

CITY OF NATALIA, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2014

CITY OF NATALIA, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

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FINANCIAL SECTION

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

P.O. Box 366 / 442 West Oaklawn
Pleasanton, Texas 78064
Phone: (830) 569-8781 ~ Fax: (830) 569-6776

E-mail: beyeraandco@sbcglobal.net

111 North Odem
Sinton, Texas 78387
Phone: (830) 569-8781 ~ Fax: (830) 569-6776

Please reply to Pleasanton address

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Natalia, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Natalia, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Natalia, Texas, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress for the Public Employees Retirement System on pages 3–12 and 43 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.

Wayne R. Beyer

BEYER & CO.
Certified Public Accountants
June 13, 2015

Management's Discussion and Analysis

As management of the City of Natalia, Texas, we offer readers of the City of Natalia, Texas' financial statements this narrative overview and analysis of the financial activities of the City of Natalia, Texas for the fiscal year ended September 30, 2014.

Financial Highlights

- . The assets of the City of Natalia, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$1,978,823 (Net Position). Of this amount, \$102,505 or 5% (unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total Net Position decreased by \$36,558. This decrease is mainly attributable to a decline in fines of \$104,267, a decrease in miscellaneous income of \$117,438, and a resulting decline in non garbage expenses of \$171,301 in the governmental activities. The Utility fund charges for non garbage services declined by \$20,730 and non garbage expenses increased by \$54,749.
- . The City of Natalia, Texas' total debt increased by \$24,890 (14.58 percent) during the current fiscal year. The key factor was the issuance of a capital lease of \$80,000.

Overview of the Financial Statements

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

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

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

The *statement for activities presents* information showing how the government's Net Position changed during the most recent fiscal year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City of Natalia, Texas that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Natalia, Texas include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Natalia, Texas include a Utility System.

The government-wide financial statements include only the City of Natalia, Texas itself (known as the *primary government*.)

The government-wide financial statements can be found on pages 13-14 for this report.

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

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

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

The City of Natalia, Texas maintains three 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, the veteran's memorial library fund, and the NPD impound fund.

The City of Natalia, Texas adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on 15-19 of this report.

Proprietary funds: The City of Natalia, Texas 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 of Natalia, Texas uses enterprise funds to account for its Utility operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility operations, which is considered to be a major fund of the City of Natalia, Texas. The basic proprietary fund financial statements can be found on pages 20-24 of this report.

Notes to the financial statements: The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-42 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Natalia, Texas' progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 43 of this report.

Government-wide Financial Analysis

As noted earlier, Net Position may serve over time as a useful indicator of a government's financial position. In the case of the City of Natalia, Texas, assets exceeded liabilities by \$1,978,823 at the close of the most recent fiscal year.

A significant portion of the City of Natalia, Texas' Net Position (91 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Natalia, Texas uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Natalia, Texas' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted Net Position*, \$102,505, may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF NATALIA, TEXAS
NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other Assets	\$221,170	\$256,912	\$116,421	\$121,414	\$337,591	\$378,326
Restricted Assets:	90,721	63,871	27,290	77,487	118,011	141,358
Capital Assets:	308,928	336,947	1,588,244	1,584,984	1,897,172	1,921,931
Total Assets	620,819	657,730	1,731,955	1,783,885	2,352,774	2,441,615
Long-term liabilities	111,276	166,955	84,355	3,786	195,631	170,741
Other liabilities (Payable from Restricted Assets)	0	0	52,923	40,470	52,923	40,470
Other liabilities	31,104	30,655	94,293	184,368	125,397	215,023
Total Liabilities	142,380	197,610	231,571	228,624	373,951	426,234
Invested in Capital Assets, Net of Related debt	204,317	172,233	1,588,244	1,584,984	1,792,561	1,757,217
Restricted	83,140	23,309	617	37,017	83,757	60,326
Unrestricted	190,982	264,578	(88,477)	(66,740)	102,505	197,838
Total Net Position	\$478,439	\$460,120	\$1,500,384	\$1,555,261	\$1,978,823	\$2,015,381

At the end of the current fiscal year, the City of Natalia, Texas is able to report positive balances in all three categories of Net Position for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year. The business-type activities showed a positive balance for the Invested in Capital Assets, Net of Related debt for the current year and the prior year but showed negative balances in unrestricted Net Position for both years.

There was an increase of \$23,431 in restricted Net Position reported in connection with the City of Natalia, Texas' governmental and business-type activities. This increase is the result of Municipal Development District monies of \$66,667.

The government's total Net Position decreased by \$36,558. This decrease is mainly attributable to a decline in fines of \$104,267, a decrease in miscellaneous income of \$117,438, and a resulting decline in non garbage expenses of \$171,301 in the governmental activities. The Utility fund charges for non garbage services declined by \$20,730 and non garbage expenses increased by \$54,749.

Governmental activities: Governmental activities increased the City of Natalia, Texas' Net Position by \$18,319, thereby accounting for 100 percent of the total increase in the Net Position of the City of Natalia, Texas. This increase is mainly attributable to a decline in fines of \$104,267, a decrease in miscellaneous income of \$117,438, and a resulting decline in non garbage expenses of \$171,301 in the governmental activities.

**CITY OF NATALIA, TEXAS
CHANGE IN NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services	\$127,236	\$355,722	\$549,611	\$448,541	\$676,847	\$804,263
Operating Grants and Contributions	28,584	29,695			28,584	29,695
Capital Grants and Contributions			57,450	1,373	57,450	1,373
General Revenues:						
Maintenance and Operations Taxes	260,362	256,165			260,362	256,165
Sales taxes	142,649	123,964			142,649	123,964
Franchise taxes	47,249	39,312			47,249	39,312
Licenses and permits	0	12,864			0	12,864
Unrestricted investment earnings	140	8	165	0	305	8
Miscellaneous	45,464	168,857			45,464	168,857
Total Revenue	651,684	986,587	607,226	449,914	1,258,910	1,436,501
Expenses:						
General Administration	317,582	\$336,346			317,582	336,346
Culture and Recreation	17,781	25,200			17,781	25,200
Public Safety	284,487	422,666			284,487	422,666
Public Works		183,557			0	183,557
Public Transportation	13,178	12,860			13,178	12,860
Interest and Fiscal Charges	8,251	15,508			8,251	15,508
Utility			654,189	502,441	654,189	502,441
Total Expenses	641,279	996,137	654,189	502,441	1,295,468	1,498,578
Increase in Net Position before transfers and special items	10,405	(9,550)	(46,963)	(52,527)	(36,558)	(62,077)
Transfers	7,914	70,604	(7,914)	(70,604)	0	0
Increase in Net Position	18,319	61,054	(54,877)	(123,131)	(36,558)	(62,077)
Net Position at 09/30/2013 - Revised	460,120	399,066	1,555,261	1,678,392	2,015,381	2,077,458
Net Position at 09/30/2014	\$478,439	\$460,120	\$1,500,384	\$1,555,261	\$1,978,823	\$2,015,381

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Government Activities:			
General Administration	\$317,582	\$67,067	\$0
Culture and Recreation	17,781	1,100	
Public Safety	284,487	59,069	28,584
Public Facilities	0	0	
Public Transportation	13,178		
Interest and Fiscal Charges	8,251		
Total Government Activities	\$641,279	\$127,236	\$28,584

Revenues by source - Governmental Activities

	<u>REVENUES</u>	<u>%</u>
Charges for Services	\$127,236	20%
Operating Grants and Contributions	28,584	4%
Maintenance and Operations Taxes	260,362	40%
Sales taxes	142,649	22%
Franchise taxes	47,249	7%
Licenses and permits	0	0%
Unrestricted investment earnings	140	0%
Miscellaneous	45,464	7%
	\$651,684	100%

For the most part, increases and decreases in expenses closely paralleled inflation and growth or decline in the demand for services.

Business-type activities: Business-type activities decreased the City of Natalia, Texas' Net Position by \$54,877, accounting for 00 percent of the total increase in the government's Net Position. Key elements of this decrease are as follows: non garbage services declined by \$20,730 and non garbage expenses increased by \$54,749.

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Business-type activities:			
Utility	\$654,189	\$549,611	\$57,450
Total business-type activities	\$654,189	\$549,611	\$57,450

Revenues by source - Business-type Activities

	REVENUES	%
Charges for Services	\$549,611	91%
Capital Grants and Contributions	57,450	9%
Unrestricted investment earnings	165	0%
	\$607,226	100%

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Natalia, Texas' governmental funds reported combined ending fund balances of \$127,168, an increase of \$29,650 in comparison with the prior year. Approximately 00% of this total amount (a minus \$41,706) constitutes *unassigned fund balance*, which is available for spending at the government's discretion

The general fund is the chief operating fund of the City of Natalia, Texas. At the end of the current fiscal year, unassigned fund balance of the general fund was \$22,128, while total fund balance reached \$191,002. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned, undesignated fund balance represents 3 percent of total general fund expenditures, while total fund balance represents 31 percent of that same amount.

The fund balance of the City of Natalia, Texas' general fund increased by \$47,416 during the current fiscal year. This increase is mainly attributable to an increase in non garbage "charges for services" of \$58,243.

At the end of the current fiscal year the restricted fund balance of the NPD Impound fund was \$0, while total fund balance reached a minus \$53,917. As a measure of the NPD Impound fund's liquidity, it may be useful to compare both restricted fund balance and total fund balance to total fund expenditures. Restricted fund balance represents 0 percent of total NPD Impound fund expenditures, while total fund balance represents 0 percent of that same amount.

The fund balance of the City of Natalia, Texas' NPD Impound fund decreased by \$14,577 during the current fiscal year. Key factor in this decrease is as follows: A decrease in forfeiture income.

At the end of the current fiscal year the restricted fund balance of the veteran's memorial library fund was a minus \$9,917, while total fund balance reached a minus \$9,917. As a measure of the veteran's memorial library fund's liquidity, it may be useful to compare both restricted fund balance and total fund balance to total fund expenditures. Restricted fund balance represents 00 percent of total veteran's memorial library fund expenditures, while total fund balance represents 00 percent of that same amount.

The fund balance of the City of Natalia, Texas' veteran's memorial library fund decreased by \$3,189 during the current fiscal year. Key factor in this decrease is as follows: this decrease is immaterial.

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

Unrestricted Net Position of the Utility Fund at the end of the year amounted to a minus \$88,477. The total decrease in Net Position for the Utility Fund was \$54,877. Key factors in this overall decline are examined above.

General Fund Budgetary Highlights

During the year there was a decrease in appropriations between the original and final amended budget for the general fund of \$81,314. This decrease was fairly representative amongst the departments. The overall budgeted expenditures were \$653,567 while the actual expenditures were \$613,859 thus resulting in a budget underage of \$39,708.

Capital Asset and Debt Administration

Capital assets: The City of Natalia, Texas' investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$1,897,172 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City of Natalia, Texas' investment in capital assets for the current fiscal year was \$24,759 or 1 percent (a 8 percent decrease for governmental activities and a 0 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following: The City began a Wastewater Improvement Project during the year.

City of Natalia, Texas' Capital Assets (Net of depreciation)

CITY OF NATALIA, TEXAS
CAPITAL ASSETS (net of depreciation)

	Governmental		Business-type		Total	
	Activities		Activities		2014	2013
	2014	2013	2014	2013		
Land	\$13,400	\$16,902	\$15,570	\$15,570	\$28,970	\$32,472
Construction in Progress	0	0	57,450	0	57,450	0
Building and improvements	224,731	240,336	51,207	52,529	275,938	292,865
Intangible	31,827	33,699	0	0	31,827	33,699
Machinery and equipment	38,970	46,010	66,835	5,218	105,805	51,228
Infrastructure	0	0	0	0	0	0
Distribution System	0	0	1,397,182	1,511,667	1,397,182	1,511,667
Total	<u>\$308,928</u>	<u>\$336,947</u>	<u>\$1,588,244</u>	<u>\$1,584,984</u>	<u>\$1,897,172</u>	<u>\$1,921,931</u>

Additional information of the City of Natalia, Texas' capital assets can be found in note IV.C on pages 36-37 of this report.

Long-term debt: At the end of the current fiscal year, the City of Natalia, Texas had the following outstanding bonded debt.

City of Natalia, Texas’ Outstanding Bonded Debt

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>	<u>Due after one year</u>
<u>Governmental activities:</u>						
Tax Notes	\$125,000	\$0	\$40,000	\$85,000	\$40,000	\$45,000
	<u>125,000</u>	<u>0</u>	<u>40,000</u>	<u>85,000</u>	<u>40,000</u>	<u>45,000</u>
 Grand Total	 <u>\$125,000</u>	 <u>\$0</u>	 <u>\$40,000</u>	 <u>\$85,000</u>	 <u>\$40,000</u>	 <u>\$45,000</u>

The City of Natalia, Texas’ total bonded debt decreased by \$40,000 during the current fiscal year. This was a result of a bond payment of \$40,000.

Additional information on the City of Natalia, Texas’ long-term debt can be found in note IV.F on pages 38-39 of this report.

Economic Factors

The influx of business resulting from the Eagle Ford Shale had had an impact on the City and will continue to have an impact for the foreseeable future.

Requests for Information

This financial report is designed to provide a general overview of the City of Natalia, Texas’ finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Department, P.O. Box 270, Natalia, Texas, 78059.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF NATALIA, TEXAS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$62,393	\$58,460	\$120,853
Receivables (net of allowance for uncollectibles)	158,777	57,961	216,738
Unamortized Tax Note Issuance Costs			0
Restricted Assets:			
Cash and Cash Equivalents	90,721	27,290	118,011
Capital Assets Not Being Depreciated:			
Land	13,400	15,570	28,970
Construction in Progress		57,450	57,450
Total Capital Assets Being Depreciated, Net			
Building and Improvements	224,731	51,207	275,938
Intangible	31,827		31,827
Machinery and Equipment	38,970	66,835	105,805
Distribution System		1,397,182	1,397,182
Total Assets	\$620,819	\$1,731,955	\$2,352,774
LIABILITIES:			
Accounts Payable	\$24,666	\$56,583	\$81,249
Accrued Wages	4,078	2,518	6,596
Interest Payable	2,360		2,360
Customer Deposits		20,625	20,625
Deferred Revenues		14,567	14,567
Consumer Meter Deposit		52,923	52,923
Noncurrent Liabilities:			
Due Within One Year	56,229	15,853	72,082
Due in More Than One Year	55,047	68,502	123,549
Total Liabilities	142,380	231,571	373,951
NET POSITION			
Invested in Capital Assets, Net of Related Debt	204,317	1,588,244	1,792,561
Restricted			
Disposal Fees		617	617
Debt Service	747		747
Municipal Court Reserve	10,543		10,543
Municipal Development	71,850		71,850
Unrestricted	190,982	(88,477)	102,505
Total Net Position	\$478,439	\$1,500,384	\$1,978,823

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS
 STATEMENT OF ACTIVITIES
 YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in		Net (Expense) Revenue and Changes in Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Primary Government						
Government Activities:						
General Administration	\$317,582	\$67,067	\$0	\$0	(\$250,515)	(\$250,515)
Culture and Recreation	17,781	1,100			(16,681)	(16,681)
Public Safety	284,487	59,069	28,584		(196,834)	(196,834)
Public Transportation	13,178				(13,178)	(13,178)
Interest and Fiscal Charges	8,251				(8,251)	(8,251)
Total Government Activities	<u>641,279</u>	<u>127,236</u>	<u>28,584</u>	<u>0</u>	<u>(485,459)</u>	<u>0</u>
Business-Type Activities:						
Utility	654,189	549,611		57,450		(47,128)
Total Business-Type Activities	<u>654,189</u>	<u>549,611</u>	<u>0</u>	<u>57,450</u>	<u>0</u>	<u>(47,128)</u>
Total Primary Government	<u>\$1,295,468</u>	<u>\$676,847</u>	<u>\$28,584</u>	<u>\$57,450</u>	<u>(485,459)</u>	<u>(47,128)</u>
General Revenues						
Property Taxes, Levies for General Purposes					260,362	260,362
Sales Taxes					142,649	142,649
Franchise Taxes					47,249	47,249
Licenses and Permits						0
Unrestricted Investment Earnings					140	165
Miscellaneous					45,464	45,464
Transfers					7,914	(7,914)
Total General Revenues and Transfers					<u>503,778</u>	<u>(7,749)</u>
Change in Net Position					18,319	(54,877)
Net Position - Beginning - Revised					460,120	1,555,261
Net Position - Ending					<u>\$478,439</u>	<u>\$1,500,384</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF NATALIA, TEXAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2014

	General Fund	NPD Impound Fund	Veteran's Memorial Library Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$42,152	\$20,241	\$0	\$62,393
Receivables (net of allowance for uncollectibles)	88,482			88,482
Due from Other Funds	80,933			80,933
Restricted Assets:				
Cash and Cash Equivalents	87,941		2,780	90,721
Total Assets	\$299,508	\$20,241	\$2,780	\$322,529
LIABILITIES AND FUND BALANCES:				
Accounts Payable	\$18,744	\$5,381	\$541	\$24,666
Due to Other Funds		68,777	12,156	80,933
Accrued Wages	4,078			4,078
Total Liabilities	22,822	74,158	12,697	109,677
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue-Property Taxes				
Total deferred inflows of resources	85,684			85,684
Fund Balances:				
Nonspendable				
Due to Others	80,933			80,933
Restricted				
Debt Service	747			747
Municipal Court Reserve	10,543			10,543
Municipal Development	71,850			71,850
Committed				
Centennial	4,801			4,801
Unassigned	22,128	(53,917)	(9,917)	(41,706)
Total Fund Balance	191,002	(53,917)	(9,917)	127,168
Total Liabilities and Fund Balances	\$299,508	\$20,241	\$2,780	\$322,529

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014

Total Fund Balances - governmental funds balance sheet	\$127,168
Amounts reported for governmental activities in the statement of Net Position ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	308,928
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	85,684
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	70,295
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(113,636)
Net Position of governmental activities - statement of Net Position	<u>\$478,439</u>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	General Fund	NPD Impound Fund	Veteran's Memorial Library Fund	Total Governmental Funds
<i>REVENUES</i>				
Taxes				
Property	\$263,894	\$0	\$0	\$263,894
Sales	142,649			142,649
Franchise	47,249			47,249
Intergovernmental	28,584			28,584
Charges for Services	82,628			82,628
Fines and Forfeitures	81,178			81,178
Interest	129	11		140
Miscellaneous	7,050	24,389	14,025	45,464
Total Revenues	<u>653,361</u>	<u>24,400</u>	<u>14,025</u>	<u>691,786</u>
<i>EXPENDITURES</i>				
Current:				
General Administration	299,478			299,478
Culture and Recreation			17,214	17,214
Public Safety	231,738	38,977		270,715
Public Transportation	13,178			13,178
Debt Service				
Principal Retirement	60,103			60,103
Interest Retirement	9,362			9,362
Total Expenditures	<u>613,859</u>	<u>38,977</u>	<u>17,214</u>	<u>670,050</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>39,502</u>	<u>(14,577)</u>	<u>(3,189)</u>	<u>21,736</u>
<i>OTHER FINANCING SOURCES (USES):</i>				
Other Financing Sources - Notes Payable				0
Other Financing Sources - Capital Leases				0
Operating Transfers In	7,914			7,914
Total Other Financing Sources (Uses)	<u>7,914</u>	<u>0</u>	<u>0</u>	<u>7,914</u>
Net Changes in Fund Balances	<u>47,416</u>	<u>(14,577)</u>	<u>(3,189)</u>	<u>29,650</u>
Fund Balances - Beginning	143,586	(39,340)	(6,728)	97,518
Fund Balances - Ending	<u>\$191,002</u>	<u>(\$53,917)</u>	<u>(\$9,917)</u>	<u>\$127,168</u>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2014

Net Changes in Fund Balances - total governmental funds \$29,650

Amounts reported for governmental activities in the statement of Net Position ("SNA") are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(28,019)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(3,532)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(36,570)
Increase in loan principal are receipts in the funds but not revenue in the SOA.	60,103
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	(4,424)
(Increase) decrease in Compensated Absences Payable from beginning of period to end of period.	1,111
(Increase) decrease in Accrued Interest Payable from beginning of period to end of period.	<u>1,111</u>
Change in Net Position of governmental activities - statement of activities	<u><u>\$18,319</u></u>

The accompanying notes are an integral part of this statement.

CITY OF NATALIA, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property	\$263,329	\$263,329	\$263,894	\$565
Sales	152,099	152,099	142,649	(9,450)
Franchise	45,000	45,000	47,249	2,249
Intergovernmental	27,882	27,882	28,584	702
Charges for Services	21,491	4,678	82,628	77,950
Fines and Forfeitures	155,000	147,000	81,178	(65,822)
Interest	0	94	129	35
Miscellaneous	300	5,747	7,050	1,303
Total Revenues	<u>665,101</u>	<u>645,829</u>	<u>653,361</u>	<u>7,532</u>
EXPENDITURES				
Current:				
General Administration				
General Administration	341,037	309,379	299,478	9,901
Public Safety				
Animal Control	3,000	11,910	7,144	4,766
Police	287,704	242,695	214,341	28,354
Municipal Court	12,000	12,000	10,253	1,747
Public Works				
Sanitation				0
Public Transportation				
Streets	32,180	29,423	13,178	16,245
Debt Service				
Principal Retirement	40,000	40,000	60,103	(20,103)
Interest Retirement	18,960	8,160	9,362	(1,202)
Total Expenditures	<u>734,881</u>	<u>653,567</u>	<u>613,859</u>	<u>39,708</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(69,780)</u>	<u>(7,738)</u>	<u>39,502</u>	<u>47,240</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	0	0	7,914	7,914
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>7,914</u>	<u>7,914</u>
Net Changes in Fund Balances	<u>(69,780)</u>	<u>(7,738)</u>	<u>47,416</u>	<u>55,154</u>
Fund Balances - Beginning	143,586	143,586	143,586	
Fund Balances - Ending	<u>\$73,806</u>	<u>\$135,848</u>	<u>\$191,002</u>	<u>\$55,154</u>

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

CITY OF NATALIA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

BUSINESS TYPE ACTIVITIES
- ENTERPRISE FUNDS

	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$58,460	\$62,691	\$58,460
Accounts Receivables (net of allowance for uncollectibles)	57,961	58,723	57,961
Total Current Assets	116,421	121,414	116,421
Noncurrent Assets			
Restricted Assets:			
Cash and Cash Equivalents - Disposal Fees	617	37,017	617
Cash and Cash Equivalents - Water Meters	26,673	40,470	26,673
Total Restricted Assets	27,290	77,487	27,290
Capital Assets			
Land	15,570	15,570	15,570
Construction in Progress	57,450	0	57,450
Buildings and Improvements	62,734	62,734	62,734
Machinery and Equipment	137,342	73,457	137,342
Distribution System	4,766,713	4,766,713	4,766,713
Total Capital Assets	5,039,809	4,918,474	5,039,809
Less Accumulated Depreciation			
Total Capital Assets (net of accumulated depreciation)	(3,451,565)	(3,333,490)	(3,451,565)
	1,588,244	1,584,984	1,588,244
Total Noncurrent Assets	1,588,244	1,584,984	1,588,244
TOTAL ASSETS	\$1,731,955	\$1,783,885	\$1,731,955

(continued)

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Current Liabilities (Payable from Current Assets)			
Accounts Payable	\$56,583	\$77,084	\$56,583
Accrued Wages	2,518	1,517	2,518
Compensated Absences	4,355	3,786	4,355
Consumer Deposit	20,625	33,750	20,625
Deferred Revenues	14,567	72,017	14,567
Capital Leases - Current	11,498		11,498
Total Current Liabilities (Payable from Current Assets)	<u>110,146</u>	<u>188,154</u>	<u>110,146</u>
Current Liabilities (Payable from Restricted Assets)			
Consumer Meter Deposits	52,923	40,470	52,923
Total Current Liabilities Payable from Restricted Assets	<u>52,923</u>	<u>40,470</u>	<u>52,923</u>
Noncurrent Liabilities			
Capital Lease Payable	<u>68,502</u>	<u>0</u>	<u>68,502</u>
Total Noncurrent Liabilities	<u>68,502</u>	<u>0</u>	<u>68,502</u>
Total Liabilities	<u>231,571</u>	<u>228,624</u>	<u>231,571</u>
Invested in Capital Assets, Net of Related Debt	1,588,244	1,584,984	1,588,244
Restricted for:			
Disposal Fees - Non-Expendable	617	37,017	617
Unrestricted	<u>(88,477)</u>	<u>(66,740)</u>	<u>(88,477)</u>
Total Net Position	<u>\$1,500,384</u>	<u>\$1,555,261</u>	<u>\$1,500,384</u>

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

CITY OF NATALIA, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

	BUSINESS TYPE ACTIVITIES		
	- ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:			
Charges for Services - Water	\$231,846	\$243,096	\$231,846
Charges for Services - Sewer	129,102	129,557	129,102
Charges for Services - Garbage	107,630	182,462	107,630
Charges for Services - General Fees	44,364	45,287	44,364
Charges for Services - Other	27,424	36,813	27,424
Miscellaneous	9,245	14,477	9,245
Total Operating Revenues	<u>549,611</u>	<u>651,692</u>	<u>549,611</u>
OPERATING EXPENSES:			
Personal Services	192,134	159,658	192,134
Supplies	33,653	33,001	33,653
Other Services and Charges	202,023	185,191	202,023
Sanitation services	92,353	183,557	92,353
Depreciation	134,026	135,643	134,026
Total Operating Expenses	<u>654,189</u>	<u>697,050</u>	<u>654,189</u>
Operating Income (Loss)	<u>(104,578)</u>	<u>(45,358)</u>	<u>(104,578)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest Income	165	0	165
Intergovernmental	57,450	1,373	57,450
Total Non-Operating Revenues (Expenses)	<u>57,615</u>	<u>1,373</u>	<u>57,615</u>
Income Before Contributions and Transfers	(46,963)	(43,985)	(46,963)
Transfers In (Out) - Net	<u>(7,914)</u>	<u>(79,146)</u>	<u>(7,914)</u>
Change in Net Position	(54,877)	(123,131)	(54,877)
Total Net Position - Beginning	1,555,261	1,678,392	1,555,261
Total Net Position - Ending	<u>\$1,500,384</u>	<u>\$1,555,261</u>	<u>\$1,500,384</u>

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

CITY OF NATALIA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	BUSINESS TYPE ACTIVITIES		
	- ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities			
Receipts from Customers and Users	\$492,251	\$707,440	\$492,251
Payments to Suppliers	(348,530)	(401,480)	(348,530)
Payments to Employees	(190,564)	(158,774)	(190,564)
Net Cash Provided (Used) by Operating Activities	(46,843)	147,186	(46,843)
Cash Flows from Non-Capital and Related Financing Activities			
Transfers Out	(7,914)	(79,146)	(7,914)
Intergovernmental	57,450	1,373	57,450
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	49,536	(77,773)	49,536
Cash Flows from Capital and Related Financing Activities			
Principal Payment on Revenue Bonds, Notes and Capital Leases	0	0	0
Proceeds from Capital Debt	80,000		80,000
Purchases of Capital Assets	(137,286)	(5,000)	(137,286)
Net Cash Provided (Used) by Capital and Related Financing Activities	(57,286)	(5,000)	(57,286)
Cash Flows from Investing Activities			
Interest Received	165	0	165
Net Cash Provided (Used) by Investment Activities	165	0	165
Net Increase (Decrease) in Cash Equivalents	(54,428)	64,413	(54,428)
Cash and Cash Equivalents at Beginning of Year	140,178	75,765	140,178
Cash and Cash Equivalents at End of Year	\$85,750	\$140,178	\$85,750
Restricted Cash	\$27,290	\$77,487	\$27,290
Unrestricted Cash	58,460	62,691	58,460
	\$85,750	\$140,178	\$85,750

(continued)

(continued)

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS		
	UTILITY CURRENT YEAR	UTILITY PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating Income (Loss)	(\$104,578)	(\$45,358)	(\$104,578)
Adjustments to Reconcile to Net Cash Flow			
Non-Cash Items Included in Net Income			
Depreciation	134,026	135,643	134,026
Changes in Current Items			
Decrease (Increase) in Accounts Receivable	762	(2,260)	762
Increase (Decrease) in Accounts Payable	(20,501)	269	(20,501)
Increase (Decrease) in Accrued Wages	1,001	451	1,001
Increase (Decrease) in Compensated Absences	569	433	569
Increase (Decrease) in Consumer Deposits	(13,125)	(4,750)	(13,125)
Increase (Decrease) in Deferred Revenues	(57,450)	72,017	(57,450)
Increase (Decrease) in Consumer Meter Deposits	12,453	(9,259)	12,453
			0
Net Cash Provided (Used)			
By Operating Activities	<u>(\$46,843)</u>	<u>\$147,186</u>	<u>(\$46,843)</u>
Noncash Investing, Capital, and Financing Activities:			
Capital Lease	\$80,000	\$0	\$80,000
Federal Grant	57,450	1,373	57,450
	<u>\$137,450</u>	<u>\$1,373</u>	<u>\$137,450</u>

Note: The above funds are all Enterprise Funds.

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

CITY OF NATALIA, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

I. Summary of significant accounting policies

A Reporting entity/ Basis of Accounting/Measurement Focus

The City of Natalia, Texas, was incorporated by an election. The City operates under a General Law type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Natalia, Texas, (the City) conform to generally accepted accounting principles. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements. The following is a summary of the more significant policies.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounting policies of the City of Natalia, Texas, (the City) conform to generally accepted accounting principles generally accepted in the United States of America. The City also applies all relevant Government Accounting Standards Board (GASB) pronouncements.

B. Government-wide and fund financial statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

C. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the Net Position and changes in Net Position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The City’s deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are franchise taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The NPD Impound fund is used to collect monies from impounding vehicles to be used for law enforcement purposes.

The veteran’s memorial library fund is used to collect monies for the operation of the city library.

D. Proprietary fund financial statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's water and sewer operations.

D. Assets, liabilities, and Net Position or equity

1. Deposits and investments

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Current trade accounts receivable allowance is equal to 1 percent of outstanding utility billings at September 30, 2014, trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding utility billings at September 30, 2014, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding utility billings at September 30, 2014, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding utility billings at September 30, 2014, and the trade accounts receivable allowance in excess of 120 days is equal to 75 percent of outstanding utility billings at September 30, 2014. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2014, and 10 percent of delinquent outstanding property taxes at September 30, 2014.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

Inventories are considered immaterial and, therefore, there were no inventory items at September 30, 2014.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. There were no prepaid items at September 30, 2014.

4. Restricted assets

Certain assets are classified as restricted assets because their use is restricted by applicable contract covenants.

The restricted assets consist of the following cash items:

	Governmental Activities	Business-type Activities	Total
Restricted for:			
Centennial	\$4,801		\$4,801
Debt Service	747		747
Disposal Fees		617	617
Library		2,780	2,780
Municipal Court Reserve	10,543		10,543
Municipal Development	71,850		71,850
Meters		26,673	26,673
Total	<u>\$87,941</u>	<u>\$30,070</u>	<u>\$118,011</u>

5. 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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City began a Wastewater Improvement Project during the year.

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

Asset	Years
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

8. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

9. 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 government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. 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.

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 government 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 two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that

the amounts become available.

10. Net position flow assumption

Sometimes the government 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 government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

11. Fund Balances – Governmental Funds

As of September 30, 2014, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

Unassigned — all other spendable amounts.

As of September 30, 2014, fund balances are composed of the following:

Fund Balances:	
Nonspendable	
Due to Others	\$80,933
Restricted	
Debt Service	747
Municipal Court Reserve	10,543
Municipal Development	71,850
Committed	
Centennial	4,801
Unassigned	(41,706)
Total Fund Balance	<u>\$127,168</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions. In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 15 to 25 percent of the subsequent year's budgeted General Fund expenditures.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of Net Position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$113,636 difference are as follows:

Compensated Absences	\$6,665
Interest Payable	2,360
Tax Notes	85,000
Capital Lease	19,611
	<u>\$113,636</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this \$85,684 difference are as follows:

Property Taxes Receivable	\$93,202
Allowance for Doubtful Accounts	<u>(7,518)</u>
Net	<u>\$85,684</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in Net Position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$308,928 difference are as follows:

Capital assets not being depreciated	\$13,400
Capital assets being depreciated	841,729
Depreciation expense	(546,201)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in Net Position of governmental activities	<u>\$308,928</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and Net Position - governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$70,295 difference are as follows:

Fines and Fees Receivable	\$265,658
Allowance for Doubtful Accounts	<u>(195,363)</u>
Net	<u><u>\$70,295</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in Net Position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$28,019 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$0
Capital Outlay - Additions - Being Depreciated	25,588
Capital Outlay - Deletions	(3,877)
Depreciation Expense	(49,730)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u><u>(\$28,019)</u></u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The City Manager has been authorized by the council to prepare the budget. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Manager. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Manager is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

B. Excess of expenditures over appropriations

For the year ended September 30, 2014, excess of expenditures over appropriations did not occur in the general fund.

C. Deficit fund equity

The City did not have a deficit fund balance as of September 30, 2014 except for the NPD Impound fund which had a deficit fund balance of \$53,917 and the Veteran's Memorial Library fund which had a deficit fund balance of \$9,917. These deficits are expected to be liquidated by future resource of these funds.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is not in compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

The City does not have a depository contract with its depository bank but has adopted an investment policy. That City does address the following risks:

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is not exposed to custodial credit risk because during the year the City was fully covered by either depository insurance and/or collateral held by the government's agent in the government's name. The total amount of cash in the bank at September 30, 2014 is \$253,521 while the total pledged securities are \$191,336 and the FDIC insurance coverage is \$253,521. The book balance was \$238,864. As of September 30, 2014, the city had no investments.

B. Receivables

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

	<u>General</u>	<u>Utility</u>	<u>Total</u>
<u>Receivables</u>			
Taxes	\$93,202		\$93,202
Charges for Services		70,122	70,122
Fines	265,658		265,658
Other	2,798	2,029	4,827
Gross receivables	361,658	72,151	433,809
Less: Allowance for uncollectibles	202,881	14,190	217,071
Net total receivables	<u>\$158,777</u>	<u>\$57,961</u>	<u>\$216,738</u>

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

	<u>Unearned Revenue</u>	<u>Unavailable Revenue</u>
Delinquent Property Taxes Receivable (General Fund)-Net	\$ 89,216	
Deferred Grant Revenue	<u> </u>	<u>\$ 14,657</u>
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 89,216</u>	<u>\$ 14,657</u>

C. Capital assets

Capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$16,902	\$0	\$3,502	\$13,400
Total capital assets not being depreciated	16,902	0	3,502	13,400
Capital assets being depreciated:				
Building and improvements	312,112	0	17,667	294,445
Intangible	76,324	0	0	76,324
Machinery and equipment	272,622	25,588	80,500	217,710
Infrastructure	253,250	0	0	253,250
Total capital assets being depreciated	914,308	25,588	98,167	841,729
Less accumulated depreciation for:				
Building and improvements	71,776	14,722	16,784	69,714
Intangible	42,625	1,872	0	44,497
Machinery and equipment	226,612	33,136	81,008	178,740
Infrastructure	253,250	0	0	253,250
Total accumulated depreciation	594,263	49,730	97,792	546,201
Total Capital assets being depreciated, net	320,045	(24,142)	375	295,528
Governmental activities capital assets, net	\$336,947	(\$24,142)	\$3,877	\$308,928
	Beginning			Ending
	Balances	Increases	Decreases	Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$15,570	\$0	\$0	\$15,570
Construction in Progress	0	57,450	0	57,450
Total capital assets not being depreciated	15,570	57,450	0	73,020
Capital assets being depreciated:				
Building and improvements	62,734	0	0	62,734
Machinery and equipment	73,457	80,000	16,115	137,342
Distribution System	4,766,713	0	0	4,766,713
Total capital assets being depreciated	4,902,904	80,000	16,115	4,966,789
Less accumulated depreciation for:				
Building and improvements	10,205	1,322	0	11,527
Machinery and equipment	68,239	18,218	15,950	70,507
Distribution System	3,255,046	114,485	0	3,369,531
Total accumulated depreciation	3,333,490	134,025	15,950	3,451,565
Total Capital assets being depreciated, net	1,569,414	(54,025)	165	1,515,224
Business-type activities capital assets, net	\$1,584,984	\$3,425	\$165	\$1,588,244

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

Governmental activities	
General Administration	\$11,867
Culture and Recreation	567
Public Safety	<u>37,296</u>
Total depreciation expense - governmental activities	<u>\$49,730</u>
Business-type activities	
Utility	<u>\$192,134</u>
Total depreciation expense - Business-type activities	<u>\$192,134</u>

Construction commitments: The City began a Wastewater Improvement Project during the year.

D. Interfund receivables, payables, and transfers

The City had a due to General fund from the NPD Impound fund for \$68,777 at September 30, 2014. This was for payroll facilitation on behalf of the Impound fund. This amount is expected to be repaid within the next fiscal year.

The City had a due to General fund from the Veteran's Memorial Library fund for \$12,156 at September 30, 2014. This was for operating funds. This amount is expected to be repaid within the next fiscal year.

The City had a transfer of \$7,914 from the Utility fund to the General fund for the year ended September 30, 2014. This transfer was for operating capital and is recurring.

E. Leases

The City had no operating leases at September 30, 2014.

F. Long-term debt

Tax Notes

The government issues tax notes to provide funds for the acquisition and construction of major capital facilities. Tax Notes have been issued for governmental activities. The original amount of the tax notes issued in the 2008-2009 year was \$200,000.

Tax notes are direct obligations and pledge the full faith and credit of the government. Tax notes outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities	6.0	\$85,000

The general fund is used to service the tax notes.

Annual debt service requirements to maturity for the Certificates of Obligation bonds and Revenue bonds are as follows:

Year Ending September 30,	<u>Governmental activities:</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$40,000	\$5,100
2016	45,000	2,700
TOTALS	<u>\$85,000</u>	<u>\$7,800</u>

Capital Leases

The Capital Leases consists of one COPSUNC computer system for the police department Governmental Fund Capital Assets at \$37,443. The debt will be serviced by the General Fund. The accumulated depreciation of the above equipment is \$5,616. The Capital Leases also consists of a truck and backhoe for the Utility Department at \$80,000. The debt will be serviced by the Utility Fund. The accumulated depreciation of the above equipment is \$16,000. The following for the above debt is a schedule of the future minimum lease payments and the present value of net minimum lease payments at September 30, 2014.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014, were as follows:

YEAR	Governmental Activities Amount	Business-type Activities Amount
2015	\$10,557	\$13,247
2016	10,557	13,247
2017		13,247
2018		13,247
2019		13,247
2020		13,246
2021		13,246
Total Minimum Lease Payments	<u>21,114</u>	<u>92,727</u>
Less: Amount Representing Interest	<u>1,503</u>	<u>12,727</u>
Present Value of Net Minimum Lease Payments	<u>\$19,611</u>	<u>\$80,000</u>

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Due after one year
<u>Business-type activities:</u>						
Compensated Absences	\$3,786	\$4,355	\$3,786	\$4,355	\$4,355	\$0
Capital Lease	0	80,000	0	80,000	11,498	68,502
	<u>3,786</u>	<u>84,355</u>	<u>3,786</u>	<u>84,355</u>	<u>15,853</u>	<u>68,502</u>
<u>Governmental activities:</u>						
Notes Payable	11,000		11,000	0	0	0
Capital Lease	28,714		9,103	19,611	9,564	10,047
Tax Notes	125,000		40,000	85,000	40,000	45,000
Compensated Absences	2,241	6,665	2,241	6,665	6,665	0
	<u>166,955</u>	<u>6,665</u>	<u>62,344</u>	<u>111,276</u>	<u>56,229</u>	<u>55,047</u>
Grand Total	<u>\$170,741</u>	<u>\$91,020</u>	<u>\$66,130</u>	<u>\$195,631</u>	<u>\$72,082</u>	<u>\$123,549</u>

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2014 year is \$11,020.

The government-wide statement of activities includes \$72,082 as "noncurrent liabilities, due within one year".

The total amount of interest expensed in 2013-2014 is \$9,362. There was no interest capitalized in capital assets.

V. 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; injuries to employees; and natural disasters. Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation).

Changes in accrued liabilities for these claims follow:

	Year ended <u>09/30/14</u>	Year ended <u>09/30/13</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

General Liability Insurance

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses.

TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas.

The City carries commercial fidelity bonds for elected officials and for management.

Property and Casualty Insurance

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

Workers' Compensation Insurance

The City insures against workers' compensation claims through TML.

Group Health and Life Insurance

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

Unemployment Compensation Insurance

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.

B. Related party transaction

There were no related party transactions during the year.

C. Contingent liabilities

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

Avalos v City & Several Unknown Officers: Plaintiff claimed illegal search and seizure regarding the destruction and seizure of several dogs. **Case was dismissed** without any recovery by Plaintiff.

D. Subsequent events

There were no subsequent events requiring disclosure.

E. Other Post Employment Benefits

The City had no Other Post Employment Benefits at September 30, 2014.

F. Pension Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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:

PLAN YEAR	2013	2014
EMPLOYEE DEPOSIT RATE	5.00%	5.00%
MATCHING RATIO (city to employee)	1 to 1	1 to 1
YEARS REQUIRED FOR VESTING	5	5
SERVICE RETIREMENT ELIGIBILITY (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
UPDATED SERVICE CREDIT	0%	0%
ANNUITY INCREASE (to retirees)	00% of CPI	00% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by actuary, using the Projected Unit Credit actuarial Method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and the prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09-30-12	8,598	100%	-0-
09-30-13	8,375	100%	-0-
09-30-14	7,995	100%	-0-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest valuation, December 31, 2013, also follows:

VALUATION DATE	12/31/2011	12/31/2012	12/31/2013
ACTUARIAL COST METHOD	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 EQUIVALENT SINGLE	22.3 years; closed period	20.4 years; closed period	25.0 years; closed period
ASSET VALUATION METHOD	10 Year Smoothed Mkt.	10 Year Smoothed Mkt.	10 Year Smoothed Mkt.
AMORTIZATION PERIOD	Closed Period	Closed Period	Closed Period
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.0%	7.0%	7.0%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT	3.00%	3.00%	3.00%
COST-OF-LIVING ADJUSTMENTS	0.0	0.0%	0.0%
AMORTIZATION PERIOD FOR NEW GAINS/LOSES	18 years	18 years	14 years

The funded status as of December 31, 2013, the most actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/2013	\$158,157	\$197,525	\$39,368	80.1%	\$373,592	10.5%

The schedule of funding progress presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

G. Prior Period Adjustments

The City has determined that certain transactions were recorded incorrectly in a prior year.

Governmental Activities: In the Government-Wide statements and in the Funds, the City expensed Bond Issuance Costs as per GASB Statement 65. This restatement had a corresponding effect on change in net assets.

	Net Assets, as Previously Reported	Bond Issuance Costs	Net Assets As Restated
Governmental Activities:			
Net Assets	\$462,120	(\$2,000)	\$460,120
Total Governmental Activities	\$462,120	(\$2,000)	\$460,120

Required Supplementary Information

ANALYSIS OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
12/31/2009	\$ 39,495	\$ 85,385	\$45,890	46.3%	\$375,687	12.2%
12/31/2010	\$ 77,609	\$142,350	\$64,741	54.5%	\$443,232	14.6%
12/31/2012	\$107,776	\$170,702	\$62,926	63.1%	\$390,301	16.1%
12/31/2012	\$137,075	\$200,163	\$63,088	68.5%	\$388,337	16.2%
12/31/2013	\$158,157	\$197,525	\$39,368	80.1%	\$373,592	10.5%

Funded Status and funding Progress – In June, 2010, SB was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial study that was adopted by the TMRS Board at their May, 2014 meeting (the review compared actual to expected experience for the four year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please refer to the December 31, 2010 TMRS Comprehensive Annual financial Report (CAFR).