes via a \$.6518 tax rate, water and sewer charges and other local revenues. If the City does not incur any unforeseen expenditures or reductions in revenue, it should accomplish the task of providing services in the City within its available resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas

For the Year Ended September 30, 2016

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's business office, at City of Holland, 102 W. Travis Holland, Texas 76534.

CITY OF HOLLAND, TEXAS

Statement of Net Position

September 30, 2016

	Primary Government			Component Unit
	General	Business-type Activities	Total	Mayfield Library and Museum
<u>Assets</u>				
Cash	\$ 114,602	\$ 352,449	\$ 467,051	27,092
Accounts receivable, net	-	63,702	63,702	-
Taxes receivable	14,119	-	14,119	-
Other receivables, net	-	40	40	-
Capital assets:				
Land and improvements	141,515	207,724	349,239	158,207
Buildings and improvements	98,960	4,900	103,860	-
Utility system	-	3,262,455	3,262,455	-
Machinery and equipment	130,179	203,843	334,022	-
Other capital assets	196,225	-	196,225	-
Less accumulated depreciation	(337,588)	(1,821,252)	(2,158,840)	(103,703)
Total assets	358,012	2,273,861	2,631,873	81,596
<u>Deferred Outflows of Resources</u>				
Deferred outflows of resources related to pensions	25,093	28,165	53,258	-
<u>Liabilities</u>				
Accounts payable	8,728	22,933	31,661	-
Other accrued expenses	18,890	17,465	36,355	678
Customer deposits	-	49,765	49,765	-
Net pension liability	38,289	42,975	81,264	-
Noncurrent liabilities				
Due within one year	77,158	12,897	90,055	-
Due within more than one year	60,000	47,633	107,633	-
Total liabilities	203,065	193,668	396,733	678
<u>Deferred Inflows of Resources</u>				
Deferred inflows of resources related to pensions	1,636	1,837	3,473	-
<u>Net Position</u>				
Net investment in capital assets	92,133	1,797,140	1,889,273	54,504
Fund balance				
Restricted for debt service	50,000	12,897	62,897	-
Unrestricted	36,271	296,484	332,755	26,414
Total net position	\$ 178,404	\$ 2,106,521	\$ 2,284,925	\$ 80,918

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

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Total	Component Unit Mayfield Library and Museum
\$ (221,291)	\$ -	\$ (221,291)	\$ -
(62,264)	-	(62,264)	-
(9,927)	-	(9,927)	-
<u>(293,482)</u>	<u>-</u>	<u>(293,482)</u>	<u>-</u>
-	(14,897)	(14,897)	-
-	(14,897)	(14,897)	-
<u>\$ (293,482)</u>	<u>\$ (14,897)</u>	<u>\$ (308,379)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ 4,868
183,537		183,537	-
125,233		125,233	-
9,500	(9,500)	-	-
2,405	-	2,405	-
7,135		7,135	-
1,482	3,089	4,571	21
<u>329,292</u>	<u>(6,411)</u>	<u>322,881</u>	<u>21</u>
35,810	(21,308)	14,502	4,889
<u>142,594</u>	<u>2,127,829</u>	<u>2,270,423</u>	<u>76,029</u>
<u>\$ 178,404</u>	<u>\$ 2,106,521</u>	<u>\$ 2,284,925</u>	<u>\$ 80,918</u>

CITY OF HOLLAND, TEXAS
Balance Sheet - Governmental Funds
For the Year Ended September 30, 2016

	General	Total Governmental Funds
<u>Assets</u>		
Cash	\$ 114,602	\$ 114,602
Taxes receivable, net	14,119	14,119
	<u>128,721</u>	<u>128,721</u>
Total assets	<u>\$ 128,721</u>	<u>\$ 128,721</u>
<u>Liabilities</u>		
Accounts payable	\$ 8,728	\$ 8,728
Accrued expense	18,890	18,890
	<u>27,618</u>	<u>27,618</u>
Total liabilities	<u>27,618</u>	<u>27,618</u>
<u>Deferred inflow of resources</u>		
Unavailable revenue		
Property taxes	14,119	14,119
	<u>14,119</u>	<u>14,119</u>
<u>Fund Balance</u>		
Restricted	50,000	50,000
Unassigned	36,984	36,984
	<u>86,984</u>	<u>86,984</u>
Total fund balance	<u>86,984</u>	<u>86,984</u>
Total liabilities, deferred inflow of resources, and fund balance	<u>\$ 128,721</u>	<u>\$ 128,721</u>

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

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

	General
Revenue	
General property taxes	\$ 189,444
Sales taxes	69,708
Franchise and other taxes	55,525
Fines and permits	142,442
Charges for services	2,505
Donations	2,405
Interest income	1,482
Miscellaneous	7,135
Total Revenue	470,646
Expenditures	
General government	192,139
Public safety	199,156
Capital expenditures	5,656
Debt service	87,898
Total Expenditures	484,849
Excess of revenue over (under) expenditures	(14,203)
Other financing sources (uses)	
Transfers in	9,500
Total Other Financing Sources (uses)	9,500
Excess of revenue and other financing sources over (under) expenditures and other financing uses	(4,703)
Fund balance, October 1, 2015	91,687
Fund balance, September 30, 2016	\$ 86,984

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

CITY OF HOLLAND, TEXAS
Statement of Net Position - Proprietary Fund
For the Year Ended September 30, 2016

	Business-type Activities	Total
<u>Assets</u>	Water and Sewer Fund	Proprietary Funds
Current assets:		
Cash	\$ 352,449	\$ 352,449
Accounts receivable	91,486	91,486
Allowance for uncollectibles	(27,784)	(27,784)
Other receivables, net	40	40
Total current assets	416,191	416,191
Noncurrent assets:		
Restricted cash and investments	-	-
Capital assets:		
Land	207,724	207,724
Utility system	3,262,455	3,262,455
Machinery and equipment	203,843	203,843
Building and improvements	4,900	4,900
Less accumulated depreciation	(1,821,252)	(1,821,252)
	1,857,670	1,857,670
Total assets	2,273,861	2,273,861
<u>Deferred Outflows of Resources</u>		
Deferred outflows of resources related to pensions	28,165	28,165
Total deferred outflows of resources	28,165	28,165
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	22,933	22,933
Customer deposits	49,765	49,765
Other accrued expenses	17,465	17,465
Net pension liability	42,975	42,975
Current portion of bonds, notes, and loans payable	12,897	12,897
Total current liabilities	146,035	146,035
Noncurrent liabilities		
Bonds, notes, and loans payable	47,633	47,633
Total liabilities	193,668	193,668
<u>Deferred Inflows of Resources</u>		
Deferred inflows of resources related to pensions	1,837	1,837
Total deferred inflows of resources	1,837	1,837
<u>Net Position</u>		
Net investment in capital assets	1,797,140	1,797,140
Restricted for debt service	12,897	12,897
Unrestricted	296,484	296,484
Total net position	\$ 2,106,521	\$ 2,106,521

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

CITY OF HOLLAND, TEXAS
Statement of Revenue, Expenses, and
Changes in Net Position - Proprietary Fund
For the Year Ended September 30, 2016

	<u>Enterprise</u> <u>(Water and Sewer)</u>
Operating Revenue	
Water	\$ 303,133
Sanitation	265,401
Tapping and connection fees	2,400
Late penalties	15,270
Miscellaneous	7,756
Total Operating Revenue	<u>593,960</u>
Operating Expenses	
Cost of water	129,221
Cost of sanitation	95,821
Personnel services	195,046
Materials and supplies	25,317
Maintenance and repairs	11,797
Other expenses	32,686
Depreciation	116,562
Total Operating Expenses	<u>606,450</u>
Operating Income (Loss)	<u>(12,490)</u>
Non-operating Revenue (Expenses)	
Interest income	3,089
Transfers	(9,500)
Interest expense	(2,407)
Total Non-operating Revenue (Expenses)	<u>(8,818)</u>
Net Income (Loss)	<u>(21,308)</u>
Change in Net Position	
Net position - beginning of the year	<u>2,127,829</u>
Net position - end of year	<u>\$ 2,106,521</u>

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

CITY OF HOLLAND, TEXAS
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2016

<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 592,654
Cash payments to suppliers	(277,030)
Cash payments to employees	(195,046)
Net Cash Provided by Operating Activities	<u>120,578</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments on long term debt	(21,984)
Interest paid	(2,409)
Net Cash Used by Capital and Related Financing Activities	<u>(24,393)</u>
<u>Cash Flows from Non-Capital Financing Activities</u>	
Transfers to other funds	(9,500)
Net Cash Used by Non-Capital Financing Activities	<u>(9,500)</u>
<u>Cash Flows from Investing Activities</u>	
Interest received	3,089
Net Cash Provided by Investing Activities	<u>3,089</u>
Net Increase in Cash and Cash Equivalents	89,774
Cash and cash equivalents - beginning of year	<u>262,675</u>
Cash and cash equivalents - end of year	<u>\$ 352,449</u>
<u>Reconciliation of operating loss to net cash provided by operating activities:</u>	
Operating income (loss)	\$ (21,308)
Adjustments to reconcile operating loss to net cash provided by Operating Activities	
Depreciation expense	116,562
(Increase) decrease in accounts receivable	958
(Increase) decrease in other receivables	125
(Increase) decrease in pension deferrals	(6,571)
Increase (decrease) in accounts payable	5,483
Increase (decrease) in accrued expenses	3,339
Increase (decrease) in net pension liability	20,565
Increase (decrease) in customer deposits	1,425
Total adjustments	<u>141,886</u>
Net Cash Provided by Operating Activities	<u>\$ 120,578</u>

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

1. Reporting Entity and Financial Reporting

The City of Holland, Texas was incorporated December 22, 1890. The City operates under a Council form of government and provides the following services: public safety (police), streets, water and sanitation, public improvements, planning and zoning, and general administrative services.

In June of 2012, the Governmental Accounting Standards Board (GASB) Issued Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. GASB 68 significantly changes what cities report in their financial statements and pension disclosures. The new requirements call for a net pension liability to be recorded on the statement of net position. Pension expense will be calculated by an actuary and no longer tied to contributions submitted during the fiscal year; the pension expense will be based off the change in the net pension liability from year to year and some of each year's pension cost will be deferred and amortized over a number of years.

In June 1999, GASB issued Statement No. 34. Basic Financial statements- and Management's Discussion and Analysis-for state and local governments. This statement, known as the "Reporting Model" statement affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model that is substantially different from what is used in private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of the state and local governments. The Statement was developed to make the annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and include:

2. Summary of Significant Accounting Policies

a. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

2. Summary of Significant Accounting Policies (Continued)

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

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

Mayfield Library and Museum (MLM) is a legally separate entity from the City. MLM is a non-profit organization created for the benefit of the citizens in and around the City. MLM has been included in the reporting as a non-major discretely presented component unit of the City. The City owns the land and the museum building, while the library building was built on the City owned land, the City is in agreement with the MLM that it shall take ownership of all assets if the MLM ceases to exist. The MLM is financially dependent on the City as the City pays for insurance, utilities and contributes funds monthly to help cover the expenses of day to day operations. Separate financial information is available at the MLM's business office, at 100 Rose Ln., Holland, TX 76534.

b. 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 the 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Fines and miscellaneous revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

General Fund-The general fund is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

2. Summary of Significant Accounting Policies (Continued)

b. Measurement focus, basis of accounting and financial statement presentation (Continued)

The City reports the following major proprietary fund:

Water and Sewer Fund-The water and sewer fund accounts for the activities of the water distribution system, the sewage treatment plant, sewage pumping stations and collections systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Proprietary fund distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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 non-operating revenues and expenses.

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

c. Deposits and Investments

The City's cash and cash equivalents for purposes of reporting cash flows of the proprietary fund consists of cash on hand and demand deposits.

2. Summary of Significant Accounting Policies (Continued)

f. Capital Assets (Continued)

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Machinery and equipment	5-10
Infrastructure	20
Water and sewer systems	10-40

g. Long-term Obligations

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

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

h. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, which is the deferred outflow of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit pension plan are reported in the government-wide financial statements. The deferred outflows of resources result from two transactions: contributions to the defined benefit pension plan subsequent to the plan's year end through the City's fiscal year end and the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings.

2. Summary of Significant Accounting Policies (Continued)

h. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one item that qualifies for reporting in this category. Accordingly, the item, unavailable revenue-property taxes, is reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the periods the amount become available.

i. Pensions

For the purposes of measuring the net pension liability/asset, 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 to 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.

j. Equity Classifications

In the government-wide financial statements, equity is shown as net position and classified into three components:

Net investment in capital assets - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted - Consists of assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; 2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources, as they are needed.

Unrestricted - All other net assets that do not meet the definition of 'restricted' or 'net investment in capital assets.'

The City reports governmental fund balances by the five following classifications:

Nonspendable - Amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

2. Summary of Significant Accounting Policies (Continued)

j. Equity Classifications (Continued)

Restricted - Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision making authority. In the case of the City, it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

Assigned - Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

Unassigned - Amount of the remaining fund balance not in any of the other classifications.

For the classification of fund balances, the City considers restricted amounts to have been spent first when an expenditure is incurred for the purpose for which restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balance first, followed by committed, assigned, and lastly unassigned fund balance.

k. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to the beginning of each fiscal year, the Mayor submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures.

Public hearings are conducted at which all interested persons' comments concerning the budget are heard. The budgets are then legally enacted by the City Council.

Formal budgetary integration is employed for the general fund. Budgetary control is maintained at the fund level. All annual appropriations lapse at fiscal year-end.

In the year ended September 30, 2016, the General Fund balance decreased by the amount of \$4,703, this was due to actual expenses coming in over budget in the General Fund. This increase left the General Fund with a fund balance of \$86,984 as of September 30, 2016.

CITY OF HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

3. Detailed Notes On All Funds

a. Deposits and Investments

A summary of the City's cash and cash equivalents follows:

Cash in bank	\$ 467,051
Total cash and cash equivalents	<u>\$ 467,051</u>

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in short-term certificates of deposit, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to invest in securities maturing more than two years from the date of purchase. For repurchase agreements, the maximum maturity is 180 days.

Credit Risk: The City's investment policy limits investments in government investment pools and money market mutual funds to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2016, the City has no investments in government investment pools or money market mutual funds.

At September 30, 2016, the carrying amount of the City's general fund deposits bank balance was \$114,602.

GASB Statement No. 3 "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), Reverse Repurchase Agreements," requires governmental entities to categorize their deposits and investments into one of the three credit risk categories. Since all of the City's deposits are fully insured or collateralized by pledged securities, these deposits are categorized in Credit Risk 1.

b. Receivables

Receivables as of year-end for the City's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 18,540	\$ -	\$ 18,540
Other	-	91,526	91,526
Gross Receivables	<u>18,540</u>	<u>91,526</u>	<u>110,066</u>
Less allowance for uncollectibles	4,421	27,784	32,205
Net total receivables	<u>\$ 14,119</u>	<u>\$ 63,742</u>	<u>\$ 77,861</u>

CITY OF HOLLAND, TEXAS
 Notes to the Financial Statements
 For the Year Ended September 30, 2016

3. Detailed Notes on All Funds (Continued)

b. Receivables (Continued)

Revenues of the general fund and water and sewer funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to property taxes	\$ 4,421
Uncollectibles related to water and sewer	<u>27,784</u>
Total uncollectibles as of the current fiscal year	<u>\$ 32,205</u>

The appraisal of property within the City is the responsibility of the Bell County Appraisal District (the District). The District is required under the Property Tax Code to assess all property within the district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the district must be reviewed every four years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. The net assessed value upon which the 2016 levy was based was \$28,281,078.

Taxes are due by January 31, following the October 1 levy date. The tax rate to finance general governmental services for the year ended September 30, 2016 was \$0.6518 per \$100.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General fund:			
Delinquent property taxes receivable	\$ 14,119	\$ -	\$ 14,119
	<u>\$ 14,119</u>	<u>\$ -</u>	<u>\$ 14,119</u>

CITY OF HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

3. Detailed Notes on All Funds (Continued)

c. Capital Assets

Changes in capital assets during the year ended September 30, 2016, were as follows:

	Balance October 1, 2015	Additions	Transfers/ Retirements	Balance September 30, 2016
Governmental Activities				
Capital assets being depreciated				
Buildings and improvements	\$ 98,960	\$ -	\$ -	\$ 98,960
Machinery and equipment	130,179	-	-	130,179
Land and improvements	141,515	-	-	141,515
City Park	196,225	-	-	196,225
Total capital assets being depreciated	566,879	-	-	566,879
Less accumulated depreciation	(300,863)	(36,725)	-	(337,588)
Governmental activities capital assets, net	<u>\$ 266,016</u>	<u>\$ (36,725)</u>	<u>\$ -</u>	<u>\$ 229,291</u>
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 207,724	\$ -	\$ -	\$ 207,724
Capital assets being depreciated				
Building and improvements	4,900	-	-	4,900
Utility systems	3,262,455	-	-	3,262,455
Machinery and equipment	203,843	-	-	203,843
Total capital assets being depreciated	3,471,198	-	-	3,471,198
Less accumulated depreciation	(1,704,690)	(116,562)	-	(1,821,252)
Total capital assets being depreciated, net	1,766,508	(116,562)	-	1,649,946
Business-type activities capital assets, net	<u>\$ 1,974,232</u>	<u>\$ (116,562)</u>	<u>\$ -</u>	<u>\$ 1,857,670</u>

CITY OF HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

3. Detailed Notes on All Funds (Continued)

c. Capital Assets (Continued)

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

Government activities:

General government	\$	20,963
Public safety		15,762
Total depreciation expense - governmental activities	\$	<u>36,725</u>

Business-type activities:

Water and sewer	\$	<u>116,562</u>
-----------------	----	----------------

d. Long-Term Debt

Water and Sewer Fund:

Debt service requirements to maturity are as follows:

Year Ending September 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
CRG Note Payable			
2017	\$ 3,115	\$ 690	\$ 3,805
2018	3,258	547	3,805
2019	3,408	397	3,805
2020	3,564	241	3,805
2021	3,411	77	3,488
Totals	<u>\$ 16,756</u>	<u>\$ 1,952</u>	<u>\$ 18,708</u>
Cat Generator Note Payable			
2017	\$ 9,782	\$ 1,743	\$ 11,525
2018	10,225	1,300	11,525
2019	10,687	838	11,525
2020	11,170	355	11,525
2021	1,910	11	1,921
Totals	<u>\$ 43,774</u>	<u>\$ 4,247</u>	<u>\$ 48,021</u>

CITY OF HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

3. Detailed Notes on All Funds (Continued)

d. Long-Term Debt (Continued)

General Fund

The city purchased a new police vehicle in the year ending September 30, 2015; it is financed over three years at 4.5%. Debt service requirements to maturity for the note are as follows:

Year Ending September 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 17,158	\$ 801	\$ 17,959
Totals	<u>\$ 17,158</u>	<u>\$ 801</u>	<u>\$ 17,959</u>

The City's long-term debt at September 30, 2016 is comprised of the following individual issues:

Limited Tax Refunding Bonds

\$430,000 Series 2010 Bonds due in annual installments of \$40,000 to \$60,000 through September 1, 2018; interest at 3.95%	<u>\$ 120,000</u>
---	-------------------

Debt service requirements to maturity for the above long-term debt are as follows:

Year Ending September 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 60,000	\$ 3,555	\$ 63,555
2018	60,000	1,185	61,185
Totals	<u>\$ 120,000</u>	<u>\$ 4,740</u>	<u>\$ 124,740</u>

There are some limitations and restrictions including the requirement that they are used for the purpose of providing funds for the discharge and final payment of the refunded obligations and payment of the costs of issuance of the limited tax refunding bonds.

CITY OF HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

3. Detailed Notes on All Funds (Continued)

d. Long-Term Debt (Continued)

	<u>Changes in long-term liabilities</u>				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Limited tax refunding bonds payable	\$ 180,000	\$ -	\$ 60,000	\$ 120,000	\$ 60,000
Note payable - police vehicle	31,211	-	14,053	17,158	17,158
Governmental activity long-term liabilities	<u>\$ 211,211</u>	<u>\$ -</u>	<u>\$ 74,053</u>	<u>\$ 137,158</u>	<u>\$ 77,158</u>
Business-type activities:					
Note payable - Ford truck	\$ 4,187	\$ -	\$ 4,187	\$ -	\$ -
Note payable - CRG	19,495	-	2,739	16,756	3,115
Note payable - Cat	52,835	-	9,061	43,774	9,782
Note payable - Kubota	5,997	-	5,997	-	-
Business-type activity long-term liabilities	<u>\$ 82,514</u>	<u>\$ -</u>	<u>\$ 21,984</u>	<u>\$ 60,530</u>	<u>\$ 12,897</u>

e. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, or for example, as a result of employee resignations and retirements. Upon ending service with the City, an employee is allowed to recoup up to two weeks of accrued vacation. As of September 30, 2016, there is \$9,828 accrued as compensated absences in the water and sewer fund.

f. Property Taxes

The Tax Appraisal District of Bell County was created by authority of Senate Bill 621 known as the Property Tax Code, of the 66th Legislature of the State of Texas. The District is controlled by a Board of Directors whose members are elected by the governing bodies of various taxing units within Bell County. Under the Property Tax Code, the Appraisal District is required to appraise all real and personal property in Bell County and may provide other services such as preparation of tax rolls and billings and tax collection services. A taxing unit may assess and collect taxes only from the appraisal roll prepared by the Appraisal District. Taxing units are charged a proportionate amount of the District's budget for services rendered the taxing units.

The City has contracted with the Tax Appraisal District of Bell County (Texas) to collect ad valorem taxes on behalf of the City.

3. Detailed Notes on All Funds (Continued)

g. Interfund Transfers

Transfers of financial resources among funds are recognized in all funds affected in the accounting period in which the interfund receivable and payable arose. Interfund operating transfers are legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended. During the year ended September 30, 2016, interfund transfers are as follows:

	Operating Transfers	
	In	Out
General Fund		
Water and sewer fund	\$ 9,500	\$ -
General fund transfers	\$ 9,500	\$ -
Water and Sewer Fund		
General Fund	\$ -	\$ 9,500
Water and sewer fund transfers	\$ -	\$ 9,500

4. Other Information

a. Pension Plan

Plan Description

The City of Holland participates in one of the 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency defined pension plan 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 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 publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

TMRS provides retirement, disability and death, benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of 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 payment

CITY OF HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

4. Other Information (Continued)

a. Pension Plan (Continued)

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.

Plan provisions for the City were as follows:

	<u>Plan Year 2016</u>	<u>Plan Year 2015</u>
Employee deposit rate	6.00%	6.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI Repeating	0% of CPI Repeating

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiveing benefits	2
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>5</u>
Total	9

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 the benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Holland were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Holland were 6.82% and 7.64% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$17,626, and were equal to the required contributions.

4. Other Information (Continued)

a. Pension Plan (Continued)

Net Pension Liability

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

Actuarial Assumptions

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

Inflation: 2.5%
Salary Increases: 3.5% to 10.5%, including inflation
Investment Rate of Return: 6.75%

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%. For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members and 100% for employers with 11 to 15 members. There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members time 1%). For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $(25 - (20 - 1)) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years. 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 2015 valuation.

4. Other Information (Continued)

a. Pension Plan (Continued)

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees.

Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building - block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimate 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	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
Total	100.0%	

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 HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

4. Other Information (Continued)

a. Pension Plan (Continued)

	Plan Year Ended December 31,	
	2015	2014
Total Pension Liability		
Service Cost	\$ 24,369	\$ 21,243
Interest (on the total pension liability)	33,647	30,210
Changes of benefit terms	-	-
Difference between expected and actual experience	(4,663)	8,795
Change of assumptions	12,422	-
Benefit payments, including refunds of employee contributions	(12,246)	(13,164)
Net Change in Total Pension Liability	53,529	47,084
Total Pension Liability - Beginning	474,615	427,531
Total Pension Liability - Ending (a)	<u>\$ 528,144</u>	<u>\$ 474,615</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 14,181	\$ 13,795
Contributions - employee	12,475	12,372
Net investment income	638	22,703
Benefit payments, including refunds of employee contributions	(12,246)	(13,164)
Administrative expense	(388)	(237)
Other	(19)	(19)
Net Change in Plan Fiduciary Net Position	14,641	35,450
Plan Fiduciary Net Position - Beginning	432,239	396,789
Plan Fiduciary Net Position - Ending (b)	<u>\$ 446,880</u>	<u>\$ 432,239</u>
Net Pension Liability - Ending: (a) - (b)	<u>\$ 81,264</u>	<u>\$ 42,376</u>
Plan Fiduciary Net Position as a Percentage Total of Pension Liability	84.61%	91.07%
Covered Employee Payroll	\$ 207,923	\$ 206,196
Net Pension Liability as a Percentage of Covered Employee Payroll	39.08%	20.55%

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	149,357	81,264	24,174

CITY OF HOLLAND, TEXAS
Notes to the Financial Statements
For the Year Ended September 30, 2016

4. Other Information (Continued)

a. Pension Plan (Continued)

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.

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

For the year ended September 30, 2016, the City recognized pension expense of \$27,079.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience (net of current year amortization)	\$ 3,853	\$ 3,473
Change in actuarial assumption	9,253	-
Differences between projected and actual investment earnings (net of current year amortization)	26,739	-
Contributions subsequent to the measurement date	<u>13,413</u>	<u>-</u>
Total	<u>\$ 53,258</u>	<u>\$ 3,473</u>

\$13,413 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ending September 30, 2016.

4. Other Information (Continued)

a. Pension Plan (Continued)

Other amounts referred to as outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Outflow (Inflows) of Resources
2016	\$ 11,388
2017	10,299
2018	8,762
2019	5,923
Total	<u>\$ 36,372</u>

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year 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 another postemployment benefit, or OPEB; additionally, retirees are responsible for 100% of the premiums paid for the benefit.

	Plan Year 2016	Plan Year 2015
The City offers supplemental death to:		
Active Employees	Yes	Yes
Retirees	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 employee's entire careers.

The City's contributions to the TRMS SDBF for the fiscal years ended 2016, 2015, and 2014 were \$818, \$650, and \$538, respectively, which equaled the required contributions each year.

4. Other Information (Continued)

b. Concentrations of Credit Risk

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City of Holland. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The total amount of proprietary fund accounts receivable at year end including estimated amounts for service provided but not yet billed at year end was \$63,742. Utility customer deposits held at year end totaled \$49,765.

The City's risk management program includes coverage for property, general liability, automobile liability, public officials' liability and employee dishonesty bonds. The City participates in the Texas Municipal joint self-insurance fund, which is a public entity risk pool. The premiums paid to TML result in the transfer of risk to the pool.

c. Change in Accounting Principle and Prior Period Adjustments

During the year the City implemented Governmental Accounting Standards Board Statement (GASB) Statement 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB statement No. 27. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions, primarily focusing on the recognition of a net pension asset or liability in the statement of net position. The implementation of GASB 68 resulted in a decrease of the beginning unrestricted net position for governmental activities and business-type activities by \$9,714 and \$10,904, respectively. Under GASB 68, the liability of employers to employees for defined benefit pensions (net pension liability) is required to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

d. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition of disclosure through July 7, 2017 the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CITY OF HOLLAND, TEXAS
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison - General Fund
For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
General property taxes	\$ 106,411	\$ 183,437	\$ 189,444	6,007
Sales taxes	53,000	57,161	69,708	12,547
Franchise and other taxes	54,500	55,651	55,525	(126)
Fines and permits	181,564	148,563	142,442	(6,121)
Charges for services	775	3,265	2,505	(760)
Interest income	900	1,002	1,482	480
Miscellaneous income	9,200	7,600	7,135	(465)
Donations	2,600	1,800	2,405	605
Total Revenues	<u>408,950</u>	<u>458,479</u>	<u>470,646</u>	<u>12,167</u>
Expenditures				
General government	344,013	173,576	192,139	(18,563)
Public safety	211,694	217,966	199,156	18,810
Capital outlay	6,014	14,800	5,656	9,144
Debt service	15,800	65,925	87,898	(21,973)
Grant expense	-	400	-	400
Total Expenditures	<u>577,521</u>	<u>472,667</u>	<u>484,849</u>	<u>(12,182)</u>
Excess Revenues Over (Under) Expenditures	<u>(168,571)</u>	<u>(14,188)</u>	<u>(14,203)</u>	<u>(15)</u>
Other Financing Sources (Uses)				
Transfers in	32,421	27,808	9,500	18,308
Proceeds from the issuance of debt	-	-	-	-
Total Other Financing Sources	<u>32,421</u>	<u>27,808</u>	<u>9,500</u>	<u>18,308</u>
Net Changes in Fund Balance	(136,150)	13,620	(4,703)	18,293
Fund Balance - Beginning of the Year	91,687	91,687	91,687	-
Fund Balance - End of the Year	<u>\$ (44,463)</u>	<u>\$ 105,307</u>	<u>\$ 86,984</u>	<u>\$ 18,293</u>

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

CITY OF HOLLAND, TEXAS
Schedule of Revenues, Expenditures, and Changes in Net Position
Budgetary Comparison - Proprietary Fund
For the Year Ended September 30, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Operating Revenues			
Charges for Services	\$ 616,700	\$ 593,960	\$ (22,740)
Total Operating Revenues	<u>616,700</u>	<u>593,960</u>	<u>(22,740)</u>
Expenditures			
Cost of water	122,775	129,221	(6,446)
Cost of sanitation services	114,450	95,821	18,629
Personnel services	151,700	195,046	(43,346)
Material and supplies	14,300	25,317	(11,017)
Maintenance and repairs	34,120	11,797	22,323
Other expenses	52,525	32,686	19,839
Capital outlay	20,000	-	20,000
Depreciation	72,000	116,562	(44,562)
Total Expenditures	<u>581,870</u>	<u>606,450</u>	<u>(24,580)</u>
Operating Income (Loss)	<u>34,830</u>	<u>(12,490)</u>	<u>(47,320)</u>
Nonoperating Revenues (Expenses)			
Interest income	-	3,089	3,089
Principal payments	(15,248)	-	15,248
Interest payments	(1,967)	(2,407)	(440)
Total Nonoperating Revenues (Expenses)	<u>(17,215)</u>	<u>682</u>	<u>17,897</u>
Income (Loss) Before Operating Transfers	17,615	(11,808)	(29,423)
Net Operating Transfers	(10,000)	(9,500)	500
Net Changes in Net Position	7,615	(21,308)	(28,923)
Fund Balance - Beginning of the Year	2,127,829	2,127,829	-
Fund Balance - End of the Year	<u>\$ 2,135,444</u>	<u>\$ 2,106,521</u>	<u>\$ (28,923)</u>

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

CITY OF HOLLAND, TEXAS

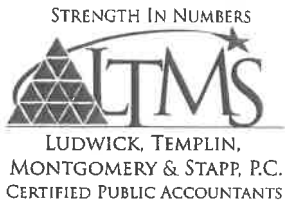
Note to Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budgetary Comparison -
General and Proprietary Funds
For the Year Ended September 30, 2016

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except capital project funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

For the general fund, revenues were greater than budget by \$12,167 and expenses were over budget by \$12,182. The favorable variance in revenue was primarily the result of increased sales tax revenues. The unfavorable variance in expenses was primarily from increased debt service costs.

For the proprietary fund, revenues were under budget by \$22,740 and expenses were over budget by \$24,580. The unfavorable variances in revenue and expenses created an overall unfavorable variance of \$28,923. The unfavorable expense variance was mainly due to under budgeted depreciation and personnel costs



1949 SCOTT BOULEVARD
TEMPLE, TEXAS 76504
254.771.0061 – VOICE
254.771.1445 – FAX
WWW.LTMS-CPA.COM

INDEPENDENT AUDITORS' 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
Holland, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holland, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City of Holland, Texas's basic financial statements, and have issued our report thereon dated July 7, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ludwick, Temple, Montgomery, & Steyer,

Temple, Texas
July 7, 2017

P.C.