

AGENDA

Andrew S. Friedberg

Mayor and Chair

Gus E. Pappas

Councilman – Position No. 3

David Montague

Councilman – Position No. 6



Patricia D. Lunn, CPA

Citizen Appointee

Paul A. Hofmann

City Manager

Diane K. White

Assistant City Manager

AUDIT FINANCE BOARD

**COUNCIL CONFERENCE ROOM
FIRST FLOOR OF CITY HALL
7008 SOUTH RICE AVENUE
BELLAIRE, TEXAS 77401**

Date: Wednesday, February 17, 2016

Time: 6:30 p.m.

A **Regular Meeting** of the **Audit Finance Board** of the City of Bellaire, Texas, will be held on **Wednesday, February 17, 2016, at 6:30 p.m. in the Council Conference Room, First Floor of City Hall, 7008 South Rice Avenue, Bellaire, Texas 77401**, for the following purpose(s):

- A. CALL TO ORDER AND ANNOUNCEMENT OF A QUORUM – Mayor Andrew S. Friedberg, Chair.**
- B. PRESENTATION and POSSIBLE DISCUSSION** of the fiscal year 2015 audit and review of the Comprehensive Annual Financial Report of the City of Bellaire, Texas, for the Year Ended September 30, 2015 – ***Presented by Nathan Krupke of Belt Harris Pechacek, LLLP, Certified Public Accountants.***
- C. OVERVIEW and POSSIBLE DISCUSSION** on the process outlined in the Financial Management Policy Statements for Auditing Services. – ***Presented by Diane K. White, Assistant City Manager***
- D. OVERVIEW and POSSIBLE DISCUSSION** on the Charter requirement for the City's annual review of the City's investment policy in Chapter 2 Code of Ordinances Section 2-10. - ***Presented by Diane K. White, Assistant City Manager***
- E. ADJOURNMENT.**

CERTIFICATE

I, the undersigned authority, do hereby certify that the agenda set forth above regarding a Regular Meeting of the Audit Finance Board of the City of Bellaire, Texas, to be held on Wednesday, February 17, 2016, was posted on the City's official bulletin board located on an outside west wall of City Hall, 7008 South Rice Avenue, Bellaire, Texas, a place convenient and readily accessible to the general public at all times, and that said agenda was posted on the following date at the stated time: _____, at _____ a.m./p.m.

Diane K. White, Assistant City Manager
City of Bellaire, Texas

This facility is wheelchair accessible and accessible parking spaces are available. Requests for accommodations or interpretive services must be made 48 hours prior to this meeting. Please contact the City of Bellaire's ADA Coordinator, Yolanda Williams, at (713) 662-8270 or FAX (713) 662-8212.

CERTIFICATE OF REMOVAL

I, the undersigned authority, do hereby certify that the agenda set forth on the preceding page regarding a Regular Meeting of the Audit Finance Board of the City of Bellaire, Texas, to be held on Wednesday, February 17, 2016, was removed by me from the City's official bulletin board located on an outside west wall of City Hall, 7008 South Rice Avenue, Bellaire, Texas, on the _____ day of _____, 2016, at _____ a.m./p.m. I further certify that said agenda remained posted continuously for at least 72 hours preceding the scheduled time of said Regular Meeting.

Diane K. White, Assistant City Manager
City of Bellaire, Texas



City of Bellaire Finance



MEMORANDUM

TO: Audit Finance Board

FROM: Diane K. White, Assistant City Manager

DATE: February 17, 2016

SUBJECT: Audit Finance Board Meeting Audit Review and Investment Policy

The purpose of this memo is to provide you with background information on Item C and D of your Audit Finance Board Meeting agenda.

Item C – Overview and Possible Discussion on the process outlined in the Financial Management Policy Statements for Auditing Services.

An RFP has been prepared and will be posted on February 23, 2016. This item is informational only and requires no action from the board. Proposals will be received in the finance department and evaluated by an audit selection team which includes members of the finance department and the Assistant City Manager. The Audit Finance Board will receive staff recommendation with selection criteria provided along with a list of submitters during the Audit Finance Board meeting proposed for April 27, 2016. The Audit Finance Board will make a recommendation to City Council on or about May 16, 2016 based on this process.

In Section II A. Selection of Auditors (Financial Consultants) the policy says:

“At least every five years, the City shall request proposals from qualified firms, including the current auditors if their past performance has been satisfactory. The City Council shall select an independent firm of certified public accountants to perform an annual audit of the accounts and records, and render an opinion on the financial statements of the City.

- It is the City's preference to rotate auditor firms every five years to ensure that the City's financial statements are reviewed and audited from an objective, impartial, and unbiased point of view. The rotation of the audit firm will be based upon the proposals received, the qualifications of the firm, the firm's ability to perform a quality audit and price.



City of Bellaire Finance



MEMORANDUM

- However, if through the proposal and review process, management and the Audit Finance Board select the current audit firm, then, it is the City's preference that the lead audit partner be rotated as well as the lead reviewer after a maximum of five years.
- Annually, the independent auditor will provide a letter of engagement to the City Council for annual audit services. "

The following is an outline for a timeline to comply with this policy:

RFP AUDIT SELECTION TIMELINE

Request for proposal issued by City	February 23
Clarifying questions due from firms	March 11
Due date for proposals to City from firms	March 23
City review and evaluation of proposals; Interviews with selected firms, if deemed necessary	April
Staff Recommendation to Audit Finance Board	April 27th
Council action selecting audit firm	May 16 th

Item D – Overview and Possible Discussion on the Charter requirement for the City's annual review of the City's investment policy Chapter 2 Code of Ordinances Section 2-10

In order to be in compliance with Chapter 2256 of the Texas Government Code, as amended by HB 870 and HB 1148 passed during the 84th Texas Legislative Session the City attorney has recommended one minor change to the City's Investment Policy. See the underlined language below as well as the full policy with ordinance attached. This item will be on the March 7, 2016 agenda for Council Consideration.



City of Bellaire Finance



MEMORANDUM

Sec. 2-10. Investment Policy.

(g) *Investment Training.* The City shall provide periodic training in investments for the investment officers through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of the City's investment officers making investment decisions in compliance with the Act. The investment officers shall attend at least one training session relating to the investment officer's responsibilities under the Act within 12 months after taking office or assuming the duties of investment officer. Further, the investment officers shall attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under the Act from an independent source approved by the governing body of the city. The designated training may be sponsored by the Government Finance Officers Association of Texas, the Government Treasurer's Organization of Texas, the Texas Municipal League, or the University of North Texas. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio, and compliance with the Act. In the event the City does not invest municipal funds, or only deposits municipal funds in interest-bearing deposit accounts or certificates of deposit, the previously stated continuing investment training shall not apply.

ATTACHMENTS

Belt Harris Pechacek, LLC Client Representation Letter for 2015 Draft CAFR
Belt Harris Pechacek, LLC Auditor Disclosure Letter for 2015 Draft CAFR
City of Bellaire 2015 DRAFT CAFR
Investment Policy Ordinance for March 7, 2016 Council Meeting
Draft Investment Policy

AUDIT FINANCE BOARD
FEBRUARY 17, 2016
ITEM B ATTACHMENT
COMPREHENSIVE
ANNUAL FINANCIAL REPORT



CITY OF

Bellaire

7008 South Rice Avenue • Bellaire, Texas 77401-4495 • (713) 662-8222 • Fax: (713) 662-8212

January 29, 2016

Belt Harris Pechacek, LLLP
3210 Bingle Road, Suite 300
Houston, TX 77055

This representation letter is provided in connection with your audit(s) of the financial statements of City of Bellaire, Texas (the "City"), which comprise the respective financial position of the governmental activities, the business-type activities, and each major fund, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We understand that you prepared the trial balance for use during the audit and that your preparation of the trial balance was limited to formatting information into a working trial balance based on management's chart of accounts.

We understand that as part of your audit, you prepared the adjusting journal entries necessary to convert our cash basis records to the accrual basis of accounting and acknowledge that we have reviewed and approved those entries and accepted responsibility for them.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 17, 2015, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We have participated in an exit conference conducted at the conclusion of the performance of the audit at either a designated meeting with management or at the presentation of the final audit report, whereby we have reviewed and approved all recommended audit adjustments by the auditor for the financial statements. Additionally, while at this exit conference, we have reviewed and approved the financial report as a whole.

4. We acknowledge our responsibility for 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.
5. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
6. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
7. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
8. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided


11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
16. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

18. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

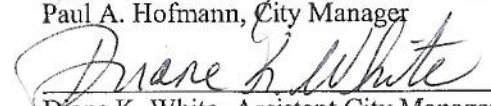
Government—specific

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
23. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
26. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
27. As part of your audit, you assisted with preparation of the financial statements and related notes and attached journal entries. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
28. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
29. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
30. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
31. The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34.
32. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

33. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
36. Provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the Statement of Activities, and allocations have been made on a reasonable basis.
38. Revenues are appropriately classified in the Statement of Activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
40. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
41. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
42. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We acknowledge our responsibility for the Required Supplementary Information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
45. With respect to the schedules, we acknowledge our responsibility for presenting the schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the schedules, including their form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the schedule have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
46. With respect to federal award programs, we received and expended less than \$500,000 in federal awards and, therefore, are not subject to provision of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.


Paul A. Hofmann, City Manager

2/3/16


Diane K. White, Assistant City Manager

2/3/16

Required Auditor Disclosure Letter

January 29, 2015

To the Honorable Mayor and
City Council Members of the
City of Bellaire, Texas:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information, of the City of Bellaire, Texas (the "City") as of and for the year ended September 30, 2015, and have issued our report thereon dated January 29, 2015. Professional standards require that we provide the City Council (the "governing body") with the following information related to our audit.

I. Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 17, 2015, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the governing body's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management in our engagement letter dated February 17, 2015.

III. Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

- A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the notes to the financial statements. As described in the notes to the financial statements, the City changed accounting policies related to accounting for pension benefits by adopting Governmental Accounting Standards Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets as based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Estimates are used in the calculation of the pension liability and the required annual contribution. The Texas Municipal Retirement System (TMRS) hires a licensed actuary to make key assumptions and to perform calculations, as well as an independent auditor to review those assumptions and calculations. We evaluated the reasonableness of the employee data provided by the City to TMRS.

Estimates are used in the calculation of the health care liability for other post employment benefits. The City hires a licensed actuary to perform the calculation. We evaluated the key factors and assumptions used to develop the liability in relation to the financial statements taken as a whole.

- C. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the City's long-term debt in the financial statements is significant to financial statement users because it discloses the City's long-term financial obligations.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

4. Disagreements with Management

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

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 29, 2015.

6. Management Consultations with Other Independent Accountants

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

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IV. Other Matters

We applied certain limited procedures to the Required Supplementary Information (RSI), as identified on the table of contents that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

We were not engaged to report on the introductory and statistical information, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

City of Bellaire, Texas
Required Auditor Disclosure Letter
Page 4 of 4

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

Very truly yours,
A large, semi-transparent 'DRAFT' watermark is oriented diagonally across the page. Overlaid on this watermark is the logo for Belt Harris Pechacek, LLP, which features the company name in a stylized, cursive font.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas

***COMPREHENSIVE
ANNUAL FINANCIAL REPORT***

of the

CITY OF BELLAIRE, TEXAS

**For the Year Ended
September 30, 2015**

DRAFT

Issued By:

**City of Bellaire
Finance Department**

CITY OF BELLAIRE, TEXAS

TABLE OF CONTENTS

September 30, 2015

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	3
Organizational Chart	8
Certificate of Achievement for Excellence in Financial Reporting	9
Principal Officials	10
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	13
Management's Discussion and Analysis (Required Supplementary Information)	19
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	31
Statement of Activities	32
Fund Financial Statements	
Governmental Funds Financial Statements	
Balance Sheet – Governmental Funds	34
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	37
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	41
Proprietary Funds Financial Statements	
Statement of Net Position – Proprietary Fund	42
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	43
Statement of Cash Flows – Proprietary Fund	45
Notes to Financial Statements	47
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	72
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	75
Schedule of Contributions – Texas Municipal Retirement System	77
Schedule of Funding Progress – Post Employment Healthcare Benefits	79

CITY OF BELLAIRE, TEXAS

TABLE OF CONTENTS (Continued)

September 30, 2015

	<u>Page</u>
<u>SCHEDULES</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	83
<u>STATISTICAL SECTION</u>	
Net Position by Component	86
Changes in Net Position	88
Fund Balances, Governmental Funds	92
Changes in Fund Balances, Governmental Funds	94
Assessed Value and Estimated Actual Value of Taxable Property	96
Property Tax Rates – Direct and Overlapping Governments	98
Principal Property Taxpayers	101
Property Tax Levies and Collections	102
Ratios of Outstanding Debt by Type	104
Ratios of General Bonded Debt Outstanding	106
Direct and Overlapping Governmental Activities Debt	109
Legal Debt Margin Information	110
Demographic and Economic Statistics	112
Principal Employers	113
Full-Time Equivalent Employees by Function	115
Operating Indicators by Function	116
Capital Asset Statistics by Function	118

INTRODUCTORY SECTION



CITY OF

Bellaire

7008 South Rice Avenue • Bellaire, Texas 77401-4495 • (713) 662-8222 • Fax: (713) 662-8212

January 29, 2016

To the Honorable Mayor, Members of the City Council,
City Manager, and Citizens of the
City of Bellaire, Texas:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Bellaire, Texas (the "City") for the year ended September 30, 2015. This report is published to provide the citizens, City Council, City staff, bondholders, and other interested parties detailed information concerning the financial condition of the City. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects and that it is reported in a manner that fairly presents the financial position and results of operations of the City as measured by the financial activity of its various funds and account groups. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activities have been included.

THE REPORT

In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34, this report includes a Management's Discussion and Analysis (MD&A) which provides a narrative introduction, overview, and analysis to accompany the basic financial statements. The MD&A is located immediately following the Independent Auditors' Report. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

CITY PROFILE

Location

The City, founded in 1908 and incorporated under the laws of the State of Texas in 1918, is located in southwest Harris County. The City is entirely surrounded by the cities of Southside Place, West University Place, and Houston. The City encompasses about 3.6 square miles and has an estimated population of 16,855 as of the 2010 census.

Form of Government

Since 1949, the City has operated under a "Home Rule Charter" which provides for a Council-Manager form of government. The City Council is comprised of a Mayor and six council members. The Mayor is elected for a regular term of two years and is limited to four consecutive terms in that position. Council members, all of whom are elected at-large, are elected for a regular term of four years. No council member may serve more than two consecutive terms in that position. The Mayor and three council members are elected at each regular election. The City Council appoints a City Manager to be responsible for the daily management of the City.

The Reporting Entity and Services Provided

The basic financial statements of the City include police, fire and emergency medical services, parks and recreation, library services, street maintenance and repair, public improvements, water, sewer and solid waste systems, and general administrative services.

ECONOMIC CONDITION AND OUTLOOK

Economic Condition

As an enclave of Houston, the economy of the City is directly linked to the Greater Houston region. While a number of large employers, as well as retail and service type businesses, are located within the City, Bellaire is primarily a residential community. Many of the residents work minutes away in Houston's largest business areas, including the Houston Medical Center, regarded as one of the finest health care facilities in the world. Two major airports, Hobby and George Bush Intercontinental, are easily accessible to Bellaire residents and business travelers.

Houston's economy is based on petrochemicals, shipping, refining, chemicals, space exploration, manufacturing, education, medical, and tourism. Over the last fifteen months, Houston has seen job losses and an economic slowdown due to the drop in oil prices. However, due to a petrochemical construction boom, health care, and a strong nationwide economy that supports the metropolitan area, Houston's economy will still grow but at a much slower pace than in previous years. Houston is the seat of Harris County, the most populous county in the State of Texas and the third most populous county in the nation. Houston's phenomenal growth has brought about rapid development throughout the region, but the necessary infrastructure to support such growth in the outlying areas has lagged behind. As a result, many residents of the region have sought to reduce their commute time on Houston's heavily congested transportation corridors by moving closer to the workplace. In addition to Bellaire being a safe city with high quality schools, Bellaire has become increasingly desirable due to its convenient location to Houston's downtown, uptown, and midtown business districts.

The City is a mature community that is almost fully developed residentially with a network of businesses to support its citizens. While there is little undeveloped commercial property, the commercial infrastructure is not nearly as developed or modernized as the residential sector. The City continues to focus on better utilization and growth of the central commercial district and commercial corridors within the City based on its comprehensive plan updated and adopted in September 2015. Large mature oak trees cascade over most of the City's streets giving a "small town" feel to the area. Local government control through City Council gives Bellaire residents more influence over key government services such as police and fire protection.

Major Initiatives

In November 2005, voters overwhelmingly approved two separate bond referenda totaling \$50 million to be spent over a ten-year period on infrastructure and facility improvements. With an additional obligation of \$5 million in pay-as-you-go funding, the City's "Rebuild Bellaire" capital improvement program totals \$55 million. The program provides for \$43.5 million in funding for major street and drainage improvements throughout the City and \$11.5 million for facilities replacement and renovation. The City issued the remaining \$7.1 million in 2015 for infrastructure improvements. The remaining authority of \$1.56 million for facilities is projected to be issued in 2017.

In November 2013, voters approved three bond referenda totaling \$16.5 million. \$11 million was approved for improvements to City Hall, Civic Center, Police Station, and Municipal Court facilities. An

additional \$5 million was approved for capital improvements to Evelyn's Park and an additional \$0.5 million was approved for ground and facilities improvements to the Nature Discovery Center in Russ Pitman Park. The City issued \$5.5 million in 2014 for construction of Evelyn's Park and improvements to the Nature Discovery Center in Russ Pitman Park. Bonds for the new municipal complex are projected to be issued in 2017.

Bellaire High School and Condit Elementary School were included in the Houston Independent School District's 2012 \$1.89 billion bond program approved by the voters November 6, 2012. Condit Elementary is in the construction phase and scheduled to open in 2016. A new building for Bellaire High School is planned that will incorporate the recently completed science classroom and laboratory wing. Planning and design started mid-2013 with construction planned to be completed by the beginning of 2020.

Evelyn's Park Conservancy Board was formed in 2011 in compliance with the 2010 memorandum of understanding between the City and the Jerry and Maury Rubenstein Foundation. The Board will direct the planning, fundraising, and development of a park on land donated by the Foundation to the City. The vision for Evelyn's Park developed through input from Bellaire residents includes a tranquil and beautifully landscaped park plan with walking trails, a children's garden and play area, a small lake and stream, a modest food amenity, and event lawn. Evelyn's Park Ground Breaking Celebration took place June 18, 2015. Phase One of Evelyn's Park will include the Live Oak Entry Plaza, a great lawn, event lawn, several gardens, walking trails, a catering kitchen, and a café.

The City Council approved a release of right of way and easement to facilitate the replacement of the current HEB grocery with a store that will triple the size of the current grocery.

Construction of residential homes began in a new residential subdivision, Alder Homes, which will add an estimated \$6.5 million to the tax rolls with an estimated completion date of 2017.

Long-Term Financial Planning

The City approved a decrease of \$0.0063 in the total tax rate facilitated by a 12.84 percent increase in the total taxable value for tax year 2014. The decrease was split with a decrease of \$0.0031 from the General rate and a decrease of \$0.0032 from the Debt Service rate. Tax rates for the past and current fiscal years were apportioned as follows:

Fund	2013	Change	2014	Change	2015
General	\$ 0.2554	\$ 0.0009	\$ 0.2563	\$ (0.0031)	\$ 0.2532
Debt Service	0.1445	(0.0009)	0.1436	(0.0032)	0.1404
Total Tax Rate	\$ 0.3999	\$ -	\$ 0.3999	\$ (0.0063)	\$ \$0.3936

The tax rate for tax year 2015, fiscal year 2016, was again reduced by \$0.0131 to \$0.3805 mainly due to increased property values.

Payments for bond principal and interest, which include associated fees, total \$6,578,526 in 2015. The enterprise fund annually transfers \$950,000 to cover debt service requirements on bond proceeds used for enterprise infrastructure.

The City continues to pursue service enhancements through improvements in operational efficiency and efforts to generate cost savings.

Financial Information

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

Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is completed to allow for the preparation of financial statements, in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of controls should not exceed the benefits expected to be derived and (2) the evaluation of costs and benefits require estimates and judgments by management.

We believe the City's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented, or would be detected within a timely period, by employees in the normal course of performing their assigned functions.

Additionally, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the general, debt service, and enterprise funds are included in the annual appropriated budget. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the total approved budget for each department. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

OTHER INFORMATION

Independent Audit

The City Charter requires an annual audit of the books of accounts, financial records, and transactions of all administrative departments of the City by an independent certified public accountant. The independent auditors' report prepared by Belt Harris Pechacek, LLP is included in the financial section of this report.

Audit Finance Board

The City Council has formally established an audit finance board (the "Board") to enhance the audit process by providing a direct link between the auditors and the City Council. The Board reviews the audit prior to submission to the City Council and assists the auditors and City staff with the presentation of the audit.

Awards

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the year ended September 30, 2014. This was the fifteenth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe the current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report was accomplished with the efficient and dedicated services of the entire staff of the finance department and the cooperation of all other City departments. We would like to express our appreciation to all members of the finance department and all other City staff who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor, City Council, Audit Finance Board, and the City Manager for their continued interest and support in planning and conducting the financial operations of the City in a responsible and professional manner.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant City Manager, City of Bellaire, 7008 South Rice Avenue, Bellaire, Texas 77401-4495.

Respectfully submitted,

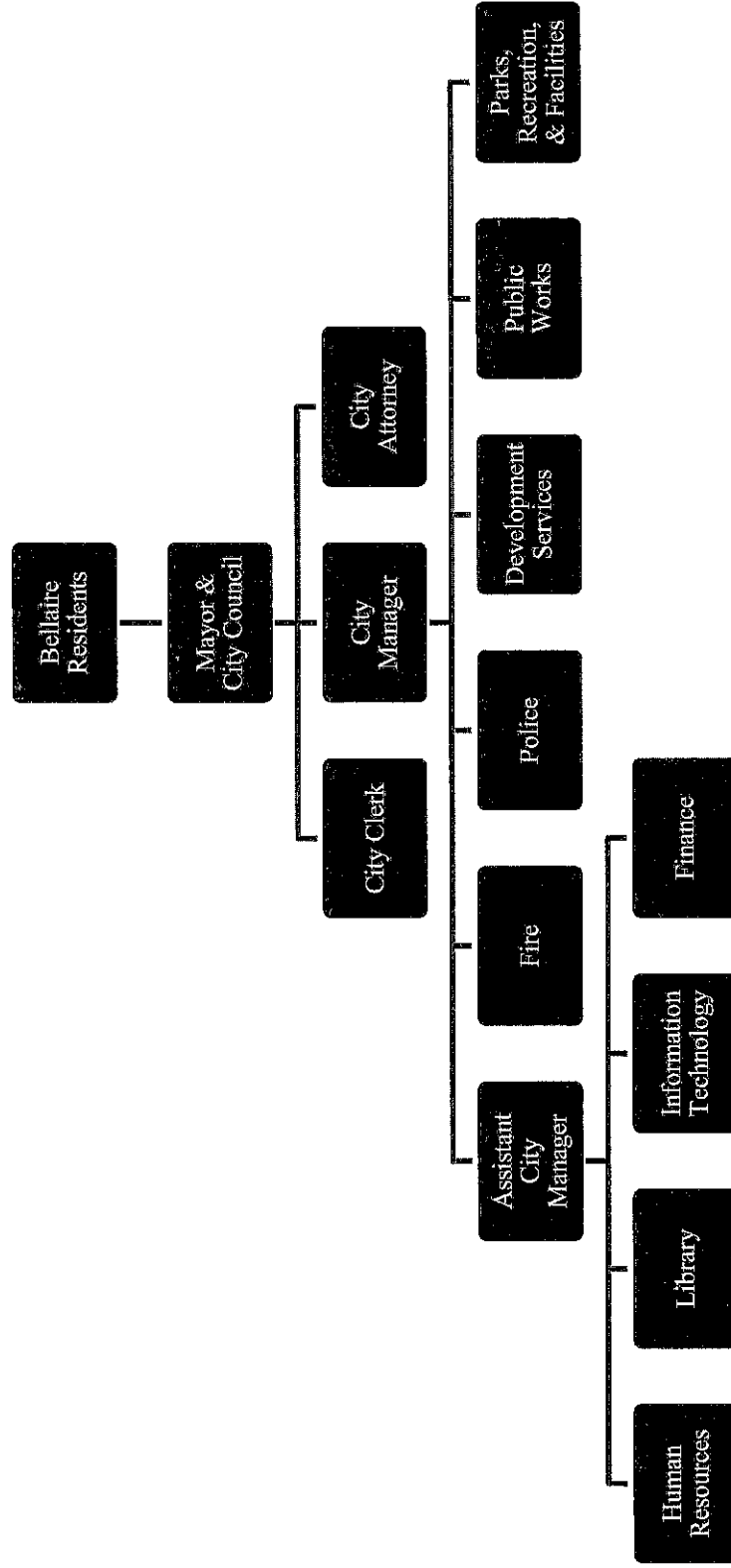
Diane K. White
Assistant City Manager

Paul A. Hofmann
City Manager



FY 2016

City of Bellaire Organizational Chart



CITY OF BELLAIRE, TEXAS
CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING



Government Finance Officers Association

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

Presented to

**City of Bellaire
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2014

Executive Director/CEO

CITY OF BELLAIRE, TEXAS

PRINCIPAL OFFICIALS

September 30, 2015

City Officials	Elective Position	Term Expires
Dr. Phil Nauert	Mayor	01/16
Roman F. Reed	Council Member - Position No. 1	01/18
Jim Avioli, Sr.	Council Member - Position No. 2	01/16
Gus E. Pappas	Council Member - Position No. 3	01/18
Pat McLaughlan	Council Member - Position No. 4	01/16
*Michael Fife	Council Member - Position No. 5	01/18
Mandy Nathan	Council Member - Position No. 6	01/16
Key Staff	Position	
Paul A. Hofmann	City Manager	
Linda Symank	Former Chief Financial Officer	
Diane White	Assistant City Manager	
Tracy L. Dutton	City Clerk	
Brant Gary	Director of Public Works	
Byron Holloway	Police Chief	
Darryl Anderson	Fire Chief	
Kart Miller	Director of Parks and Recreation	
Mary Cohrs	Library Director	
John McDonald	Director of Development Services	
Yolanda Williams	Director of Human Resources	
Larry Parks	Director of Communications and Technology Services	

*Elected November of 2015

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Bellaire, 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 remaining fund information of the City of Bellaire, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 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.

Emphasis of Matter

Change in Accounting Principle

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, (*Accounting and Financial Reporting for Pensions*), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 introductory section, schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

Belt Harris Pechacek, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 29, 2016

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF BELLAIRE, TEXAS

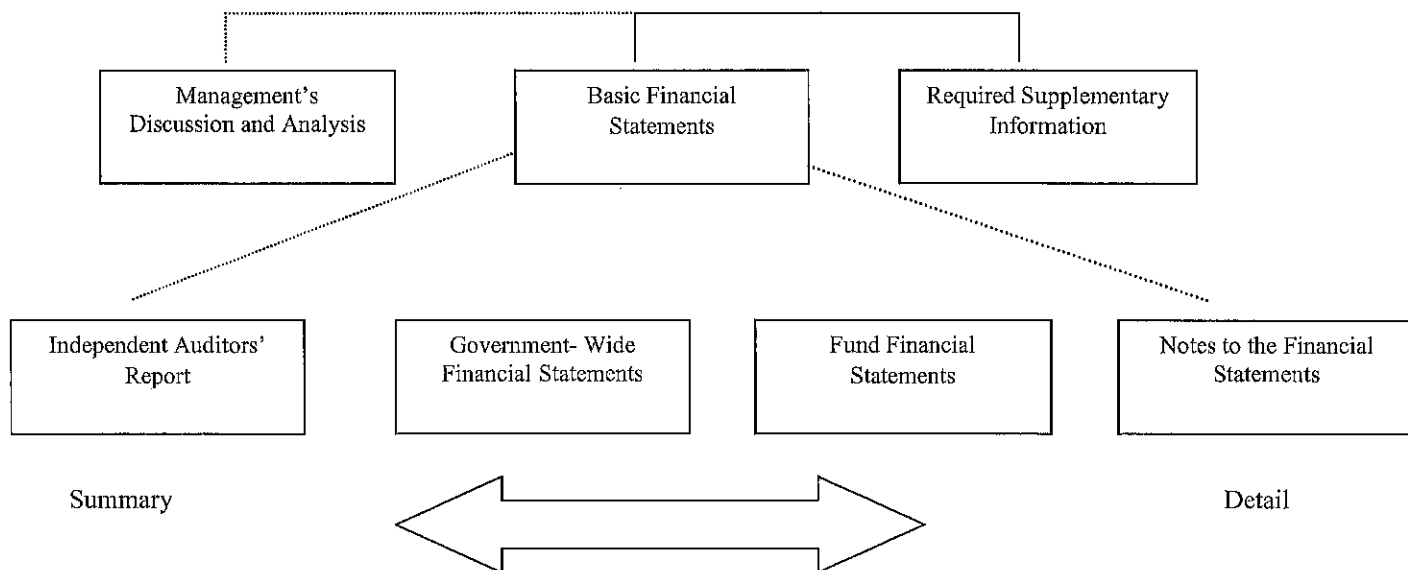
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2015

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Bellaire, Texas (the "City") for the year ending September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

The Statement of Activities presents information showing how the City's net position changed during the most recent 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 – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including police, fire, public works, development services, and general administration. These services are principally supported by taxes and intergovernmental revenues.
2. *Business-Type Activities* – The City's water, sewer, and solid waste system operations are reported here as the City charges fees to customers to recover all or a significant portion of the costs to provide these services.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

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 year. Such information may be useful in evaluating the City'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 balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital improvement fund, capital bond fund, and metro fund, which are considered to be major funds for reporting purposes. The equipment replacement fund is considered a nonmajor fund but is presented as a major fund for reporting purposes.

The City adopts an annual appropriated budget for its general and debt service funds. Budgetary comparison schedules have been provided for each of these funds to demonstrate compliance with these budgets.

CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City's enterprise fund accounts for the operations of the City's water, sewer, and solid waste operations. The proprietary fund financial statements provide information for the water and sewer operations, as well as solid waste services. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of funding progress for the City's other post employment healthcare benefit. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$63,152,579 as of September 30, 2015 for the primary government. This compares with the prior year's restated balance of \$60,311,217. The largest portion of the City's net position, 93 percent, reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), 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 the assets themselves cannot be used to liquidate these liabilities.

CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2015			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 38,754,690	\$ 3,042,898	\$ -	\$ 41,797,588
Capital assets, net	71,469,889	45,007,913	-	116,477,802
Total Assets	110,224,579	48,050,811	-	158,275,390
Deferred charge on refunding	1,944,294	-	-	1,944,294
Deferred outflow - pensions	1,906,659	222,515	-	2,129,174
Total Deferred Outflows of Resources	3,850,953	222,515	-	4,073,468
Long-term liabilities	93,979,529	1,196,883	-	95,176,412
Other liabilities	2,453,621	325,770	-	2,779,391
Total Liabilities	96,433,150	1,522,653	-	97,955,803
Deferred inflow - pensions	1,110,837	129,639	-	1,240,476
Total Deferred Inflows of Resources	1,110,837	129,639	-	1,240,476
Net Position (Deficit):				
Net investment in capital assets	22,459,271	45,007,913	(8,492,407)	58,974,777
Restricted	5,232,714	-	-	5,232,714
Unrestricted	(11,160,440)	1,613,121	8,492,407	(1,054,912)
Total Net Position	\$ 16,531,545	\$ 46,621,034	\$ -	\$ 63,152,579
	2014			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 33,590,347	\$ 3,772,248	\$ -	\$ 37,362,595
Capital assets, net	67,857,823	46,450,275	-	114,308,098
Total Assets	101,448,170	50,222,523	-	151,670,693
Deferred charge on refunding	2,056,104	-	-	2,056,104
Deferred outflow - pensions	1,336,619	155,989	-	1,492,608
Total Deferred Outflows of Resources	3,392,723	155,989	-	3,548,712
Long-term liabilities	90,982,100	1,336,220	-	92,318,320
Other liabilities	2,233,660	356,208	-	2,589,868
Total Liabilities	93,215,760	1,692,428	-	94,908,188
Net Position (Deficit):				
Net investment in capital assets	19,904,368	46,450,275	(9,322,704)	57,031,939
Restricted	4,833,458	-	-	4,833,458
Unrestricted	(13,112,693)	2,235,809	9,322,704	(1,554,180)
Total Net Position, Restated	\$ 11,625,133	\$ 48,686,084	\$ -	\$ 60,311,217

CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

The City's governmental activities net position increased from \$11,625,133 to \$16,531,545. This increase is primarily due to an increase in capital assets. The net position of business-type activities decreased from \$48,686,084 to \$46,621,034. The decrease can be attributed to depreciation of capital assets and a reduction in current assets. Total long-term liabilities increased from \$92,318,320 to \$95,176,412 primarily due to additional debt being issued during the year.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$8,492,407 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

There was a decrease in the beginning net position of \$7,740,247 for governmental activities and \$918,867 for business-type activities due to implementation of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. More detailed information about this restatement is presented in note III.F to the financial statements.

In the current fiscal year, GASB Statement No. 68 and No. 71 require the City to recognize a net pension liability and deferred outflows/inflows of resources as discussed in note IV.C. to the financial statements. The change in net pension liability decreased by \$1,032,957 for governmental activities and \$120,550 for business-type activities. The net change in deferred outflows/inflows decreased the net position by \$540,797 for governmental activities and \$63,113 for business-type activities.

CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Activities

The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 3,152,272	\$ 6,878,309	\$ 10,030,581	\$ 3,259,965	\$ 7,136,124	\$ 10,396,089
Operating grants and contributions	2,827,088	63,000	2,890,088	864,874	-	864,874
General revenues:						
Property taxes	15,671,184	-	15,671,184	14,356,415	-	14,356,415
Other taxes	3,851,014	-	3,851,014	3,784,784	-	3,784,784
Other	184,572	173,793	358,365	101,833	102,589	204,422
Total Revenues	25,686,130	7,115,102	32,801,232	22,367,871	7,238,713	29,606,584
Expenses						
General government	4,186,635	-	4,186,635	4,650,382	-	4,650,382
Public safety	7,642,560	-	7,642,560	7,688,067	-	7,688,067
Public works	3,495,508	-	3,495,508	3,010,890	-	3,010,890
Culture and recreation	4,129,555	-	4,129,555	3,466,560	-	3,466,560
Water system	-	4,222,422	4,222,422	-	4,099,061	4,099,061
Sewer system	-	2,140,266	2,140,266	-	2,551,872	2,551,872
Solid waste	-	1,340,844	1,340,844	-	1,422,924	1,422,924
Interest on long-term debt	2,802,080	-	2,802,080	2,600,345	-	2,600,345
Total Expenses	22,256,338	7,703,532	29,959,870	21,416,244	8,073,857	29,490,101
Net Position Before Transfers	3,429,792	(588,430)	2,841,362	951,627	(835,144)	116,483
Transfers in (out)	1,476,620	(1,476,620)	-	1,601,327	(1,601,327)	-
Change in Net Position	4,906,412	(2,065,050)	2,841,362	2,552,954	(2,436,471)	116,483
Beginning net position as restated	11,625,133	48,686,084	60,311,217	9,072,179	51,122,555	60,194,734
Ending Net Position	\$ 16,531,545	\$ 46,621,034	\$ 63,152,579	\$ 11,625,133	\$ 48,686,084	\$ 60,311,217

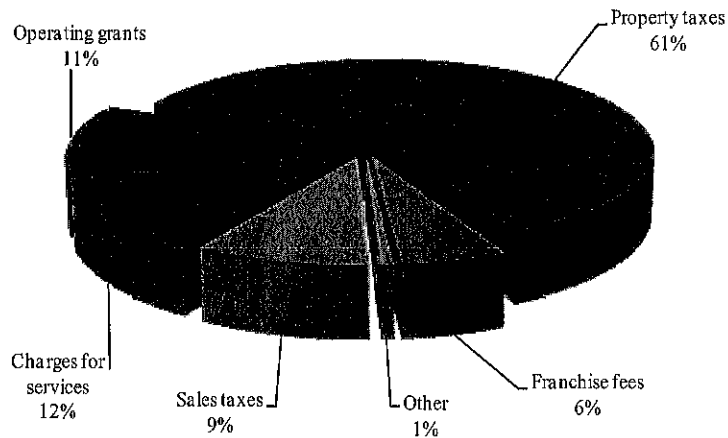
CITY OF BELLAIRE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

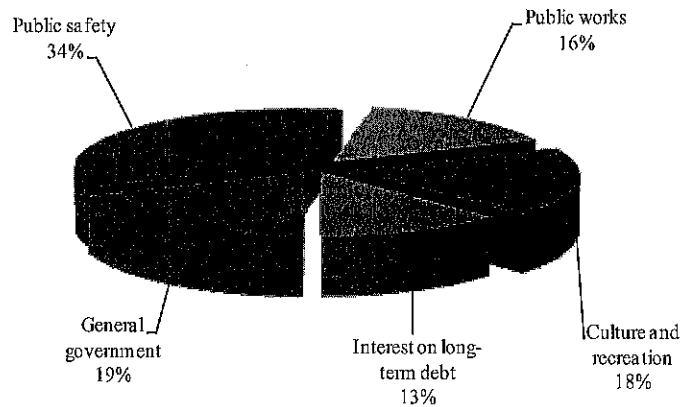
For the Year Ended September 30, 2015

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

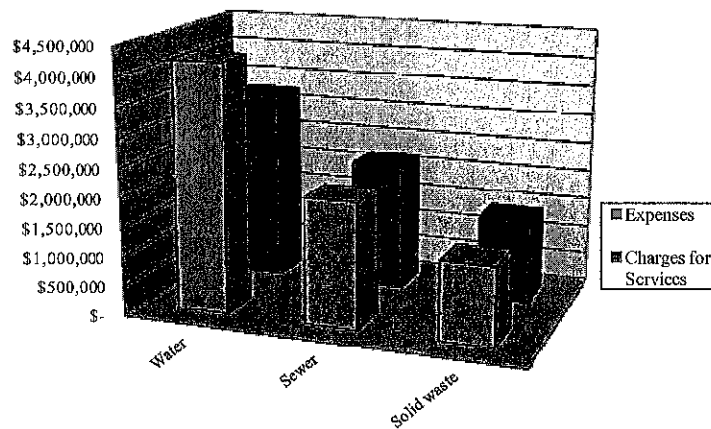
Governmental Activities - Revenues



Governmental Activities - Expenses



Business-Type Activities - Revenues and Expenses



CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

For the year ended September 30, 2015, revenues from governmental activities before transfers totaled \$25,686,130, an increase of 14.83 percent from the previous year. The increase in revenue is primarily due to higher property tax revenue from higher assessed property values and a donation from Evelyn's Park Conservancy in the current year. For the year ended September 30, 2015, expenses from governmental activities before transfers totaled \$22,256,338, which was an increase of 3.92 percent from the previous year.

Business-type activities reported a decrease in net positions before transfers of \$588,430 with program expenses of \$7,703,532 and revenues of \$7,115,102. This decrease is primarily attributed to overhead costs. The total net position after non-operating, capital contributions, and transfers decreased by \$2,065,050 which was primarily due to a transfer to the general fund. For the year ended September 30, 2015, revenues for water, sewer, and solid waste decreased \$123,611, which was a small decrease of 1.71 percent from the previous year. For the year ended September 30, 2015, expenses for water, sewer, and solid waste decreased \$370,325, which was a small decrease of 4.59 percent from previous year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure 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 the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$36,432,591. Of this, \$5,596,804 is unassigned and available for day-to-day operations of the City, \$4,599,903 is committed for City facilities and equipment, \$25,386,181 is restricted for various capital projects, \$514,125 is restricted for debt service, \$328,335 is restricted by legal statutes, and \$7,243 is nonspendable.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the City reported an ending general fund balance of \$5,604,047. The general fund's unassigned fund balance is \$5,596,804. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total general fund expenditures. Total fund balance represents 34 percent of total general fund expenditures.

Debt service payments totaled \$6,578,526 for the year. The debt service fund balance had a decrease of \$48,407, with a \$514,125 ending fund balance.

The City's capital improvement fund spent \$1,062,394 on projects and received a transfer in of just over \$1 million, resulting in an ending fund balance of \$5,668,626. The City's capital bond fund spent \$4,455,417 and \$164,458 on capital projects and bond issuance costs, respectively, and issued debt for \$7,710,000 with a premium of \$364,458, which resulted in an increase in fund balance of \$3,463,355 for future capital projects and street, drainage, and park improvements. The City's METRO fund reported a fund balance of \$2,901,556 which was a decrease of \$1,031,634. This decrease is a result of the City spending more on street projects than the money paid by METRO. The City's equipment replacement fund reported a fund balance of \$419,975 after expending \$33,570 on equipment. The City's equipment replacement fund reported a decrease of \$158,570 after a transfer to the City's enterprise funds. These fund balances will be used for Council-approved improvements and projects.

The City's enterprise fund operating expenses exceeded operating revenues by \$680,706. The capital improvement fund contributed \$708,380 in capital assets and the enterprise fund transferred \$2,310,000 to

CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

the governmental funds to help finance previously issued debt and provide funds for future capital improvements. Ending net position is \$46,621,034.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than original and amended budgeted revenues by \$342,540 during the year primarily due to higher than expected sales tax and revenue from charges for services. General fund expenditures were under the final budget by \$290,847. The general fund net change in fund balance was \$980,795, \$624,387 more than budgeted, with an ending fund balance of \$5,604,047.

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$58,974,777 in a variety of capital assets and infrastructure, net of accumulated depreciation.

More detailed information on City's capital asset activity is presented in note III.C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$81,365,000, all of which is general obligation debt. The City issued general obligation bonds, series 2015 for \$7,710,000 during the fiscal year for street and drainage improvements.

More detailed information about the City's long-term liabilities is presented in note III.D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

General fund revenues for fiscal year 2016 are projected to increase 8.3 percent over prior fiscal year.

Higher appraised values and new property added to the tax roll gave the City a 12.47 percent increase in taxable values over last year. The tax rate for fiscal year 2016 was reduced from \$0.3936 to \$0.3805.

Salary and benefits represent 64.0 percent of the general fund's fiscal year 2016 budget. The general fund has 151.5 full-time equivalents approved for fiscal year 2016.

The enterprise fund's revenues are projected to increase 8.6 percent over fiscal year 2015 actual revenues. Revenues were under projections for fiscal year 2015 due to rains and less usage. The sanitation rate was increased \$3.34 per month for fiscal year 2016 and is projected to increase revenues by \$242,840. The transfer to the general fund was increased to \$624,000 from \$500,000 based on an analysis of the cost of services provided by the general fund to the enterprise fund.

Salary and benefits represent 20.8 percent of the enterprise fund's fiscal year 2016 budget. The budget provides funding for 32 full-time equivalent positions.

Other economic factors and reports that are periodically reviewed for the purpose of accurately ascertaining the economic health of the City include the City's five-year long range forecast, regional and national forecasts, unemployment estimates, sales tax and franchise fee revenue trends, number and price of houses for sale, and collections on accounts receivable. The City also uses various interest rate indicators such as federal funds, prime rates, and mortgage rates for evaluating performance of the City's investments, monitoring debt service rates, and an indicator of new home starts. The fiscal year 2016

CITY OF BELLAIRE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

budget provides a strong financial plan, while ensuring a superior level of municipal services to the citizens of the City.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the Assistant City Manager, City of Bellaire, 7008 South Rice Avenue, Bellaire, TX, 77401.

BASIC FINANCIAL STATEMENTS

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CITY OF BELLAIRE, TEXAS

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 35,100,938	\$ 1,067,859	\$ -	\$ 36,168,797
Investments	2,774,787	232,013	-	3,006,800
Receivables (net of allowance)	864,834	1,106,755	-	1,971,589
Accrued interest	6,888	-	-	6,888
Prepaid items	7,243	636,271	-	643,514
Nondepreciable capital assets	6,123,149	276,648	-	6,399,797
Depreciable capital assets, net	65,346,740	44,731,265	-	110,078,005
Total Assets	110,224,579	48,050,811	-	158,275,390
<u>Deferred Outflows of Resources</u>				
Deferred charge on refunding	1,944,294	-	-	1,944,294
Deferred outflow - pension	1,906,659	222,515	-	2,129,174
Total Deferred Outflows of Resources	3,850,953	222,515	-	4,073,468
<u>Liabilities</u>				
Accounts payable and accrued liabilities	2,104,110	229,280	-	2,333,390
Customer deposits	-	96,490	-	96,490
Accrued interest payable	349,511	-	-	349,511
Long-term liabilities due within one year	4,458,088	47,039	-	4,505,127
Long-term liabilities due in more than one year	89,521,441	1,149,844	-	90,671,285
Total Liabilities	96,433,150	1,522,653	-	97,955,803
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pension	1,110,837	129,639	-	1,240,476
<u>Net Position</u>				
Net investment in capital assets	22,459,271	45,007,913	(8,492,407)	58,974,777
Restricted:				
Special revenue				
Communications from public education government fees	202,028	-	-	202,028
Police and fire department vehicles and equipment	22,554	-	-	22,554
Library supplies and equipment	8,888	-	-	8,888
Municipal court technology	87,726	-	-	87,726
Parks and recreation equipment	7,139	-	-	7,139
Debt service	514,125	-	-	514,125
Capital projects				
Metropolitan streets or METRO	2,901,556	-	-	2,901,556
Evelyn's park improvement	1,488,698	-	-	1,488,698
Unrestricted net position	(11,160,440)	1,613,121	8,492,407	(1,054,912)
Total Net Position	\$ 16,531,545	\$ 46,621,034	\$ -	\$ 63,152,579

See Notes to Financial Statements.

CITY OF BELLAIRE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	4,186,635	\$ 1,623,777	\$ -
Public safety	7,642,560	484,435	4,069
Public works	3,495,508	-	983,633
Culture and recreation	4,129,555	1,044,060	1,839,386
Interest and issuance costs on long-term debt	2,802,080	-	-
Total Governmental Activities	<u>22,256,338</u>	<u>3,152,272</u>	<u>2,827,088</u>
Business-Type Activities			
Water	4,222,422	3,263,193	63,000
Sewer	2,140,266	2,184,372	-
Solid waste	1,340,844	1,430,744	-
Total Business-Type Activities	<u>7,703,532</u>	<u>6,878,309</u>	<u>63,000</u>
Total Primary Government	<u>\$ 29,959,870</u>	<u>\$ 10,030,581</u>	<u>\$ 2,890,088</u>
General Revenues:			
Property taxes			
Sales taxes			
Franchise fees			
Investment income			
Miscellaneous			
Transfers			
Total General Revenues and Transfers			
Change in Net Position			
Beginning net position as restated			
Ending Net Position			

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (2,562,858)	\$ -	\$ (2,562,858)
(7,154,056)	-	(7,154,056)
(2,511,875)	-	(2,511,875)
(1,246,109)	-	(1,246,109)
(2,802,080)	-	(2,802,080)
<u>(16,276,978)</u>	<u>-</u>	<u>(16,276,978)</u>
-	(896,229)	(896,229)
-	44,106	44,106
-	89,900	89,900
<u>-</u>	<u>(762,223)</u>	<u>(762,223)</u>
<u>(16,276,978)</u>	<u>(762,223)</u>	<u>(17,039,201)</u>
15,671,184	-	15,671,184
2,391,335	-	2,391,335
1,459,679	-	1,459,679
51,596	3,982	55,578
132,976	169,811	302,787
1,476,620	(1,476,620)	-
<u>21,183,390</u>	<u>(1,302,827)</u>	<u>19,880,563</u>
4,906,412	(2,065,050)	2,841,362
11,625,133	48,686,084	60,311,217
<u>\$ 16,531,545</u>	<u>\$ 46,621,034</u>	<u>\$ 63,152,579</u>

CITY OF BELLAIRE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	General	Debt Service	Capital Improvement	Capital Bond
<u>Assets</u>				
Cash and cash equivalents	\$ 2,900,593	\$ 421,853	\$ 5,806,140	\$ 21,909,869
Investments	2,683,096	91,691	-	-
Receivables, net	789,793	56,994	-	-
Accrued interest	6,307	581	-	-
Prepaid items	7,243	-	-	-
Total Assets	\$ 6,387,032	\$ 571,119	\$ 5,806,140	\$ 21,909,869
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 621,990	\$ -	\$ 137,514	\$ 913,942
Total Liabilities	621,990	-	137,514	913,942
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - other	54,735	-	-	-
Unavailable revenue - property taxes	106,260	56,994	-	-
Total Deferred Inflow of Resources	160,995	56,994	-	-
<u>Fund Balances</u>				
Nonspendable	7,243	-	-	-
Restricted:				
Public, educational, and governmental programming fees	-	-	-	-
Police and fire department vehicles and equipment	-	-	-	-
Library supplies and equipment	-	-	-	-
Municipal court technology	-	-	-	-
Parks and recreation equipment	-	-	-	-
Debt service	-	514,125	-	-
Metropolitan streets or METRO	-	-	-	-
Drainage and city facilities	-	-	-	20,995,927
Evelyn's Park improvement	-	-	1,488,698	-
Committed:				
City facilities and equipment	-	-	4,179,928	-
Unassigned	5,596,804	-	-	-
Total Fund Balances	5,604,047	514,125	5,668,626	20,995,927
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,387,032	\$ 571,119	\$ 5,806,140	\$ 21,909,869

<u>Metro</u>	<u>Equipment Replacement</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
\$ 3,331,105	\$ 419,975	\$ 311,403	\$ 35,100,938
-	-	-	2,774,787
-	-	18,047	864,834
-	-	-	6,888
-	-	-	7,243
<u>\$ 3,331,105</u>	<u>\$ 419,975</u>	<u>\$ 329,450</u>	<u>\$ 38,754,690</u>
\$ 429,549	\$ -	\$ 1,115	\$ 2,104,110
<u>429,549</u>	<u>-</u>	<u>1,115</u>	<u>2,104,110</u>
-	-	-	54,735
-	-	-	163,254
<u>-</u>	<u>-</u>	<u>-</u>	<u>217,989</u>
-	-	-	7,243
-	-	202,028	202,028
-	-	22,554	22,554
-	-	8,888	8,888
-	-	87,726	87,726
-	-	7,139	7,139
-	-	-	514,125
2,901,556	-	-	2,901,556
-	-	-	20,995,927
-	-	-	1,488,698
-	419,975	-	4,599,903
-	-	-	5,596,804
<u>2,901,556</u>	<u>419,975</u>	<u>328,335</u>	<u>36,432,591</u>
<u>\$ 3,331,105</u>	<u>\$ 419,975</u>	<u>\$ 329,450</u>	<u>\$ 38,754,690</u>

CITY OF BELLAIRE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
For the Year Ended September 30, 2015

Total fund balances for governmental funds		\$ 36,432,591
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Capital assets - non-depreciable	6,123,149	
Capital assets - net depreciable	<u>65,346,740</u>	
		71,469,889
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		217,989
Deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental funds.		
Deferred outflows	1,906,659	
Deferred inflows	<u>(1,110,837)</u>	
		795,822
Some liabilities are not reported as liabilities in the governmental funds.		
Accrued interest payable	(349,511)	
Deferred charge on refunding	1,944,294	
Non-current liabilities due in one year	(4,458,088)	
Non-current liabilities due in more than one year	<u>(89,521,441)</u>	
		<u>(92,384,746)</u>
Net Position of Governmental Activities		\$ <u>16,531,545</u>

See Notes to Financial Statements.

CITY OF BELLAIRE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	General	Debt Service	Capital Improvement	Capital Bond
<u>Revenues</u>				
Property taxes	\$ 10,120,107	\$ 5,576,528	\$ -	\$ -
Sales taxes	2,391,335	-	-	-
Franchise fees	1,393,224	-	-	-
Licenses and permits	1,007,468	-	-	-
Fines and forfeitures	677,856	-	-	-
Charges for services	1,424,243	-	-	-
Investment income	37,373	3,591	-	8,772
Intergovernmental revenue	99,511	-	-	-
Other	64,838	-	1,839,386	-
Total Revenues	17,215,955	5,580,119	1,839,386	8,772
<u>Expenditures</u>				
Current:				
General government	4,105,290	-	-	-
Public safety	7,680,331	-	-	-
Public works	1,100,198	-	-	-
Culture and recreation	3,700,341	-	-	-
Capital projects	-	-	1,062,394	4,455,417
Debt service:				
Principal	-	3,955,000	-	-
Interest and fiscal charges	-	2,623,526	-	-
Bond issuance costs	-	-	-	164,458
Total Expenditures	16,586,160	6,578,526	1,062,394	4,619,875
Excess (Deficiency) of Revenues Over (Under) Expenditures	629,795	(998,407)	776,992	(4,611,103)
<u>Other Financing Sources (Uses)</u>				
Bonds issued	-	-	-	7,710,000
Bond premium	-	-	-	364,458
Transfers in	500,000	950,000	1,010,000	-
Transfers (out)	(150,000)	-	-	-
Sale of capital assets	1,000	-	-	-
Total Other Financing Sources (Uses)	351,000	950,000	1,010,000	8,074,458
Net Change in Fund Balances	980,795	(48,407)	1,786,992	3,463,355
Beginning fund balances	4,623,252	562,532	3,881,634	17,532,572
Ending Fund Balances	\$ 5,604,047	\$ 514,125	\$ 5,668,626	\$ 20,995,927

See Notes to Financial Statements.

<u>Metro</u>	<u>Equipment Replacement</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 15,696,635
-	-	-	2,391,335
-	-	66,455	1,459,679
-	-	-	1,007,468
-	-	38,005	715,861
-	-	-	1,424,243
1,860	-	-	51,596
884,122	-	-	983,633
-	-	71,207	1,975,431
<u>885,982</u>	<u>-</u>	<u>175,667</u>	<u>25,705,881</u>
-	-	62,328	4,167,618
-	-	59,241	7,739,572
-	-	-	1,100,198
-	-	63,499	3,763,840
1,917,616	33,570	-	7,468,997
-	-	-	3,955,000
-	-	-	2,623,526
-	-	-	164,458
<u>1,917,616</u>	<u>33,570</u>	<u>185,068</u>	<u>30,983,209</u>
<u>(1,031,634)</u>	<u>(33,570)</u>	<u>(9,401)</u>	<u>(5,277,328)</u>
-	-	-	7,710,000
-	-	-	364,458
-	-	-	2,460,000
-	(125,000)	-	(275,000)
-	-	-	1,000
<u>-</u>	<u>(125,000)</u>	<u>-</u>	<u>10,260,458</u>
(1,031,634)	(158,570)	(9,401)	4,983,130
<u>3,933,190</u>	<u>578,545</u>	<u>337,736</u>	<u>31,449,461</u>
<u>\$ 2,901,556</u>	<u>\$ 419,975</u>	<u>\$ 328,335</u>	<u>\$ 36,432,591</u>

CITY OF BELLAIRE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Net changes in fund balances - governmental funds	\$ 4,983,130
Adjustments for the Statement of Activities:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital asset activity during the year is as follows:	
Capital outlay for capital assets	6,857,445
Depreciation	(3,245,379)
Revenues that do not provide current financial resources are not reported as revenues in the funds.	
Deferred revenue	(20,751)
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position.	
Principal payments	3,955,000
Bonds issued	(7,710,000)
Changes in premium on bonds	(248,747)
Changes in amortization of debt items	(111,810)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This adjustment reflects the net change in interest payable on the accrual basis of accounting and the net change in OPEB, pension activity and compensated absences.	
Accrued interest	(17,997)
OPEB obligation	(16,463)
Pension obligation	1,032,957
Deferred outflow - pension	570,040
Deferred inflow - pension	(1,110,837)
Compensated absences	(10,176)
Change in Net Position of Governmental Activities	\$ 4,906,412

See Notes to Financial Statements.

CITY OF BELLAIRE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2015

	Business-Type Activities Enterprise
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 1,067,859
Investments	232,013
Receivables (net of allowance)	1,106,755
Prepaid items	636,271
Total Current Assets	3,042,898
Noncurrent assets:	
Capital assets:	
Land	256,148
Construction in progress	20,500
Buildings and improvements	12,039,531
Infrastructure	81,421,597
Vehicles and equipment	5,079,142
Less: accumulated depreciation	(53,809,005)
Total Capital Assets, (Net)	45,007,913
Total Noncurrent Assets	45,007,913
Total Assets	48,050,811
<u>Deferred Outflows of Resources</u>	
Deferred outflow - pension	222,515
Total Deferred Outflows of Resources	222,515
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	229,280
Customer deposits	96,490
Long-term liabilities due in less than one year	47,039
Total Current Liabilities	372,809
Noncurrent liabilities:	
Long-term liabilities due in more than one year	1,149,844
Total Noncurrent Liabilities	1,149,844
Total Liabilities	1,522,653
<u>Deferred Inflows of Resources</u>	
Deferred inflow - pension	129,639
Total Deferred Inflows of Resources	129,639
<u>Net position:</u>	
Investment in capital assets	45,007,913
Unrestricted	1,613,121
Total Net Position	\$ 46,621,034

See Notes to Financial Statements.

CITY OF BELLAIRE, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2015

	Business-Type Activities Enterprise
<u>Operating Revenues</u>	
Water services	\$ 3,263,193
Sewer services	2,184,372
Solid waste services	1,430,744
Miscellaneous	144,517
Total Operating Revenues	7,022,826
<u>Operating Expenses</u>	
Water production	450,903
Water distribution	508,291
Wastewater collection	304,666
Wastewater treatment	835,956
Solid waste	1,197,899
Surface water conversion	1,707,622
Utility billing and meter reading	327,473
Depreciation	2,370,722
Total Operating Expenses	7,703,532
Operating (Loss)	(680,706)
<u>Non-Operating Revenues</u>	
Gain on investments	3,982
Gain on sale of capital assets	25,294
Intergovernmental revenue	63,000
Total Non-Operating Revenues	92,276
(Loss) Before Contributions and Transfers	(588,430)
Capital contribution	708,380
Transfers in	125,000
Transfers (out)	(2,310,000)
Change in Net Position	(2,065,050)
Beginning net position as restated	48,686,084
Ending Net Position	\$ 46,621,034

See Notes to Financial Statements.

CITY OF BELLAIRE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2015

	Business-Type Activities Enterprise
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 6,905,577
Payments to suppliers	(4,191,159)
Payments to employees	(1,283,343)
Net Cash Provided by Operating Activities	<u>1,431,075</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Intergovernmental revenue	63,000
Transfers in from other funds	125,000
Transfers (out) to other funds	(2,310,000)
Net Cash (Used) by Noncapital Financing Activities	<u>(2,122,000)</u>
<u>Cash Flows from Investing Activities</u>	
Gain on investments	177,783
Purchase of capital assets	(219,980)
Gain on sale of capital assets	25,294
Net Cash (Used) by Investing Activities	<u>(16,903)</u>
Net (Decrease) in Cash and Cash Equivalents	(707,828)
Beginning cash and cash equivalents	<u>1,775,687</u>
Ending Cash and Cash Equivalents	<u>\$ 1,067,859</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating (loss)	\$ (680,706)
Adjustments to reconcile operating (loss) to net cash provided by operating activities	
Depreciation	2,370,722
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(117,249)
Prepaid expenses	(35,030)
Increase (Decrease) in:	
Accounts payable	(31,078)
Customer deposits	640
Pension activity from TMRS	(57,437)
OPEB and compensated absences obligation	(18,787)
Net Cash Provided by Operating Activities	<u>\$ 1,431,075</u>
Noncash investing, capital, and financing activities:	
Contributions of capital assets from governmental funds	<u>\$ 708,380</u>

See Notes to Financial Statements.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bellaire, Texas (the "City") was incorporated under the laws of the State of Texas on June 24, 1918. The City operates under a "Home Rule Charter" which provides for a "Council-Manager" form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police, fire, and emergency medical services; highways and streets; sanitation; water and sewer services; recreation; public improvements; planning and zoning; and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The special revenue fund is considered nonmajor for reporting purposes.

The *capital projects funds* are used to account for the expenditures of resources accumulated from the sale of bonds and related interest earnings for capital improvement projects. The capital projects funds include the capital improvement fund, which accounts for those projects funded by tax revenue; the capital bond fund, which includes those projects funded with bond proceeds; the metro fund; and the equipment replacement fund, which includes those projects funded with revenue from other governmental sources. The capital improvement fund, the bond fund, and the metro fund are considered major funds for reporting purposes. The equipment replacement fund is considered a nonmajor fund but is presented as a major fund for reporting purposes.

The City reports the following enterprise funds:

The *enterprise fund* is used to account for the operations that provide water and wastewater collection and wastewater treatment, as well as solid waste services. The services are financed and operated in a manner similar to private business enterprises 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 will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The 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 compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at amortized cost. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturities of three months or less when purchased to be cash equivalents.

Cash balances from all funds are combined and invested in money market accounts, investment pools, and U.S. Government securities. Earnings from these investments are allocated to each fund based on month end equity balances in the investment pool.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit
- Mutual funds of specific type
- Statewide investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are also recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of a significant portion of the capital assets in the infrastructure category has been estimated based on management's estimated historical cost.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effect of capitalization materially impacts the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Infrastructure	10 to 40 years
Building and improvements	5 to 40 years
Vehicles and equipment	4 to 10 years

5. 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 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 three items that qualify for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between projected and actual investment earnings of the pension plans assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial 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 two items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the difference between expected and actual economic experience on the pension plan liability. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, paving assessments, and ambulance fees. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. 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, 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.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

8. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Other Post Employment Benefits

The City allows retirees to continue participation in the City's health care plan through an opt-in provision. Employees separating employment with the City who have had at least five years of service with the City and who are eligible for Texas Municipal Retirement System retirement benefits at the date of separation may purchase retiree health insurance through the City. Other terminating employees may be eligible for continued medical coverage under applicable federal laws.

12. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

13. Pensions

For the 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 BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 15 percent is added in July for attorney costs. There are no discounts allowed on taxes.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes 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 fund 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are legally adopted on a basis consistent with generally accepted accounting principles for the general and debt service funds. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved general fund budget. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year ended September 30, 2015.

Budgets are not legally adopted for the capital projects and the special revenue funds. The budget for the capital project funds are based on current capital projects. The budget for the special revenue fund is based on available resources from donations, municipal court fees, and grant revenue all of which is restricted by a third party.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

As of September 30, 2015, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Risk</u>
U.S. agencies			
Federal Home Loan Mortgage Corp.	\$ 2,004,736	2.48	AAA
Federal Home Loan Bank	1,002,064	2.33	AA+
External investment pools			
TexPool	29,722,945	0.09	AAAm
TexSTAR	2,318,339	0.11	AAAm
Total Fair Value	<u><u>\$ 35,048,084</u></u>		
Portfolio weighted average maturity		0.29	

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. State law and the City's investment policy limit investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent. Further, commercial paper must be rated not less than "A-1" or "P-1" or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2015, the City's investments in TexPool and TexSTAR were rated "AAAm" by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities and FDIC insurance. As of September 30, 2015, fair values of pledged securities and FDIC insurance exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safe keep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

& Poor's rated TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexSTAR

The Texas Short Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by a contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Nonmajor Special Revenue	Enterprise
Property taxes	\$ 106,260	\$ 56,994	\$ -	\$ -
Other taxes	519,322	-	18,047	-
Accounts	179,926	-	-	1,071,932
Assessments	-	-	-	2,791
Due from other governments	96,120	-	-	63,000
Other	-	-	-	1,469
Less allowance	(111,835)	-	-	(32,436)
Total	\$ 789,793	\$ 56,994	\$ 18,047	\$ 1,106,756

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

C. Capital Assets

A summary of changes in capital assets at year end is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities				
Capital assets not being depreciated:				
Land and intangibles	\$ 5,668,439	\$ -	\$ -	\$ 5,668,439
Construction in progress	1,993,338	6,539,296	(8,077,924)	454,710
Total capital assets not being depreciated	<u>7,661,777</u>	<u>6,539,296</u>	<u>(8,077,924)</u>	<u>6,123,149</u>
Other capital assets:				
Infrastructure	92,175,431	7,837,836	(34,000)	99,979,267
Buildings and improvements	15,498,458	94,528	-	15,592,986
Vehicles and equipment	5,056,467	463,709	(17,335)	5,502,841
Total other capital assets	<u>112,730,356</u>	<u>8,396,073</u>	<u>(51,335)</u>	<u>121,075,094</u>
Less accumulated depreciation for:				
Infrastructure	(39,522,515)	(2,446,125)	34,000	(41,934,640)
Buildings and improvements	(9,494,083)	(472,440)	-	(9,966,523)
Vehicles and equipment	(3,517,712)	(326,814)	17,335	(3,827,191)
Total accumulated depreciation	<u>(52,534,310)</u>	<u>(3,245,379)</u>	<u>51,335</u>	<u>(55,728,354)</u>
Other capital assets, net	<u>60,196,046</u>	<u>5,150,694</u>	<u>-</u>	<u>65,346,740</u>
Governmental Activities Capital Assets, Net	<u>\$ 67,857,823</u>	<u>\$ 11,689,990</u>	<u>\$ (8,077,924)</u>	<u>71,469,889</u>
			Plus unspent proceeds	21,917,681
			Plus deferred charge on refunding	1,944,294
			Less associated debt	(72,872,593)
			Net investment in capital assets	<u>\$ 22,459,271</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 90,362
Public safety	393,334
Public works	2,278,210
Culture and recreation	<u>483,473</u>
Total Governmental Activities Depreciation Expense	<u>\$ 3,245,379</u>

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Construction in progress and remaining commitments under related construction contracts for general government construction projects at September 30, 2015 are as follows:

Project Description	Authorized Contract	Total in Progress	Remaining Commitment
Drainage Phase 5	\$ 7,462,025	\$ -	\$ 7,462,025
Municipal Rehab Project	20,884	-	20,884
New City Hall/Police/Court	879,801	108,763	771,038
Drainage Mulberry Park	1,700	-	1,700
Park Improvement	86,245	32,988	53,257
Evelyn's Park Improvement	6,463,415	312,959	6,150,456
Street Striping	74,354	-	74,354
Street Condition Management Program	1,069,930	-	1,069,930
Sidewalk Projects	242,913	-	242,913
Totals	\$ 16,301,267	\$ 454,710	\$ 15,846,557

The following is a summary of changes in capital assets for business-type activities at fiscal year end:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 256,148	\$ -	\$ -	\$ 256,148
Construction in progress	2,390,768	747,506	(3,117,774)	20,500
Total capital assets not being depreciated	2,646,916	747,506	(3,117,774)	276,648
Other capital assets:				
Infrastructure	81,421,597	-	-	81,421,597
Buildings and improvements	8,960,883	3,078,648	-	12,039,531
Vehicles and equipment	5,010,308	219,980	(151,146)	5,079,142
Total other capital assets	95,392,788	3,298,628	(151,146)	98,540,270
Less accumulated depreciation for:				
Infrastructure	(43,210,518)	(1,925,971)	-	(45,136,489)
Buildings and improvements	(6,624,076)	(260,953)	-	(6,885,029)
Vehicles and equipment	(1,754,835)	(183,798)	151,146	(1,787,487)
Total accumulated depreciation	(51,589,429)	(2,370,722)	151,146	(53,809,005)
Other capital assets, net	43,803,359	927,906	-	44,731,265
Business-Type Activities Capital Assets, Net	\$ 46,450,275	\$ 1,675,412	\$ (3,117,774)	\$ 45,007,913

Depreciation was charged to business-type functions as follows:

Water system	\$ 1,228,133
Sewer system	999,644
Solid waste disposal	142,945
Total Business-Type Activities Depreciation Expense	\$ 2,370,722

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Construction in progress and remaining commitments under related construction contracts for enterprise fund construction projects at September 30, 2015 are as follows:

Project Description	Authorized Contract	Total in Progress	Remaining Commitment
City Wide Scada System	\$ 31,950	\$ 20,500	\$ 11,450
WWT Electrical	2,216	-	2,216
Total	\$ 34,166	\$ 20,500	\$ 13,666

D. Long-Term Liabilities

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities of compensated absences, net pension obligation, and other post employment benefit obligations are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2015. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and notes payable:					
General obligation bonds	\$ 77,610,000	\$ 7,710,000	\$ (3,955,000)	\$ 81,365,000 *	\$ 4,055,000
Other liabilities:					
Net OPEB obligation	207,645	16,463	-	224,108	-
Net pension liability	10,616,701	-	(1,032,957)	9,583,744	-
Premiums	2,110,054	364,458	(115,711)	2,358,801	-
Compensated absences	437,700	404,106	(393,930)	447,876	403,088
Total Governmental Activities	\$ 90,982,100	\$ 8,495,027	\$ (5,497,598)	\$ 93,979,529	\$ 4,458,088
Long-term liabilities due in more than one year				\$ 89,521,441	
Business-Type Activities					
Other liabilities:					
Compensated absences	\$ 75,069	\$ 44,758	\$ (67,562)	\$ 52,265	\$ 47,039
Net OPEB obligation	22,137	4,017	-	26,154	-
Net pension liability	1,239,014	-	(120,550)	1,118,464	-
Total Business-Type Activities	\$ 1,336,220	\$ 48,775	\$ (188,112)	\$ 1,196,883	\$ 47,039
Long-term liabilities due in more than one year				\$ 1,149,844	
Debt associated with governmental capital assets				\$ 72,872,593	
Debt associated with business-type capital assets				8,492,407	
Total debt associated with capital assets				\$ 81,365,000 *	

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Long-term debt at year end was comprised of the following issues:

Description	Interest Rates	Balance
General Obligation Bonds		
Series 2009	3.00-4.80%	\$ 6,025,000
Series 2009-A	2.00-4.20%	4,985,000
Series 2010	2.00-4.00%	13,660,000
Series 2010-A	3.25-4.25%	5,395,000
Series 2011	2.00-4.00%	6,100,000
Series 2011-A Ref	2.00-4.00%	5,710,000
Series 2011-B Ref	2.00-4.00%	7,515,000
Series 2012 Ref	1.00-3.00%	9,125,000
Series 2013	3.00-4.25%	5,295,000
Series 2014	3.00-5.00%	9,845,000
Series 2015	2.50-4.00%	7,710,000
Total Long-Term Debt		\$ 81,365,000

The annual requirements to amortize general obligation bonds outstanding are as follows:

Year Ending	General Obligation Bonds		
Sept. 30	Principal	Interest	Total
2016	\$ 4,055,000	\$ 2,768,026	\$ 6,823,026
2017	4,340,000	2,673,428	7,013,428
2018	4,060,000	2,548,498	6,608,498
2019	3,885,000	2,424,210	6,309,210
2020	4,035,000	2,293,466	6,328,466
2021-2025	22,460,000	9,232,507	31,692,507
2026-2030	21,200,000	5,055,260	26,255,260
2031-2035	11,790,000	2,156,600	13,946,600
2036-2039	5,540,000	434,316	5,974,316
Total	\$ 81,365,000	\$ 29,586,311	\$ 110,951,311

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital assets. General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property local within the City. The City is not obligated in any manner for special assessment debt.

On November 8, 2005, the voters of the City approved a \$50 million bond proposition with bonds to be issued over a ten-year period. On September 15, 2015, the City issued \$7.710 million in general obligation bonds, including \$5 million representing the seventh installment of bonds authorized by the voters in 2005. Proceeds will be used for street and drainage improvements.

On November 5, 2013, the voters of the City approved a \$16.5 million bond proposition. Voters approved \$11 million for improvements to municipal buildings and facilities, \$5 million for improvements at Evelyn's Park, and \$0.5 million for improvements to Nature Discovery Center buildings and grounds at Russ Pittman Park.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, it could result in a substantial liability to the City. The City engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

E. Interfund Transactions

Transfers between funds during the year were as follow:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
Individual major governmental funds:		
General	\$ 500,000	\$ 150,000
Debt service	950,000	-
Capital improvement	1,010,000	-
Equipment replacement	-	125,000
Total Governmental Funds	<u>2,460,000</u>	<u>275,000</u>
Enterprise Funds:		
Individual major enterprise funds:		
Water and sewer	125,000	2,310,000
Total Enterprise Funds	<u>125,000</u>	<u>2,310,000</u>
Total Transfers	<u>\$ 2,585,000</u>	<u>\$ 2,585,000</u>

The general fund transferred funds to the equipment replacement fund and to the pay-as-you-go capital improvement fund to fund the purchase of equipment and capital improvement projects. The enterprise fund transferred funds to the debt service fund to pay a portion of the principal and interest on general obligation debt used to finance capital improvements used in the enterprise activities. The enterprise fund transferred funds to the general fund to cover administrative costs performed for the enterprise fund by the general fund.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

F. Restatement of Net Position

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for a net pension liability as of the measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year September 30, 2014.

The beginning net position was restated as follows:

	Governmental Activities	Business-Type Activities and Enterprise Fund
Prior year ending net position/fund balance as reported	\$ 19,365,380	49,604,951
Restatement - net pension liability	(10,616,701)	(1,239,014)
Restatement - deferred outflows	1,336,619	155,989
Restatement - net pension obligation	1,539,835	164,158
Beginning net position/fund balance	<u>\$ 11,625,133</u>	<u>\$ 48,686,084</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with several other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

C. Pension Plan

Texas Municipal Retirement System

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 TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent 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 were as follows:

	<u>2015</u>	<u>2014</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	112
Inactive employees entitled to but not yet receiving benefits	80
Active employees	144
Total	<u><u>336</u></u>

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 22.31 percent and 22.29 percent in calendar years 2014 and 2015, respectively. The City's contributions paid were at the phase-in rate during 2014 and at the annual required contribution rate in 2015. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$2,007,691. The annual required contribution for fiscal year ended September 30, 2015 was \$2,021,178.

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 NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL 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 percent and female rates multiplied by 103 percent. 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

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

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

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	100.0%	

Discount Rate

The discount rate used to measure the TPL was seven percent. 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 TPL.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Changes in the Net Pension Liability

		Increase (Decrease)	
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 1,503,890	\$ -	\$ (1,503,890)
Interest	4,804,124	-	(4,804,124)
Difference between expected and actual experience	(1,614,204)	-	1,614,204
Contributions - employer	-	1,962,762	1,962,762
Contributions - employee	-	615,837	615,837
Net investment income	-	3,306,075	3,306,075
Benefit payments, including refunds of employee contributions	(3,543,818)	(3,543,818)	-
Administrative expense	-	(34,518)	(34,518)
Other changes	-	(2,838)	(2,838)
Net changes	1,149,992	2,303,500	1,153,508
Balance at December 31, 2013	69,650,305	57,794,590	(11,855,715)
Balance at December 31, 2014	\$ 70,800,297	\$ 60,098,090	\$ (10,702,207)

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of seven percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one 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	\$ 20,083,971	\$ 10,702,207	\$ 2,956,640

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

For the fiscal year ended September 30, 2015, the City recognized pension expense of \$1,458,093.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,240,476
Difference between projected and actual investment earnings	591,637	-
Contributions subsequent to the measurement date	1,537,537	-
Total	\$ 2,129,174	\$ 1,240,476

\$1,537,537 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 fiscal 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:	Pension Expense
2016	\$ (225,819)
2017	(225,819)
2018	(225,819)
2019	28,618
Total	\$ (648,839)

D. Other Post Employment Benefits

1. City of Bellaire Retiree Health Care Plan

Plan Description

In order to recognize and reward long-term employees, as well as to provide an incentive for those remaining in the City's employment, the City administers a single-employer defined benefit other post employment benefits (OPEB) plan that will allow the retiree to pay their premium for continuation of the medical and dental insurance coverage. Retiree's pay 100% of the premium, offering a lower rate by participating in the City's plan as opposed to individual purchased insurance; the plan is known as the City Retiree Health Care Plan (the "Plan").

In order to be eligible for this benefit, the retiree must separate from service with at least five years of service with the City and be a current recipient of retirement benefits from TMRS. The health care benefit of the Plan is available to the spouse and any dependent(s) if they were on the Plan at the beginning of the Plan year in which the employee retires. Furthermore, a dependent is eligible for coverage if they have not reached age 25. Eligibility for coverage for the spouse ends when Medicare coverage begins.

Funding Policy

The City has elected to subsidize premiums for the Plan and funding is provided on a pay-as-you-go basis.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Annual OPEB Cost

The City's OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to cover normal costs each year and to amortize any annual unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The City's annual OPEB cost for the fiscal year ending September 30, 2015 is as follows:

Annual Required Contribution (ARL)	\$ 65,700
Interest on OPEB Obligation	10,340
Adjustment to ARC	(9,580)
End of Year Annual OPEB Cost	66,460
Net Estimated Employer Contributions	(45,980)
Increase in Net OPEB Obligation	20,480
Beginning of Year Net OPEB Obligation	229,782
End of Year Net OPEB Obligation	<u>\$ 250,262</u>

A separately audited GAAP-basis post employment benefit plan report is not available. The City's annual OPEB cost, the percentage of annual OPEB cost contributed on the Plan, and the net OPEB obligation for 2013 and the two preceding years are as follows:

Fiscal Year	Annual OPEB Cost (ARC)	Annual OPEB Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	
				Beginning	Ending
2013	\$ 65,057	\$ 32,595	50.10%	\$ 168,263	\$ 200,725
2014	\$ 64,450	\$ 35,393	54.90%	\$ 200,725	\$ 229,782
2015	\$ 66,460	\$ 45,980	69.18%	\$ 229,782	\$ 250,262

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$691,207, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$691,207. The annual covered payroll is \$8,603,608 and the UAAL as a percentage of covered payroll is 8.0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The projected unit credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The following is a summary of the actuarial assumptions:

Inflation rate	3.00% per annum
Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Salary growth	3.00% per annum
Healthcare cost trend rate	Initial rate of 7.5% declining to an ultimate rate of 4.50% after 12 years

2. TMRS Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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 proceeding the month of death); retired employees are insured for \$7,500; this coverage is an OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2015, the City offered the supplemental death benefit to both active and retired employees.

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.

CITY OF BELLAIRE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The City's contributions for the retiree portion to the TMRS SDBF for the years ended September 2015, 2014, and 2013 were \$5,403, \$4,382, and \$4,276 respectively. The City's contribution rates for the retiree portion for the past three years are shown below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual Req. Contrib. (Rate)	0.06%	0.06%	0.05%
Actual Contribution Made	0.06%	0.06%	0.05%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BELLAIRE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (Page 1 of 2)
GENERAL FUND
For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual	Variance from Final Positive (Negative)
<u>Revenues</u>				
Property taxes	\$ 10,249,092	\$ 10,249,092	\$ 10,120,107	\$ (128,985)
Sales taxes	2,100,000	2,205,000	2,391,335	186,335
Franchise fees	1,351,800	1,351,800	1,393,224	41,424
Licenses and permits	1,057,373	1,057,373	1,007,468	(49,905)
Fines and forfeitures	740,000	740,000	677,856	(62,144)
Charges for services	1,214,850	1,214,850	1,424,243	209,393
Investment income	20,000	20,000	37,373	17,373
Intergovernmental	3,500	3,500	99,511	96,011
Other revenue	31,800	31,800	64,838	33,038
Total Revenues	16,768,415	16,873,415	17,215,955	342,540
<u>Expenditures</u>				
Current				
General government:				
Administration and finance	3,118,167	3,154,448	3,136,027	18,421
Legal	100,000	125,000	124,278	722
Community development	855,758	849,108	844,985	4,123
Total General Government	4,073,925	4,128,556	4,105,290	23,266
Public safety:				
Police	5,170,394	5,143,887	5,103,539	40,348
Fire	2,570,821	2,599,452	2,576,792	22,660
Total Public Safety	7,741,215	7,743,339	7,680,331	63,008
Public works:	1,247,500	1,165,470	1,100,198	65,272

CITY OF BELLAIRE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (Page 2 of 2)
GENERAL FUND
For the Year Ended September 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance from Final Positive (Negative)</u>
Culture and recreation:				
Library	\$ 648,323	\$ 661,438	\$ 654,337	\$ 7,101
Parks and recreation	<u>3,205,875</u>	<u>3,178,204</u>	<u>3,046,004</u>	<u>132,200</u>
Total Culture and Recreation	<u>3,854,198</u>	<u>3,839,642</u>	<u>3,700,341</u>	<u>139,301</u>
Total Expenditures	<u>16,916,838</u>	<u>16,877,007</u>	<u>16,586,160</u>	<u>290,847</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(148,423)</u>	<u>(3,592)</u>	<u>629,795</u>	<u>633,387</u>
Other Financing Sources (Uses)				
Transfers in	500,000	500,000	500,000	-
Transfers (out)	-	(150,000)	(150,000)	-
Sale of capital assets	<u>10,000</u>	<u>10,000</u>	<u>1,000</u>	<u>(9,000)</u>
Total Other Financing Sources (Uses)	<u>510,000</u>	<u>360,000</u>	<u>351,000</u>	<u>(9,000)</u>
Net Change in Fund Balance	<u>\$ 361,577</u>	<u>\$ 356,408</u>	<u>980,795</u>	<u>\$ 624,387</u>
Beginning fund balance			<u>4,623,252</u>	
Ending Fund Balance			<u>\$ 5,604,047</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF BELLAIRE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

	Measurement Year 2014*
Total Pension Liability	
Service cost	\$ 1,503,890
Interest (on the total pension liability)	4,804,124
Difference between expected and actual experience	(1,614,204)
Benefit payments, including refunds of employee contributions	(3,543,818)
Net Change in Total Pension Liability	1,149,992
Beginning total pension liability	69,650,305
Ending Total Pension Liability	<u><u>\$ 70,800,297</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 1,962,762
Contributions - employee	615,837
Net investment income	3,306,075
Benefit payments, including refunds of employee contributions	(3,543,818)
Administrative expense	(34,518)
Other	(2,838)
Net Change in Plan Fiduciary Net Position	2,303,500
Beginning plan fiduciary net position	57,794,590
Ending Plan Fiduciary Net Position	<u><u>\$ 60,098,090</u></u>
Net Pension Liability	<u><u>\$ 10,702,207</u></u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability 84.88%

Covered Employee Payroll \$ 8,797,669

Net Pension Liability as a Percentage of Covered Employee Payroll 121.65%

*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

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CITY OF BELLAIRE, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM

September 30, 2015

	<u>Fiscal Year</u> <u>2015*</u>
Actuarially determined contribution	\$ 2,021,178
Contributions in relation to the actuarially determined contribution	<u>2,007,691</u>
Contribution deficiency (excess)	<u>\$ 13,487</u>
Covered employee payroll	\$ 9,005,248
Contributions as a percentage of covered employee payroll	22.29%

*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.50% to 12.0% including inflation
Investment rate of return	7.0%
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.

3. Other Information:

There were no benefit changes during the year.

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CITY OF BELLAIRE, TEXAS
SCHEDULE OF FUNDING PROGRESS
POST EMPLOYMENT HEALTHCARE BENEFITS
For the Year Ended September 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/08	\$ -	\$ 530,101	\$ 530,101	0.0%	\$ 8,421,545	0.068
12/31/10	\$ -	\$ 606,586	\$ 606,586	0.0%	\$ 8,573,923	0.071
12/31/13	\$ -	\$ 691,207	\$ 691,207	0.0%	\$ 8,603,608	0.080

SCHEDULES

CITY OF BELLAIRE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2015

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property taxes	\$ 5,635,448	\$ 5,576,528	\$ (58,920)
Investment income	3,000	3,591	591
Total Revenues	<u>5,638,448</u>	<u>5,580,119</u>	<u>(58,329)</u>
<u>Expenditures</u>			
Debt Service:			
Principal	3,960,036	3,955,000	5,036
Interest and fiscal charges	2,628,412	2,623,526	4,886
Total Expenditures	<u>6,588,448</u>	<u>6,578,526</u>	<u>9,922</u>
 (Deficiency) of Revenues (Under) Expenditures	 <u>(950,000)</u>	 <u>(998,407)</u>	 <u>(48,407)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	950,000	950,000	-
Total Other Financing Sources	<u>950,000</u>	<u>950,000</u>	<u>-</u>
 Net Change in Fund Balance	 <u>\$ -</u>	 <u>(48,407)</u>	 <u>\$ (48,407)</u>
 Beginning fund balance		<u>562,532</u>	
 Ending Fund Balance		<u><u>\$ 514,125</u></u>	

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STATISTICAL SECTION

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

Contents

Financial Trends (Page 86)

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

Revenue Capacity (Page 96)

These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.

Debt Capacity (Page 104)

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.

Demographic and Economic Information (Page 112)

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information (Page 115)

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.

CITY OF BELLAIRE, TEXAS

NET POSITION BY COMPONENT

Last Ten Years
(accrual basis of accounting)

	Fiscal Year			
	2006	2007	2008	2009
Governmental activities				
Net investment in capital assets	\$ 13,774,019	\$ 14,988,313	\$ 17,192,431	\$ 20,142,375
Restricted	1,230,354	1,502,410	1,320,445	6,030,817
Unrestricted	(18,815,716)	(15,976,691)	(16,788,928)	(18,317,743)
Total governmental activities net position	<u>\$ (3,811,343)</u>	<u>\$ 514,032</u>	<u>\$ 1,723,948</u>	<u>\$ 7,855,449</u>
Business-type activities				
Net investment in capital assets	\$ 28,230,533	\$ 27,649,362	\$ 27,214,828	\$ 48,235,925
Unrestricted	26,714,236	26,750,066	26,841,244	6,546,670
Total business-type activities net position	<u>\$ 54,944,769</u>	<u>\$ 54,399,428</u>	<u>\$ 54,056,072</u>	<u>\$ 54,782,595</u>
Primary government				
Net investment in capital assets	\$ 42,004,552	\$ 42,637,675	\$ 44,407,259	\$ 44,884,711
Restricted	1,230,354	1,502,410	1,320,445	6,030,817
Unrestricted	7,898,520	10,773,375	10,052,316	11,722,516
Total primary government net position	<u>\$ 51,133,426</u>	<u>\$ 54,913,460</u>	<u>\$ 55,780,020</u>	<u>\$ 62,638,044</u>

* Net position was restated starting fiscal year end 2014 for GASB 68.

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 20,142,375	\$ 12,017,357	\$ 15,390,597	\$ 18,182,933	\$ 19,904,368	\$ 22,459,271
5,774,390	6,242,189	4,380,414	4,864,690	4,833,458	5,232,714
(15,571,685)	(3,491,035)	(3,786,554)	(6,235,197)	(13,112,693)	(11,160,440)
<u>\$ 10,345,080</u>	<u>\$ 14,768,511</u>	<u>\$ 15,984,457</u>	<u>\$ 16,812,426</u>	<u>\$ 11,625,133</u>	<u>\$ 16,531,545</u>
\$ 47,928,473	\$ 46,796,314	\$ 47,305,409	\$ 46,170,650	\$ 46,450,275	\$ 45,007,913
4,621,733	3,827,399	5,231,898	5,870,772	2,235,809	1,613,121
<u>\$ 52,550,206</u>	<u>\$ 50,623,713</u>	<u>\$ 52,537,307</u>	<u>\$ 52,041,422</u>	<u>\$ 48,686,084</u>	<u>\$ 46,621,034</u>
\$ 44,577,259	\$ 46,354,009	\$ 51,430,068	\$ 54,219,309	\$ 57,031,939	\$ 58,974,777
5,774,390	6,242,189	4,380,414	4,864,690	4,833,458	5,232,714
12,543,637	12,796,026	12,711,282	9,769,849	(1,554,180)	(1,054,912)
<u>\$ 62,895,286</u>	<u>\$ 65,392,224</u>	<u>\$ 68,521,764</u>	<u>\$ 68,853,848</u>	<u>\$ 60,311,217</u>	<u>\$ 63,152,579</u>

CITY OF BELLAIRE, TEXAS

CHANGES IN NET POSITION

Last Ten Years

(accrual basis of accounting)

	Fiscal Year			
	2006	2007	2008	2009
Expenses				
Governmental activities				
General government	\$ 2,998,315	\$ 3,962,970	\$ 4,266,030	\$ 4,256,797
Public safety	6,082,421	6,725,362	7,264,380	7,518,726
Public works	2,794,298	2,402,687	3,188,126	2,507,596
Culture and recreation	2,642,934	2,305,374	2,616,748	2,616,119
Interest on long-term debt	2,316,396	2,890,737	2,780,294	2,449,684
Total governmental activities expenses	16,834,364	18,287,130	20,115,578	19,348,922
Business-type activities				
Water	2,791,520	2,978,425	3,800,826	4,313,110
Sewer	1,846,556	2,635,638	2,593,515	2,494,960
Solid waste	1,877,648	1,202,965	1,347,097	1,400,760
Total business-type activities expenses	6,515,724	6,817,028	7,741,438	8,208,830
Total primary government expenses	\$ 23,350,088	\$ 25,104,158	\$ 27,857,016	\$ 27,557,752
Program Revenues				
Governmental activities				
Charges for services				
General government	\$ 746,754	\$ 640,307	\$ 804,642	\$ 473,699
Public safety	919,960	971,266	1,252,020	1,150,259
Culture and recreation	1,281,879	1,184,398	1,155,874	845,041
Operating grants and contributions	871,709	1,982,373	1,305,291	1,031,926
Capital grants and contributions	-	-	-	7,278,443
Total governmental activities				
program revenues	3,820,302	4,778,344	4,517,827	10,779,368
Business-type activities				
Charges for services				
Water	2,388,257	2,670,344	3,281,193	3,563,310
Sewer	1,780,942	2,000,688	2,149,613	2,212,164
Solid waste	1,265,080	1,420,222	1,429,631	1,445,379
Operating grants and contributions	-	-	568,265	7,278,443
Total business-type activities				
program revenues	5,434,279	6,091,254	7,428,702	14,499,296
Total primary government				
program revenues	\$ 9,254,581	\$ 10,869,598	\$ 11,946,529	\$ 25,278,664
Net (Expense)/Revenue				
Governmental activities	\$ (13,014,062)	\$ (13,508,786)	\$ (15,597,751)	\$ (8,569,554)
Business-type activities	(1,081,445)	(725,774)	(312,736)	6,290,466
Total primary government net expense	\$ (14,095,507)	\$ (14,234,560)	\$ (15,910,487)	\$ (2,279,088)

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 4,533,506	\$ 5,175,769	\$ 4,208,790	\$ 4,666,521	\$ 4,650,382	\$ 4,186,635
7,475,162	7,120,797	7,411,656	7,408,510	7,688,067	7,642,560
3,615,172	3,632,379	3,047,245	3,195,605	1,732,778	3,495,508
3,112,650	2,793,350	3,007,000	3,129,411	4,744,672	4,129,555
2,684,722	2,741,626	2,748,024	2,401,586	2,600,345	2,802,080
<u>21,421,212</u>	<u>21,463,921</u>	<u>20,422,715</u>	<u>20,801,633</u>	<u>21,416,244</u>	<u>22,256,338</u>
3,123,730	4,849,850	3,665,318	3,591,660	4,099,061	4,222,422
2,426,615	2,149,214	2,085,949	2,208,464	2,551,872	2,140,266
1,409,533	1,386,037	1,321,797	1,347,342	1,422,924	1,340,844
6,959,878	8,385,101	7,073,064	7,147,466	8,073,857	7,703,532
<u>\$ 28,381,090</u>	<u>\$ 29,849,022</u>	<u>\$ 27,495,779</u>	<u>\$ 27,949,099</u>	<u>\$ 29,490,101</u>	<u>\$ 29,959,870</u>
\$ 730,258	\$ 1,678,644	\$ 1,706,544	\$ 1,742,547	\$ 1,870,963	\$ 1,623,777
1,129,500	413,414	444,703	414,322	445,708	484,435
735,064	914,892	946,739	951,689	943,294	1,044,060
955,326	4,926,010	2,964,856	891,362	864,874	2,827,088
-	-	-	-	-	-
<u>3,550,148</u>	<u>7,932,960</u>	<u>6,062,842</u>	<u>3,999,920</u>	<u>4,124,839</u>	<u>5,979,360</u>
3,070,758	4,163,534	3,913,934	4,065,706	3,399,947	3,263,193
2,102,466	2,222,214	2,458,792	2,433,842	2,306,693	2,184,372
1,440,818	1,447,792	1,450,003	1,436,194	1,429,484	1,430,744
34466	5,210	3,644	-	-	63,000
<u>6,648,508</u>	<u>7,838,750</u>	<u>7,826,373</u>	<u>7,935,742</u>	<u>7,136,124</u>	<u>6,941,309</u>
<u>\$ 10,198,656</u>	<u>\$ 15,771,710</u>	<u>\$ 13,889,215</u>	<u>\$ 11,935,662</u>	<u>\$ 11,260,963</u>	<u>\$ 12,920,669</u>
\$ (17,871,064)	\$ (13,530,961)	\$ (14,359,873)	\$ (16,801,713)	\$ (17,291,405)	\$ (16,276,978)
(311,370)	(546,351)	753,309	788,276	(937,733)	(762,223)
<u>\$ (18,182,434)</u>	<u>\$ (14,077,312)</u>	<u>\$ (13,606,564)</u>	<u>\$ (16,013,437)</u>	<u>\$ (18,229,138)</u>	<u>\$ (17,039,201)</u>

CITY OF BELLAIRE, TEXAS

CHANGES IN NET POSITION (Continued)

Last Ten Years
(accrual basis of accounting)

	Fiscal Year			
	2006	2007	2008	2009
General Revenues and				
Other Changes in Net Position				
Governmental activities				
Property taxes	\$ 11,111,716	\$ 11,558,741	\$ 11,708,770	\$ 12,102,311
Sales taxes	2,254,030	2,168,633	2,266,254	2,269,080
Franchise fees	1,185,730	1,276,569	1,314,420	1,336,587
Investment income	1,533,462	1,568,691	891,011	243,367
Miscellaneous	230,628	169,722	388,022	649,507
Gain on sale of capital assets	-	-	-	-
Transfers	11,238	76,872	239,190	(46,353)
Total governmental activities	<u>16,326,804</u>	<u>16,819,228</u>	<u>16,807,667</u>	<u>16,554,499</u>
Business-type activities				
Investment earnings	129,905	158,358	118,767	68,955
Other revenues	134,962	95,212	89,803	216,316
Gain on sale of capital assets	-	-	-	-
Transfers	(11,238)	(76,872)	(239,190)	46,353
Total business-type activities	<u>253,629</u>	<u>176,698</u>	<u>(30,620)</u>	<u>331,624</u>
Total primary government	<u>\$ 16,580,433</u>	<u>\$ 16,995,926</u>	<u>\$ 16,777,047</u>	<u>\$ 16,886,123</u>
Change in Net Position				
Governmental activities	\$ 2,818,018	\$ 1,221,477	\$ 8,238,113	\$ 7,984,945
Business-type activities	(472,145)	(136,038)	6,259,846	6,622,090
Total primary government	<u>\$ 2,345,873</u>	<u>\$ 1,085,439</u>	<u>\$ 14,497,959</u>	<u>\$ 14,607,035</u>

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 12,453,577	\$ 12,917,306	\$ 12,954,402	\$ 13,449,313	\$ 14,356,415	\$ 15,671,184
2,242,145	2,053,538	2,156,893	2,590,958	2,310,083	2,391,335
1,370,522	1,325,746	1,398,657	1,441,398	1,474,701	1,459,679
105,393	82,226	53,804	29,757	29,293	51,596
2,134,344	76,530	46,728	252,622	59,242	132,976
-	-	-	-	13,298	-
2,054,714	1,499,046	(1,034,665)	1,317,913	1,601,327	1,476,620
20,360,695	17,954,392	15,575,819	19,081,961	19,844,359	21,183,390
39,267	21,806	(10,686)	6,075	5,914	3,982
94,428	97,098	114,556	92,712	86,560	144,517
-	-	21,750	2,115	10,115	25,294
(2,054,714)	(1,499,046)	1,034,665	(1,317,913)	(1,601,327)	(1,476,620)
(1,921,019)	(1,380,142)	1,160,285	(1,217,011)	(1,498,738)	(1,302,827)
\$ 18,439,676	\$ 16,574,250	\$ 16,736,104	\$ 17,864,950	\$ 18,345,621	\$ 19,880,563
\$ 2,489,631	\$ 4,423,431	\$ (1,225,894)	\$ 1,790,556	\$ 2,552,954	\$ 4,906,412
(2,232,389)	(1,926,493)	1,948,561	(2,154,744)	(2,436,471)	(2,065,050)
\$ 257,242	\$ 2,496,938	\$ 722,667	\$ (364,188)	\$ 116,483	\$ 2,841,362

CITY OF BELLAIRE, TEXAS
FUND BALANCES, GOVERNMENTAL FUNDS
Last Ten Years
(modified accrual basis of accounting)

		Fiscal Year			
		2006	2007	2008	2009
General Fund					
Nonspendable		\$ -	\$ -	\$ -	\$ -
Restricted		370,362	370,362	113,780	107,263
Assigned		-	-	-	-
Unassigned		10,785,641	10,785,641	4,590,995	3,753,460
Total general fund		<u>\$ 11,156,003</u>	<u>\$ 11,156,003</u>	<u>\$ 4,704,775</u>	<u>\$ 3,860,723</u>
All Other Governmental Funds					
Restricted		\$ 1,230,354	\$ 1,502,410	\$ 1,320,445	\$ 6,049,456
Committed		16,781,015	12,042,168	11,989,533	13,916,578
Unassigned		644,598	1,530,811	1,855,831	-
Total all other governmental funds		<u>\$ 18,655,967</u>	<u>\$ 15,075,389</u>	<u>\$ 15,165,809</u>	<u>\$ 19,966,034</u>

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ -	\$ 97,987	\$ 92,942	\$ 1,107	\$ 1,269	\$ 7,243
102,163	201,200	181,314	-	-	-
-	21,988	22,595	-	-	-
3,631,618	4,141,757	3,529,097	4,211,936	4,621,983	5,596,804
<u>\$ 3,733,781</u>	<u>\$ 4,462,932</u>	<u>\$ 3,825,948</u>	<u>\$ 4,213,043</u>	<u>\$ 4,623,252</u>	<u>\$ 5,604,047</u>
\$ 5,783,733	\$ 17,926,249	\$ 13,858,353	\$ 17,373,785	\$ 22,366,030	\$ 26,228,641
14,469,240	5,147,115	5,056,709	4,451,200	4,460,179	4,599,903
-	-	-	-	-	-
<u>\$ 20,252,973</u>	<u>\$ 23,073,364</u>	<u>\$ 18,915,062</u>	<u>\$ 21,824,985</u>	<u>\$ 26,826,209</u>	<u>\$ 30,828,544</u>

CITY OF BELLAIRE, TEXAS
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 Last Ten Years
 (modified accrual basis of accounting)

	Fiscal Year			
	2006	2007	2008	2009
Revenues				
Taxes	\$ 14,532,148	\$ 15,024,557	\$ 15,323,114	\$ 15,692,225
Permits, licenses, and fees	746,754	640,307	804,642	473,699
Fines and forfeitures	1,281,879	1,184,398	1,155,874	845,041
Charges for services	899,960	971,266	1,252,020	1,150,259
Intergovernmental	871,709	1,982,373	1,305,291	8,310,369
Investment income	1,533,462	1,568,691	891,011	243,367
Other revenues	193,218	169,722	379,631	679,258
Total Revenues	20,059,130	21,541,314	21,111,583	27,394,218
Expenditures				
General government	2,993,471	3,755,714	5,188,969	4,043,408
Public safety	5,929,689	6,362,213	6,979,965	7,299,264
Public works	896,171	1,178,271	1,176,934	1,097,403
Culture and recreation	2,496,903	2,088,696	2,331,453	2,396,656
Capital outlay	8,775,054	13,982,917	8,027,812	11,669,794
Debt service				
Principal	2,689,896	2,090,000	2,140,000	2,115,000
Interest	2,775,180	2,618,970	2,842,892	2,789,399
Refunding bond issuance costs	-	-	-	-
Payment to bond escrow agent	-	-	-	-
Total Expenditures	26,556,364	32,076,781	28,688,025	31,410,924
(Deficiency) of Revenues (Under) Expenditures	(6,497,234)	(10,535,467)	(7,576,442)	(4,016,706)
Other Financing Sources (Uses)				
Transfers in	3,367,623	7,432,718	4,025,421	2,487,533
Transfers out	(2,417,623)	(6,482,718)	(3,075,421)	(1,537,533)
Issuance of debt	14,500,000	18,195,000	5,000,000	18,195,000
Payment to bond escrow agent	-	-	-	(11,328,829)
Premium on debt issued	6,193	-	1,105	139,375
Sale of capital assets	37,410	14,933	8,391	14,333
Total Other Financing Sources	15,493,603	19,159,933	5,959,496	7,969,879
Net Change in Fund Balances	\$ 8,996,369	\$ 8,624,466	\$ (1,616,946)	\$ 3,953,173
Debt service as a percentage of noncapital expenditures	27.86%	25.92%	24.12%	23.83%

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 16,095,298	\$ 16,284,334	\$ 16,524,526	\$ 17,501,331	\$ 18,155,641	\$ 19,547,649
730,258	844,802	1,007,125	1,142,927	1,183,493	1,007,468
735,064	862,810	758,614	719,150	803,218	715,861
1,129,500	1,299,338	1,332,247	1,246,481	1,230,436	1,424,243
955,326	854,072	2,964,856	891,362	808,455	983,633
105,393	82,226	53,804	29,787	29,293	51,596
187,656	395,145	46,728	252,622	115,661	1,975,431
19,938,495	20,622,727	22,687,900	21,783,660	22,326,197	25,705,881
4,119,403	4,058,470	4,051,141	4,272,157	4,568,131	4,167,618
6,973,262	7,000,186	7,029,280	6,960,344	7,046,063	7,739,572
1,039,404	930,165	901,608	1,038,170	1,048,380	1,100,198
2,466,966	2,444,683	2,498,057	2,586,501	2,723,263	3,763,840
8,434,018	4,931,251	8,631,091	6,015,152	10,339,645	7,468,997
2,450,000	3,075,000	3,465,000	3,500,000	3,690,000	3,955,000
3,063,954	2,694,934	2,381,610	2,256,878	2,341,311	2,623,526
-	-	613,258	131,304	215,249	164,458
-	-	15,943,348	-	-	-
28,547,007	25,134,689	45,514,393	26,760,506	31,972,042	30,983,209
(8,608,512)	(4,511,962)	(22,826,493)	(4,976,846)	(9,645,845)	(5,277,328)
4,770,629	3,229,000	2,584,697	3,144,600	5,224,485	2,460,000
(2,715,915)	(1,729,954)	(1,134,697)	(950,000)	(1,027,485)	(275,000)
22,930,000	6,500,000	24,915,000	6,000,000	10,425,000	7,710,000
(17,214,283)	(21,343)	(9,548,460)	-	-	-
529,253	70,949	1,206,254	162,712	291,398	364,458
468,825	12,852	8,413	21,174	39,258	1,000
8,768,509	8,061,504	18,031,207	8,378,486	14,952,656	10,260,458
\$ 159,997	\$ 3,549,542	\$ (4,795,286)	\$ 3,401,640	\$ 5,306,811	\$ 4,983,130
27.06%	27.38%	56.52%	26.47%	26.47%	27.27%

CITY OF BELLAIRE, TEXAS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
Real Property	\$ 2,190,335,104	\$ 2,449,469,760	\$ 2,768,166,389	\$ 3,056,644,555
Personal Property	156,442,429	164,853,672	179,056,143	153,004,450
Total Taxable Assessed Value (1)	<u>\$ 2,346,777,533</u>	<u>\$ 2,614,323,432</u>	<u>\$ 2,947,222,532</u>	<u>\$ 3,209,649,005</u>
Total Direct Tax Rate	\$ 0.47000	\$ 0.44000	\$ 0.40000	\$ 0.37750

Source: Harris County Certified / Uncertified Tax Roll.

(1) Property is assessed at actual value, therefore, the assessed values are equal to actual value.
Tax rates are per \$100 of assessed value.

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 3,173,006,018	\$ 3,091,605,353	\$ 3,113,840,746	\$ 3,233,587,984	\$ 3,490,155,153	\$ 3,905,688,782
139,274,844	138,836,286	126,312,156	134,275,543	139,263,254	117,174,780
<u>\$ 3,312,280,862</u>	<u>\$ 3,230,441,639</u>	<u>\$ 3,240,152,902</u>	<u>\$ 3,367,863,527</u>	<u>\$ 3,629,418,407</u>	<u>\$ 4,022,863,562</u>
\$ 0.37590	\$ 0.39990	\$ 0.39990	\$ 0.39990	\$ 0.39990	\$ 0.39360

CITY OF BELLAIRE, TEXAS
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
City of Bellaire by fund:				
General	\$ 0.30500	\$ 0.29000	\$ 0.27500	\$ 0.26500
Debt service	0.16500	0.15000	0.12500	0.11250
Total Direct Rates	\$ 0.47000	\$ 0.44000	\$ 0.40000	\$ 0.37750
Houston Independent School District	\$ 1.62000	\$ 1.47570	\$ 1.15670	\$ 1.15670
Harris County	0.39986	0.40239	0.39239	0.38923
Harris County Flood Control District	0.03322	0.03241	0.03106	0.03086
Port of Houston Authority	0.01474	0.01302	0.01437	0.01773
Harris County Hospital District	0.19216	0.19216	0.19216	0.19216
Harris County Dept. of Education	0.00629	0.00629	0.00585	0.00584
Houston Community College	0.09577	0.09518	0.09243	0.09243
Total Direct and Overlapping Rates	\$ 2.83204	\$ 2.65715	\$ 2.28496	\$ 2.26245

Source: Harris County Appraisal District

Note: Overlapping rates are those of local and county governments that apply within the City of Bellaire.

Tax rates per \$100 of assessed valuation

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 0.26390	\$ 0.26390	\$ 0.24750	\$ 0.25540	\$ 0.25630	\$ 0.25320
0.11200	0.13600	0.15240	0.14450	0.14360	0.14040
<u>\$ 0.37590</u>	<u>\$ 0.39990</u>	<u>\$ 0.39990</u>	<u>\$ 0.39990</u>	<u>\$ 0.39990</u>	<u>\$ 0.39360</u>
\$ 1.15670	\$ 1.15670	\$ 1.15670	\$ 1.18670	\$ 1.19670	\$ 1.19670
0.39224	0.38805	0.39117	0.40021	0.41455	0.41731
0.02922	0.02930	0.02809	0.02809	0.02827	0.02736
0.01636	0.02054	0.01856	0.01952	0.01716	0.01531
0.19216	0.19216	0.19216	0.18216	0.17000	0.17000
0.00605	0.00658	0.00658	0.00662	0.00636	0.00599
0.09222	0.09222	0.09722	0.09717	0.09717	0.10689
<u>\$ 2.26085</u>	<u>\$ 2.28545</u>	<u>\$ 2.29038</u>	<u>\$ 2.32037</u>	<u>\$ 2.33011</u>	<u>\$ 2.33316</u>

CITY OF BELLAIRE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Property Taxpayer	2015			2006		
	Taxable Assessed Value	Rank	% of Taxable Assessed Value	Taxable Assessed Value	Rank	% of Taxable Assessed Value
Chevron Chemical	\$ 79,604,253	1	1.98%	\$ 67,463,875	1	2.87%
Pin Oak North Parcel	49,900,289	2	1.24%	-		-
KBS SOR 6565 6575 West Loop	40,675,000	3	1.01%	-	n/a	-
BRI 1833 6330 LLC	39,319,862	4	0.98%	-	n/a	-
Centerpoint Energy Inc.	29,510,049	5	0.73%	31,701,244	3	1.35%
SBC	28,734,297	6	0.71%	37,209,451	2	1.59%
CHP Houston Tx MOB Owner LLC	25,165,006	7	0.63%	-	n/a	n/a
CHP Houston TX Hospital Land	24,940,369	8	0.62%	-	n/a	-
Pine Oak South Parcell LL LLC	19,941,588	9	0.50%	-	n/a	-
5909/5959 West Loop, L.P.	12,650,000	10	0.31%	-	n/a	-
FRM West Loop Assoc #6	-		-	30,308,810	4	1.29%
6330 WLS, LTD	-		-	16,500,000	5	0.70%
Texas SC One Corp	-		-	15,266,900	6	0.65%
Bellaire Atrium I & II LP	-		-	8,907,110	7	0.38%
SPTMRT Properties Trust	-		-	6,544,680	8	0.28%
Teas Nursery Co Inc.	-		-	6,009,942	9	0.26%
Center America Capital	-		-	5,480,020	10	0.23%
Subtotal	<u>350,440,713</u>		<u>8.71%</u>	<u>225,392,032</u>		<u>9.60%</u>
Other Taxpayers	<u>3,672,422,849</u>		<u>91.29%</u>	<u>2,121,385,501</u>		<u>90.40%</u>
Total	<u><u>\$ 4,022,863,562</u></u>		<u><u>100.00%</u></u>	<u><u>\$ 2,346,777,533</u></u>		<u><u>100.00%</u></u>

Source: Harris County Tax Assessor-Collector's records

CITY OF BELLAIRE, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
Total adjusted tax levy	\$ 11,029,855	\$ 11,503,023	\$ 11,610,889	\$ 12,011,140
Current tax collected*	\$ 10,916,110	\$ 11,397,100	\$ 11,530,140	\$ 11,927,983
Percentage of adjusted tax levy	98.97%	99.08%	99.30%	99.31%
Net collections and refunds in subsequent years**	\$ 105,546	\$ 92,278	\$ 68,316	\$ 72,253
Total tax collections to date	<u>\$ 11,021,656</u>	<u>\$ 11,489,378</u>	<u>\$ 11,598,456</u>	<u>\$ 12,000,236</u>
Total collections as a percentage of adjusted tax levy	99.93%	99.88%	99.89%	99.91%

Source: Harris County Tax Assessor-Collector

* Collected within the year of the levy.

** Collected or refunded in subsequent years of the levy.

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 12,385,668	\$ 12,820,648	\$ 12,909,927	\$ 13,382,086	\$ 14,364,926	\$ 15,743,170
\$ 12,319,214	\$ 12,750,093	\$ 12,857,279	\$ 13,338,111	\$ 14,319,678	\$ 15,695,886
99.46%	99.45%	99.59%	99.67%	99.69%	99.70%
\$ 54,742	\$ 54,733	\$ 35,910	\$ (1,273)	\$ -	\$ (58,762)
<u>\$ 12,373,956</u>	<u>\$ 12,804,826</u>	<u>\$ 12,893,189</u>	<u>\$ 13,336,838</u>	<u>\$ 14,319,678</u>	<u>\$ 15,637,124</u>
99.91%	99.88%	99.87%	99.66%	99.69%	99.33%

CITY OF BELLAIRE, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
Primary Government				
Governmental Activities:				
General obligation bonds (2)	\$ 57,925,000	\$ 55,835,000	\$ 58,695,000	\$ 64,010,000
Total Primary Government	<u>\$ 57,925,000</u>	<u>\$ 55,835,000</u>	<u>\$ 58,695,000</u>	<u>\$ 64,010,000</u>
 Personal Income (1)	-	-	-	-
 Debt as a Percentage of Personal Income	-	-	-	-
 Population	15,642	15,642	15,642	15,642
 Debt Per Capita	\$ 3,703	\$ 3,570	\$ 3,752	\$ 4,092

(1) Personal income data is not available.

(2) Presented net of original issuance discounts and premiums.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 68,115,000	\$ 71,540,000	\$ 68,375,000	\$ 70,875,000	\$ 77,610,000	\$ 81,365,000
<u>\$ 68,115,000</u>	<u>\$ 71,540,000</u>	<u>\$ 68,375,000</u>	<u>\$ 70,875,000</u>	<u>\$ 77,610,000</u>	<u>\$ 81,365,000</u>
-	-	-	-	-	-
-	-	-	-	-	-
15,642	15,642	16,855	16,855	16,855	16,855
\$ 4,355	\$ 4,574	\$ 4,057	\$ 4,205	\$ 4,605	\$ 4,827

CITY OF BELLAIRE, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
Net Taxable Assessed Value				
All property	\$ 2,346,777,533	\$ 2,614,323,432	\$ 2,947,222,532	\$ 3,209,649,005
Net Bonded Debt				
General obligation bonds (1)	\$ 57,867,470	\$ 55,168,387	\$ 58,695,000	\$ 64,010,000
Less debt service funds	1,230,354	1,502,410	1,320,445	1,125,195
Net Bonded Debt	\$ 56,637,116	\$ 53,665,977	\$ 57,374,555	\$ 62,884,805
Percentage of Estimated Actual				
Taxable Value of Property	2.41%	2.05%	1.95%	1.96%
Population	15,642	15,642	15,642	15,642
Net Bonded Debt Per Capita	\$ 3,621	\$ 3,431	\$ 3,668	\$ 4,020

(1) Presented net of original issuance discounts and premiums.

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 3,312,280,862	\$ 3,206,212,748	\$ 3,240,152,902	\$ 3,367,863,527	\$ 3,629,418,407	\$ 4,022,863,562
\$ 68,115,000	\$ 71,540,000	\$ 68,375,000	\$ 70,875,000	\$ 77,610,000	\$ 81,365,000
638,825	400,621	469,433	504,450	562,532	514,125
<u>\$ 67,476,175</u>	<u>\$ 71,139,379</u>	<u>\$ 67,905,567</u>	<u>\$ 70,370,550</u>	<u>\$ 77,047,468</u>	<u>\$ 80,850,875</u>
2.04%	2.22%	2.10%	2.09%	2.12%	2.01%
15,642	15,642	16,855	16,855	16,855	16,855
\$ 4,314	\$ 4,548	\$ 4,029	\$ 4,029	\$ 4,571	\$ 4,797

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CITY OF BELLAIRE, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
September 30, 2015

Governmental Unit	Debt Outstanding (1)	Estimated Percentage Applicable (2)	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Houston Independent School District	\$ 2,537,045,691	2.88%	\$ 73,066,916
Harris County (3)	2,678,076,350	1.15%	30,797,878
Port of Houston Authority	690,219,397	1.15%	7,937,523
Houston Community College District	641,795,000	2.69%	17,264,286
Harris County Flood Control District	87,400,000	1.15%	1,005,100
Harris County Department of Education	7,210,000	1.15%	82,915
Subtotal, overlapping debt	6,641,746,438		130,154,618
City direct debt (4)	81,365,000	100%	81,365,000
Total direct and overlapping debt	\$ 6,723,111,438		\$ 211,519,618

Source: Harris County Appraisal District

(1) Debt outstanding as of September 30, 2015.

(2) Estimated Percentage Applicable obtained from Municipal Advisory Council of Texas.

(3) Excludes Unlimited Tax and Revenue Toll Road Tax Bonds. The County's policy and practice has been to provide payment of debt service on the outstanding Toll Road Tax Bonds from toll revenues and certain other funds are to date, no tax has been collected to provide for such debt service.

(4) Presented net of original issuance discounts and premiums.

CITY OF BELLAIRE, TEXAS

LEGAL DEBT MARGIN INFORMATION

Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
Debt limit	\$ 117,338,877	\$ 130,716,172	\$ 147,361,127	\$ 160,482,450
Total net debt applicable to limit	56,694,646	54,332,590	57,374,555	62,884,805
Legal debt margin	<u>\$ 60,644,231</u>	<u>\$ 76,383,582</u>	<u>\$ 89,986,572</u>	<u>\$ 97,597,645</u>
Total net debt applicable to the limit as a percentage of debt limit	48.32%	41.57%	38.93%	39.18%

Legal Debt Margin Calculation for Fiscal Year 2015

Assessed value	\$ 4,022,863,562
Debt limit (5% of assessed value)	201,143,178
Debt applicable to limit:	
General obligation bonds	81,365,000
Less: amount set aside for repayment of general obligation debt	(514,125)
Total net debt applicable to limit	<u>80,850,875</u>
Legal debt margin	<u>\$ 120,292,303</u>

Note: The City's Home Rule Charter (1983), Section 7.07 limits all bonded debt to no more than 5 percent of the assessed valuation.

Fiscal Year					
2010	2011	2012	2013	2014	2015
\$ 165,614,043	\$ 161,522,082	\$ 162,007,645	\$ 168,393,176	\$ 181,470,920	\$ 201,143,178
67,476,175	71,139,379	67,905,567	70,370,550	77,105,550	80,850,875
<u>\$ 98,137,868</u>	<u>\$ 90,382,703</u>	<u>\$ 94,102,078</u>	<u>\$ 98,022,626</u>	<u>\$ 104,365,370</u>	<u>\$ 120,292,303</u>
40.74%	44.04%	41.92%	41.79%	42.49%	40.20%

CITY OF BELLAIRE, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Years

Year Ended Sep 30	Population (1)	Personal Income (2)	Per Capita Personal Income (3)	Median Age (4)	School Enrollment (5)	Unemployment Rate (6)
2006	15,642	N/A	N/A	N/A	6,302	5.0%
2007	15,642	N/A	N/A	N/A	6,078	4.3%
2008	15,642	N/A	N/A	N/A	5,988	4.4%
2009	15,642	N/A	N/A	N/A	6,106	6.3%
2010	15,642	N/A	N/A	N/A	7,341	*8.6%
2011	16,855	N/A	N/A	N/A	7,470	*8.6%
2012	16,855	N/A	N/A	N/A	7,570	*6.3%
2013	16,855	N/A	N/A	N/A	7,518	6.2%
2014	16,855	N/A	N/A	N/A	7,667	5.6%
2015	16,855	N/A	N/A	N/A	8,002	4.3%

* Houston MSA, Unemployment calculated only for cities with a population of 25,000 or more.

Data sources:

- (1) City of Bellaire Community Development
- (2) Data to compute not available
- (3) Data to compute not available
- (4) Data to compute not available
- (5) Houston Independent School District and private schools
- (6) Bureau of Labor Statistics - Houston Seasonally Adjusted

CITY OF BELLAIRE, TEXAS

PRINCIPAL EMPLOYERS

Current Year (1)

<u>Employer</u>
Philips Petroleum Co.
Worley Parsons Ltd
Bellaire High School
Chevron Oronite Co. LLC
Chevron Pipeline Co.
First Street Hospital
Gardens of Bellaire
PFM, LLC
Pin Oak Middle School
Randall's Food Market

(1) The requirement is the ten largest employers, the number of employees for each of the ten largest employers, and each employer's percentage of total employment. However, this data for the current year, along with ten years ago, is not available.

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CITY OF BELLAIRE, TEXAS
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
 Last Ten Years

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<u>General Fund:</u>										
Administration	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	8.0	8.5
Facilities	-	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	-
Finance	10.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5
Community development	10.5	10.5	10.5	10.5	8.0	8.0	8.0	10.0	11.0	9.0
Fire department	25.0	25.0	25.0	25.0	25.0	24.0	24.0	24.0	24.0	24.0
Police department	57.5	57.5	57.5	57.5	57.5	57.5	57.5	57.5	57.5	59.0
Library	8.0	8.0	8.0	8.0	8.0	7.0	7.0	8.0	8.0	7.5
Public works	11.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0	10.0	9.0
Parks and recreation	13.0	11.0	11.0	11.0	10.0	10.0	13.5	13.5	13.5	25.5
General Fund Total	<u>142.0</u>	<u>142.0</u>	<u>142.0</u>	<u>142.0</u>	<u>137.5</u>	<u>135.5</u>	<u>139.0</u>	<u>142.0</u>	<u>144.0</u>	<u>151.0</u>
<u>Enterprise Fund:</u>										
Administration	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Water	7.0	7.0	7.0	7.0	4.0	4.0	6.0	6.0	6.0	6.0
Sewer	11.0	11.0	11.0	11.0	9.0	9.0	11.0	11.0	11.0	11.0
Solid waste	10.5	13.0	13.0	11.0	10.0	10.0	11.0	11.0	11.0	11.0
Enterprise Fund Total	<u>30.5</u>	<u>33.0</u>	<u>33.0</u>	<u>31.0</u>	<u>25.0</u>	<u>25.0</u>	<u>30.0</u>	<u>30.0</u>	<u>30.0</u>	<u>30.0</u>
Total City Positions	<u>172.5</u>	<u>175.0</u>	<u>175.0</u>	<u>173.0</u>	<u>162.5</u>	<u>160.5</u>	<u>169.0</u>	<u>172.0</u>	<u>174.0</u>	<u>181.0</u>

Source: City of Bellaire adopted budget

CITY OF BELLAIRE, TEXAS

OPERATING INDICATORS BY FUNCTION

Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
Function / Program				
Police				
Arrests	2,470	2,222	1,641	1,630
Accident reports	731	740	647	716
Citations	9,022	8,090	8,636	4,707
Offense reports	2,012	1,450	1,388	1,149
Calls for service	39,279	35,946	38,994	30,618
Fire				
Emergency responses	1,880	2,053	2,042	1,915
Fire incidents	36	11	58	47
Average response time	3:00	3:55	3:47	3:45
Water				
New accounts	1,032	944	802	671
Source:				
Surface water	58%	58%	57%	50%
Well water	42%	42%	43%	50%
Average daily consumption (millions of gallons)	3.060	2.730	2.944	3.170
Number of million gallons of surface water pumped	600.460	612.550	612.640	575.799
Number of million gallons of well water pumped	518.260	476.361	460.038	566.334
Total consumption (millions of gallons)	1,118.720	1,078.911	1,072.678	1,142.433
Peak daily consumption (millions of gallons)	3.632	6.643	6.563	6.228
Sewer				
Average daily sewage treatment (millions of gallons)	1.301	1.347	1.222	1.445
Total consumption (millions of gallons)	474.865	491.650	446.356	527.352
Peak daily consumption (millions of gallons)	2.862	5.122	6.599	3.965

Source: Various City departments

Fiscal Year					
2010	2011	2012	2013	2014	2015
1,080	1,147	1,114	908	1,042	1,026
614	663	636	556	628	786
5,078	6,854	4,974	4,796	4,443	3,953
989	1,011	627	841	1,110	1,021
29,903	33,815	33,133	28,713	31,570	29,793
1,782	1,962	1,948	1,905	2,057	2,019
52	45	40	49	39	29
1:40	4:11	4:06	4:05	4:06	4:13
747	763	701	769	668	639
52%	58%	56%	47%	58%	48%
48%	42%	44%	53%	42%	52%
3.022	3.577	3.434	3.227	2.777	2.842
561.480	755.293	767.591	549.190	586.787	502.745
519.013	547.500	485.734	628.581	426.920	534.453
1,080.493	1,302.793	1,253.250	1,177.771	1,101.371	1,037.198
5.504	7.210	5.862	6.214	7.809	8.654
1.760	1.620	1.624	1.440	1.572	1.451
642.400	591.475	592.760	525.907	568.334	529.434
6.600	5.600	5.800	3.800	2.200	4.600

CITY OF BELLAIRE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION
Last Ten Years

	Fiscal Year			
	2006	2007	2008	2009
Function / Program				
Police				
Stations	1	1	1	1
Patrol units	8	8	8	8
Fire stations	1	1	1	1
Other public works				
Streets (miles - centerlines)	67	67	67	67
Streetlights	918	918	918	918
Parks and recreation				
Parks	12	12	12	12
Parks acreage in City limits	31.4	31.4	31.4	31.4
Aquatics facilities	2	2	2	2
Baseball / softball diamonds	3	3	3	3
Tennis courts	7	7	7	7
Recreation center	1	1	1	1
Houston Independent School District licensed fields	4	4	4	4
Houston Independent School District acreage	15	15	15	15
Water				
Water mains (miles)	73	73	73	73
Fire hydrants	760	760	760	760
Storage capacity (millions of gallons)	4.23	4.23	4.23	4.23
Sewer				
Sanitary sewers (miles)	72	70	70	70
Storm sewers (miles)	40	49	49	49
Open ditch / creek / canal drainage (miles)	1.32	1.32	1.32	1.32
Treatment capacity (millions of gallons)	4.5	4.5	4.5	4.5

Source: Various City departments

Fiscal Year						
2010	2011	2012	2013	2014	2015	
1	1	1	1	1	1	1
8	8	8	8	8	8	8
1	1	1	1	1	1	1
67	67	67	67	67	67	67
925	925	925	925	1,017	1,061	
12	12	12	12	14	15	
31.4	31.4	36.4	36.4	46.4	51.0	
2	2	2	2	2	2	
3	3	3	3	3	3	
7	7	7	7	7	7	
1	1	1	1	1	1	
4	4	4	4	4	4	
15	15	15	15	15	15	
73	73	73	73	73	73	
760	760	760	760	760	760	
4.23	4.23	3.23	3.23	3.23	3.23	
70	70	70	70	70	70	
49	49	49	49	49	49	
1.32	1.32	1.32	1.32	1.32	1.32	
4.5	4.5	4.5	4.5	4.5	4.5	

AUDIT FINANCE BOARD

FEBRUARY 17, 2016

**ITEM D ATTACHMENT REVISED
INVESTMENT POLICY**

ORDINANCE NO. 16-_____

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF BELLAIRE, TEXAS, REVIEWING THE INVESTMENT POLICY OF THE CITY OF BELLAIRE, TEXAS, AND AMENDING *CHAPTER 2, ADMINISTRATION, ARTICLE I, IN GENERAL, SECTION 2-10, INVESTMENT POLICY*, OF THE *CODE OF ORDINANCES OF THE CITY OF BELLAIRE, TEXAS*, BY REPEALING THE EXISTING *SECTION 2-10, SUBSECTION (g), INVESTMENT TRAINING* AND ADOPTING A NEW *SECTION 2-10, INVESTMENT POLICY, SUBSECTION (g), INVESTMENT TRAINING*, FOR THE PURPOSE OF UPDATING SAID POLICY TO INCLUDE CHANGES TO THE INVESTMENT TRAINING AND CONTINUING EDUCATION REQUIREMENTS UNDER THE TEXAS PUBLIC FUNDS INVESTMENT ACT PURSUANT TO HB 870 AND HB 1148 PASSED DURING THE 84TH TEXAS LEGISLATIVE SESSION.

WHEREAS, the City of Bellaire, Texas, has previously adopted *Chapter 2, Administration, Article I, In General, Section 2-10, Investment Policy*, of the Code of Ordinances of the City of Bellaire, Texas (*the "Code"*), in order to comply with the requirements of the Texas Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (*the "Act"*); and

WHEREAS, the Act requires that a governing body, such as the City Council of the City of Bellaire, Texas, (1) review its investment policy and investment strategies not less than annually, and (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed the investment policy and investment strategies with the written instrument so adopted recording any changes made to either the investment policy or investment strategies; and

WHEREAS, in compliance with the requirements of the Act, the City Council of the City of Bellaire, Texas, has annually reviewed its investment policy and investment strategies by ordinance recording any changes as necessary; and

WHEREAS, in conjunction with the annual review of the investment policy and strategies, certain revisions to same in compliance with Chapter 2256 of the Texas

Government Code, as amended by HB 870 and HB 1148 passed during the 84th Texas Legislative Session have been proposed;

NOW THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF BELLAIRE, TEXAS:

1. **THAT** the recitals contained herein above are found to be true and correct.
2. **THAT** the City Council of the City of Bellaire, Texas, having conducted its annual review of the investment policy and investment strategies, finds that same should be amended.
3. **THAT** *Chapter 2, Administration, Article I, In General, Section 2-10, Investment Policy, Subsection (g) Investment Training*, of the Code is hereby amended by repealing the existing *Section 2-10, Subsection (g)* and adopting a new *Section 2-10, Subsection (g)*, for the purpose of updating said policy to include changes to the investment training and continuing education requirements permitted by the Act pursuant to House Bill 870 (2015) and House Bill 1148 (2015). The amended Code shall read as set out in Appendix A, attached hereto. All other portions of *Chapter 2, Section 2-10, Investment Policy*, of the City's Code not specifically amended hereby shall remain in full force and effect.
4. **THAT** all ordinances and parts of ordinances in conflict with this Ordinance are repealed to the extent of the conflict only.
5. **THAT** if any word, phrase, clause, sentence, paragraph, section or other part of this Ordinance or the application thereof to any person or circumstance, shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction neither, the remainder of this Ordinance, nor the application of such word, phrase, clause, sentence, paragraph, section or other part of this Ordinance to any other persons or circumstances, shall be affected thereby.

6. That the City Council officially finds, determines, and declares that a sufficient written notice of the date, hour, place, and subject of each meeting at which this Ordinance was discussed, considered, or acted upon was given in the manner required by the Texas Open Meetings Act, as amended, and that each such meeting has been open to the public as required by laws at all times during such discussion, consideration, and action. The City Council ratifies, approves, and confirms such notices and the contents and posting thereof.

7. That this Ordinance shall be effective immediately upon its passage and adoption.

PASSED, APPROVED, and ADOPTED this 7th day of March, 2016.

Andrew S. Friedberg, Mayor
City of Bellaire, Texas

ATTEST:

Tracy Dutton, TRMC, City Clerk
City of Bellaire, Texas

APPROVED AS TO FORM:

Alan P. Petrov, City Attorney
City of Bellaire, Texas

Appendix A

(Language to be added shown by underline, language to be deleted shown by strike-out)

Sec. 2-10. Investment Policy.

(g) *Investment Training.* The City shall provide periodic training in investments for the investment officers through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of the City's investment officers making investment decisions in compliance with the Act. The investment officers shall attend at least one training session relating to the investment officer's responsibilities under the Act within 12 months after taking office or assuming the duties of investment officer. Further, the investment officers shall attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under the Act from an independent source approved by the governing body of the city. The designated training may be sponsored by the Government Finance Officers Association of Texas, the Government Treasurer's Organization of Texas, the Texas Municipal League, or the University of North Texas. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio, and compliance with the Act. In the event the City does not invest municipal funds, or only deposits municipal funds in interest-bearing deposit accounts or certificates of deposit, the previously stated continuing investment training shall not apply.

Sec. 2-10. Investment policy.

(a) *Policy statement.* It is the policy of the city to invest public funds in a manner that will ensure the preservation of capital, meet the daily cash flow needs of the city, conform to all applicable state statutes and city ordinances governing the investment of public funds, and provide reasonable investment returns.

The Texas Public Funds Investment Act, V.T.C.A., Government Code Ch. 2256 as amended (the “Act”) prescribes that each city shall adopt rules to govern its investment practices and to define the authority of the investment officers. This policy addresses the methods, procedures, and practices established to ensure effective and judicious fiscal management of the city’s funds worthy of the public trust.

(b) *Scope.* This investment policy shall apply to all financial assets and funds under control of the city, other than those expressly excluded herein or by applicable law or valid agreement. The city commingles its funds into one pooled investment fund for efficiency and maximum investment opportunity, except for monies held in demand and time deposits as provided under Chapter 105 of the Local Government Code or as stipulated by applicable laws, bond covenants or contracts. The funds are defined in the city's Comprehensive Annual Financial Report (“CAFR”) and include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, and any new funds created by the city unless specifically exempted by the city council and this policy.

This Policy shall not supersede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this policy and the requirements of any fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this policy other than those in conflict.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The investment officers and city staff shall recognize that the investment activities of the city are a matter of public record.

(c) *Objectives and strategy.* The city strives to invest funds in a manner where the rate of return is secondary to safety and liquidity. To accomplish this, the city’s principal investment objectives in order of priority are as follows: 1) suitability, 2) preservation and safety of principal, 3) liquidity, 4) marketability, 5) diversification, and 6) yield.

(1) *Suitability.* Each investment must be in conformance with all federal regulations, state statutes, and other legal requirements—including the city charter, city ordinances, and this investment policy.

(2) *Preservation and safety of principal.* Investments shall be handled in a manner that seeks to ensure the preservation of capital and the protection of investment principal in the overall portfolio. All participants in the investment process shall act responsibly as custodians of the public trust.

(3) *Liquidity.* The city's investment portfolio will remain sufficiently liquid to enable the city to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

(4) *Marketability.* The city's policy is to buy and hold investments until maturity; however, marketability is of great importance should the need arise to liquidate an investment before maturity.

(5) *Diversification.* Investments shall be diversified by type and maturity to eliminate the risk of loss resulting from the concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Portfolio maturities should be laddered in a way that protects interest income from the volatility of market and avoids the concentration of assets in a specific maturity sector. The majority of the city's funds will be invested in maturities of 12 months or less targeted to the projected cash flow needs of the city. Investments with maturities in excess of 12 months can be made to match specific cash flow requirements (e.g., funds held for future capital projects may be invested to meet anticipated cash flow requirements). The stated maturity of any investment in the city's portfolio will not exceed 36 months and the weighted average maturity of the city's portfolio will not exceed 365 days.

(6) *Yield.* The city's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the city's risk constraints and the cash flow characteristics of the portfolio. Given this strategy, the basis used to determine whether reasonable yields are being achieved shall be the average yield of the current three-month U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio.

(d) *Authorization.* Authority to manage the investment program is derived from the Act, specifically; section 2256.005(f)--(h). Management responsibility for the investment program is hereby delegated to the chief financial officer including responsibility for all investment transactions and the related system of controls to

regulate the activities of subordinate officials. The chief financial officer and the finance manager shall serve as the investment officers of the city and shall invest city funds in legally authorized and adequately secured investments in accordance with this policy and the Act. In the event the position of chief financial officer becomes vacant, the city manager shall serve as an investment officer during such vacancy. The city investment officers shall be bonded.

(e) *Responsibility and control.* Investments shall be made with judgment and care, under prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of capital and the income to be derived.

In determining whether investment decisions were made exercising prudence, consideration shall be given to the following: the investment of all funds, or funds under the city's control, taken as a whole, rather than the prudence of a single investment; and whether the investment decision is consistent with the written investment policy of the city at that time.

The chief financial officer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures shall address safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements, banking services contracts, and explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the chief financial officer.

(f) *Ethics and conflicts of interest.* In addition to any other requirements of law, investment officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. An investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the city or who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the city shall file a statement disclosing that relationship with the city and the Texas Ethics Commission. An investment officer has a personal business relationship with a business organization if the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization, the investment officer receives funds from the business organization exceeding 10 percent of the investment officer's gross income for the previous year, or the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

(g) *Investment training.* The City shall provide periodic training in investments for the investment officers through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of the City's investment officers making investment decisions in compliance with the Act. The investment officers shall attend at least one training session relating to the investment officer's responsibilities under the Act within 12 months after taking office or assuming the duties of investment officer. Further, the investment officers shall attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under the Act from an independent source approved by the governing body of the city. The designated training may be sponsored by the Government Finance Officers Association of Texas, the Government Treasurer's Organization of Texas, the Texas Municipal League, or the University of North Texas. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio, and compliance with the Act. In the event the City does not invest municipal funds, or only deposits municipal funds in interest-bearing deposit accounts or certificates of deposit, the previously stated continuing investment training shall not apply.

(h) *Authorized investments.* Authorized investments include the following:

- (1) Obligations of the United States or its agencies and instrumentalities;
- (2) Direct obligations of the state or its agencies and instrumentalities;
- (3) Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
- (4) Certificates of deposit issued by a depository institution that has its main office or branch office in the state that are for the full amount of the principal and accrued interest that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund or its successor, secured by an obligation issued directly by a federal agency or instrumentality, including any mortgage backed securities not disallowed by the Act, having a market value of not less than the principal and accrued interest of the certificates, or secured in any other manner and amount provided by the Act;

(5) Fully collateralized repurchase agreements with a defined termination date of 90-days or less, secured by a combination of cash and an authorized investment, pledged to the city, held in the city's name and deposited at the time the investment is made with the city or with a third party selected and approved by the city. A repurchase agreement is a simultaneous agreement to buy, hold for a specified time, and sell back at a future date at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The repurchase agreement shall be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the state only after a Master Repurchase Agreement has been executed between the city and the securities dealer or the financial institution;

(6) An investment pool to the extent and manner provided by law if the city by rule, ordinance, order or resolution authorizes investment in the particular pool and if the investment pool has furnished to the chief financial officer an offering circular or similar disclosure document conforming to the requirements of the Act. To maintain eligibility, an investment pool must furnish to the city a confirmation of all investment transactions and a monthly report conforming to the requirements of the Act. Further, the investment pool must be continuously rated no lower than AAA or AAA-m or its equivalent by at least one nationally recognized rating service; and

(7) Such other investments as permitted by the Act and not specifically prohibited by this policy.

All investment transactions will be completed on a delivery versus payment (“DVP”) basis. The investment officers are authorized to solicit bids for investments orally, in writing, electronically, or in any combination of these methods. No investment of city funds shall be authorized unless it conforms to this investment policy and the seller of the investment has executed a Certification Form in favor of the city as set forth in this policy.

When the City invests in an investment that requires a minimum rating, it must establish at the time of the investment procedures to monitor rating changes. If an investment’s rating falls below the required minimum rating, it is no longer an authorized investment. The city shall take all prudent measures consistent with this policy to liquidate any investment that does not have the minimum rating.

The city shall verify prior to participation in an investment pool, that the pool’s investment policy has established, satisfactory procedures for monitoring investment rating changes sufficient for the City to determine whether investments in the pool have the required minimum rating.

(i) *Prohibited investments.* The following are not authorized investments under this policy:

- (1) Obligations for which the payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and which pays no principal;
- (2) Obligations for which the payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- (3) Collateralized mortgage obligations that have a stated final maturity greater than 10 years; and
- (4) Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to changes in a market index.

Further, the city will not invest in derivatives including instruments with embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer, or are not correlated on a one-to-one basis to the associated index or market. Prohibited derivatives include arrangements in which an investor has swapped the natural cash flows or some portion of the natural cash flows of an instrument for a different set of cash flows. (e.g., interest rate swaps), over-the-counter exchange traded options or futures (e.g., option contracts or future contracts), inverse floating rate notes, range index notes, non-money market index based notes, dual index notes, index amortizing notes, inverse multi-index bonds, inverse index bonds, and stepped inverse index bonds.

(j) *Investment limits and diversification.* The asset allocation in the portfolio should be flexible and responsive to the outlook for the economy and the securities markets. Risk shall be controlled through portfolio diversification achieved by:

- (1) Limiting investments to avoid over concentration in securities from a specific issuer or business sector, U. S. Treasury securities being the only exception;
- (2) Limiting investment in securities that have higher credit risks;
- (3) Investing in securities with varying maturities; and
- (4) Maintaining the liquidity necessary to meet ongoing obligations.

The following standards shall be applied: the city shall maintain at least 10 percent of the total portfolio in investments maturing in 90-days or less; the city shall invest no more than 50 percent of the portfolio in federal agencies or instrumentalities or in certificates of deposit; and the city may invest any amount of funds in U. S. Treasury securities or in repurchase agreements backed by U. S. Treasury securities.

(k) *Authorized broker/dealers.* The chief financial officer shall maintain a list of security broker/dealers authorized by the investment policy. All broker/dealers shall maintain complete records of all transactions conducted on behalf of the city and shall make those records available for inspection at the city's request. At least annually, the investment officers shall review the list of broker/dealers authorized to engage in investment transactions with the city and shall make a recommendation as part of the annual review of the investment policy. As part of this process, the chief financial officer shall review the quality of service and financial stability of each broker/dealer. The chief financial officer may remove an authorized broker/dealer from the list, if in the opinion of the chief financial officer, the firm has not performed adequately or its financial condition has become unacceptable. Currently, the following broker/dealers are authorized to engage in investment transactions with the city: Coastal Securities, Inc.; Duncan-Williams, Inc.; First Southwest Company; SAMCO Capital Markets; and Vining Sparks.

Nothing in this section relieves the city of the responsibility for monitoring the investments made by the city to determine that they are in compliance with this investment policy.

(l) *Investment management.* The investment officers shall exhibit prudence and discretion in the selection and management of securities in order that no individual or group of transactions undertaken shall jeopardize the total capital of the portfolio. The city will not allow speculation (e.g., anticipating an appreciation of capital through changes in market interest rates) in the selection of any investments. The chief financial officer shall monitor financial market indicators, study financial trends, and utilize available educational tools in order to maintain appropriate managerial expertise.

Each investment transaction – exclusive of investment pool transactions – must be based upon competitive quotations received from at least three broker/dealers authorized by this policy. An exception is a new issue debenture or discount note still in the primary market. In this case, the competitive offering process is not possible because competing broker/dealers do not have access to the security or all broker/dealers have access to the security at par. For these types of securities only, investment officers are authorized to purchase the security without seeking competitive offerings if the investment is deemed to be in the best interest of the city.

While the city utilizes a buy and hold strategy, active portfolio management may from time to time dictate the sale of securities to better position the overall portfolio. The chief financial officer must approve the sale of any security prior to maturity. Any sale of a security for less than the book value of the security must be approved by the chief financial officer.

(m) *Reporting.* The investment officers shall submit to each member of the city council an investment report no less than on a quarterly basis signed by each investment officer. The report shall contain sufficient information to provide a comprehensive review of investment activity and current investments and shall address any variations noted from the investment strategy of the city. The report must contain a summary statement of each pooled fund group that states the beginning and ending market value and accrued interest for the period. It must state the maturity date, book value and market value of each separately invested asset at the end of the reporting period by type of asset and fund type invested and the fund or pooled group which acquired the investment. The chief financial officer may use any generally accepted method to monitor the market price of investments, including, but not limited to, periodic reports from any of the approved broker/dealers (whether or not that broker/dealer actually sold the security to the City) or nationally recognized business publications that provide daily market valuations on individual securities. Each report shall include a statement of compliance with the city's investment policy and the Act. The annual audit shall include a review of the quarterly reports and a compliance audit of management controls on investments and adherence to the city's established investment policies.

(n) *Internal controls.* A system of internal controls shall be documented in writing and shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and management of the city. Controls deemed most important shall include:

- (1) Control of collusion;
- (2) Separation of duties;
- (3) Separation of transaction authority from accounting and recordkeeping;
- (4) Custodial safekeeping;
- (5) Avoidance of bearer-form securities;
- (6) Clear delegation of authority;
- (7) Specific limitations regarding securities losses;

- (8) Written confirmation of telephone transactions; and
- (9) Limiting the number of authorized investment officials.

These controls shall be reviewed periodically by the city's independent audit firm.

(o) *Depositories.* Consistent with the requirements of the Texas Public Funds Collateral Act, V.T.C.A., Government Code Ch. 2257 as amended (“Public Funds Collateral Act”), the city shall require all depository institution deposits to be federally insured or collateralized with eligible securities. Any financial institution serving the city as a depository institution will be required to sign a depository agreement and a tri-party safekeeping agreement. The safekeeping agreement shall define the city’s rights to collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations.

(p) *Collateral.* Eligible securities for collateralization of deposits are defined by the Public Funds Collateral Act and must meet the constraints of this policy. The market value of the principal portion of collateral pledged for deposits must at all times be equal to or greater than 105 percent of the total amount of deposits plus any accrued interest, less the insurance amount provided by the Federal Deposit Insurance Corporation (“FDIC”).

Depository institutions with which the city maintains collateralized deposits shall provide a monthly report of market values for the pledged securities. The chief financial officer shall monitor collateralization levels to verify market values and total collateral positions. If the value of the securities pledged falls below the required collateral level, the depository institution holding the deposit must pledge additional securities no later than the end of the next succeeding business day.

Collateralized deposits may require substitution of securities. Any depository institution requesting substitution of collateral must contact the chief financial officer for approval. Written approval is required before any pledged security is released. The value of the substituted security will be calculated and substitution approved if the substitution maintains the required collateral level.

(q) *Custody and safekeeping.* Investment securities purchased for the city, except investment pool funds and mutual funds, will be on a delivery versus payment basis. To protect against fraud, the cash and investments of the city shall be secured in accordance with third-party custody and safekeeping procedures approved by the city. Securities shall be held in a third-party safekeeping account at a custodian bank. A written safekeeping agreement shall be executed with each custodian bank, such bank being a permitted institution under the Public Funds Collateral Act. Upon receipt of purchased or pledged securities, the custodian

bank shall promptly issue and deliver to the city a safekeeping receipt identifying and evidencing receipt of the security. The chief financial officer or their designee shall maintain the original safekeeping receipts. All securities shall be confirmed in the name of the city and shall be held in an account naming the city as the customer. The market value of purchased or pledged securities shall be independently monitored by the custodian bank on a monthly basis and reported directly to the city. At least quarterly, the chief financial officer shall verify that all securities owned by or pledged to the city are documented and held in safekeeping in the city's account. These records shall also be subject to an annual compliance audit of management controls on investments and adherence to the city's established investment policies.

(r) *Certification form.* A written copy of the investment policy shall be provided to any person or organization offering to engage in an investment transaction with the city. Every seller of investments to the city must execute a certificate in favor of the city substantially in the form set out herein below, and the investment officers may not acquire or otherwise obtain any authorized investment from any seller until a signed certification form has been delivered to the city.

(s) *Other policy considerations.* The city is not required to liquidate investments that were authorized investments at the time of purchase.

(t) *Annual review.* The city council shall review this investment policy and investment strategies not less than annually. The city council shall adopt a written instrument by ordinance or resolution stating that it has reviewed the investment policy and investment strategies and the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

CERTIFICATION FORM

As required by V.T.C.A., Government Code § 2256.005(k)

CITY OF BELLAIRE, TEXAS (the "City")

The undersigned hereby acknowledges and certifies as follows:

1. The undersigned is a qualified representative of _____, a business organization (the "Organization"), offering to engage in an investment transaction with the City.
2. The Organization has received and reviewed the investment policy of the City.
3. The Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the Organization that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

Signature

Name: _____

Title: _____

Date: _____

(Ord. No. 96-020, 3-18-1996; amended by Ord. No. 98-008)

State law references: Public Funds Investment Act, V.T.C.A., Government Code § 2256.001 et seq.