

**CITY OF HEDWIG VILLAGE, TEXAS**

***ANNUAL FINANCIAL REPORT***

**December 31, 2013**



# CITY OF HEDWIG VILLAGE, TEXAS

## ANNUAL FINANCIAL REPORT

Year Ended December 31, 2013

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## INTRODUCTORY SECTION

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**CITY OF HEDWIG VILLAGE, TEXAS**

**PRINCIPAL OFFICIALS**

**December 31, 2013**

**MAYOR**

Sue V. Speck

**CITY COUNCIL**

Council Member  
Council Member  
Council Member  
Council Member  
Council Member

Barry Putterman  
Carrol McGinnis  
Bob Dixon  
Matt Woodruff  
Bill Johnson

**CITY ADMINISTRATOR/CITY SECRETARY-TREASURER**

Beth Staton

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**FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of City Council  
Sugar Land, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Hedwig Village, Texas, (the "City") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City, as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 9 through 16 and 46 through 48, and pension information on page 50 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 and other supplementary information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and other supplementary information 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Sugar Land, Texas  
April 30, 2014

## Management's Discussion and Analysis

As management of the City of Hedwig Village, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2013.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$18,680,789 (net position). Of this amount, \$653,759 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$535,639 during the year.
- The City's total expenses were \$5,411,464. Program revenues of \$2,134,451 reduced the net cost of the City's functions to be financed from the City's general revenues to \$3,277,013.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$705,571, or 14.8 percent of total General Fund expenditures.
- The City's total debt decreased by \$392,572 during the current fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The *statement of net position* presents information on all of the City's assets, liabilities and deferred inflows 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.

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

### **FUND FINANCIAL STATEMENTS**

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's most significant funds. The fund financial statements provide more information about the City's most significant funds - not the City as a whole.

The City has one type of fund:

**Governmental Funds** - All of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's major programs. Because this information does not encompass the

additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship/differences between them.

The City maintains five individual governmental funds for financial reporting purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Debt Service Fund, Capital Projects Fund and Traffic Mitigation Fund, which are considered to be major funds as of December 31, 2013. While the Police Seizure Fund did not meet the technical criteria to be reported as a major fund, the City has elected to present it as a major fund.

The City adopts an annual appropriated budget for its General Fund, Debt Service Fund and Special Revenue Funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with this budget. These budgetary schedules can be found on pages 46 through 48 and page 52 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 to the financial statements can be found on pages 27 through 43 of this report.

## **OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that includes budgetary comparison schedules and the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 46 through 50 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities and deferred inflows of resources by \$18,680,789 as of December 31, 2013.

The largest portion of the City's net position (88.1 percent) reflects its net investment in capital assets (e.g. land, buildings, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.

Additionally, a portion of the City's net position (8.4 percent) represents restricted financial resources to be used for debt service, traffic mitigation, police seizure and capital projects.

Lastly, the remaining portion of the City's net position (3.5 percent) represents unrestricted financial resources available for future operations.

The following table reflects the condensed statement of net position:

**SUMMARY OF STATEMENT OF NET POSITION**  
**As of December 31, 2013 and 2012**

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
Current and other assets	\$ 3,974,560	\$ 4,147,998
Capital assets, net	18,734,238	18,554,769
<b>Total Assets</b>	<b>22,708,798</b>	<b>22,702,767</b>
Long-term liabilities	2,371,172	2,777,667
Other liabilities	110,335	162,540
<b>Total Liabilities</b>	<b>2,481,507</b>	<b>2,940,207</b>
Deferred inflows of resources		
Unavailable revenues - property taxes	1,546,502	1,528,487
<b>Total Deferred Inflows of Resources</b>	<b>1,546,502</b>	<b>1,528,487</b>
<b>Net Position:</b>		
Net investment in capital assets	16,464,238	15,922,927
Restricted	1,562,792	1,423,793
Unrestricted	653,759	798,430
<b>Total Net Position</b>	<b>\$ 18,680,789</b>	<b>\$ 18,145,150</b>

Net position of the City, which relate to governmental activities, increased by \$535,639 during the 2013 fiscal year. Key elements of the increase are as follows:

**CHANGES IN NET POSITION**  
**For the Fiscal Years Ended December 31, 2013 and 2012**

	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 568,147	\$ 563,271
Operating grants and contributions	1,566,304	825,746
General revenues:		
Property taxes	1,513,277	1,489,341
Sales taxes	1,731,794	1,595,210
Franchise taxes	346,324	341,133
Hotel/motel occupancy taxes	33,283	34,989
Mixed beverage taxes	35,596	22,433
Investment earnings	2,919	5,448
Other revenue	149,459	76,568
<b>Total Revenues</b>	<b>5,947,103</b>	<b>4,954,139</b>
<b>Expenses</b>		
General government	741,906	1,058,698
Public safety	3,962,722	3,195,511
Culture and recreation	52,478	52,602
Public works	627,236	661,807
Interest and fiscal agent fees on long-term debt	27,122	85,670
<b>Total Expenses</b>	<b>5,411,464</b>	<b>5,054,288</b>
<b>Change in Net Position</b>	<b>535,639</b>	<b>(100,149)</b>
Net Position, Beginning	18,145,150	18,245,299
<b>Net Position, Ending</b>	<b>\$ 18,680,789</b>	<b>\$ 18,145,150</b>

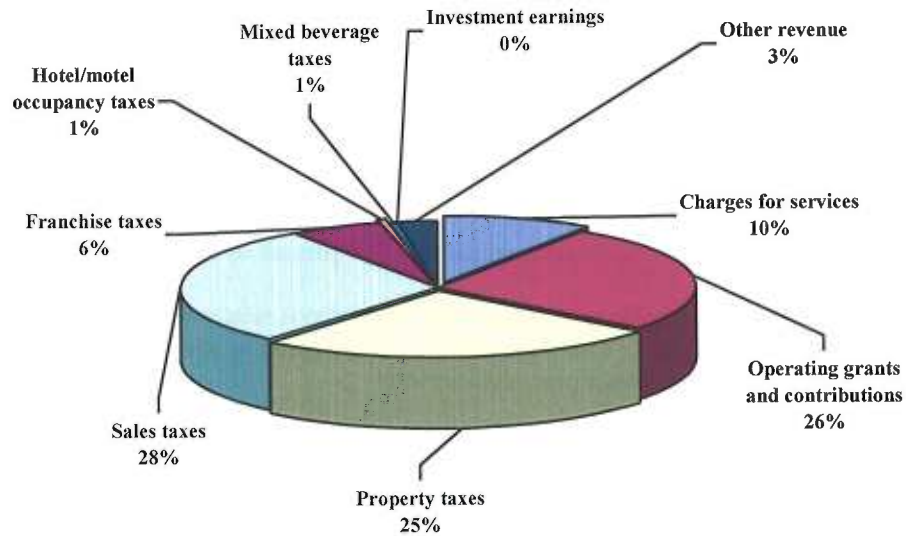
The City’s governmental net position increased by \$535,639, as compared to a decrease of \$100,149 in the prior fiscal year. The current year increase in net position can be attributed to the increase in sales tax revenue and the Urban Area Security Initiative (“UASI”) grant for radio interoperability.

The governmental net position amounts reported above are presented on the accrual basis of accounting, which include adjustments for items such as capital assets, depreciation and long-term debt, which are not reflected in the fund level statement of revenues, expenditures and changes in fund balances found on pages 24 and 25 of this report.



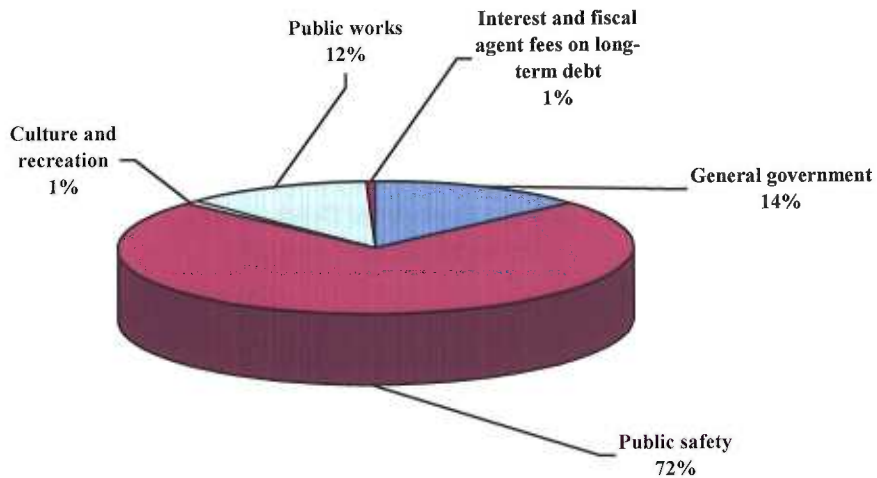
Graphic presentations of selected data from the changes in net position table follow to assist in the analysis of the City's activities.

### GOVERNMENTAL REVENUES



For the fiscal year ended December 31, 2013, revenue from governmental activities totaled \$5,947,103.

### GOVERNMENTAL FUNCTIONAL EXPENSES



For the fiscal year ended December 31, 2013, expenses from governmental activities totaled \$5,411,464, the largest portion of which relate to public safety (73.2%).

**FINANCIAL ANALYSIS OF THE CITY’S FUNDS**

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City’s governmental funds are discussed as follows:

**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, fund balances may serve as a useful measure of a government’s net resources available for spending for program purposes at the end of the fiscal year.

As of December 31, 2013, the City’s governmental funds reported a combined fund balance of \$2,277,842, which is a decrease of \$50,238 from last year’s total of \$2,328,080. Of this, \$1,345 is nonspendable, \$1,570,926 is restricted and \$705,571 is unassigned. As of December 31, 2013, the General Fund has an ending fund balance of \$706,916. As a measure of the General Fund’s liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 14.8 percent of total General Fund expenditures.

The majority of the decrease in fund balance of the governmental funds relates to the General Fund, which reports a decrease in fund balance of \$187,884. This decrease can be attributed to additional expenditures in 2013 for a major fence replacement and storm drainage pipe replacement.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year, the increases and decreases in appropriations between the original and final amended budget were considered immaterial, with the exception of buildings and grounds, professional services, traffic mitigation, public works and capital outlay. Buildings and grounds appropriations increased from \$96,870 to \$125,317 due to maintenance of city hall. Professional services appropriations increased from \$189,301 to \$252,263 due to a plan checker and inspections. Traffic mitigation appropriations decreased from \$749,000 to \$613,331 due to a street replacement project that was planned for 2013 but did not start until fiscal year 2014. Public works appropriations increased from \$483,529 to \$591,636 mainly due to storm drainage pipe replacement. Capital outlay appropriations increased from \$139,600 to \$201,447 due to a major fence replacement.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** - The City’s net investment in capital assets as of December 31, 2013, amounts to \$18,734,238 (net of accumulated depreciation). This net investment in capital assets includes land, vehicles and equipment, buildings and improvements and infrastructure.

**SCHEDULE OF CAPITAL ASSETS  
(Net of Accumulated Depreciation)  
December 31, 2013 and 2012**

	Governmental Activities	
	2013	2012
<b>Non-Depreciable Assets</b>		
Land	\$ 477,762	\$ 477,762
<b>Depreciable Assets</b>		
Vehicles and equipment	520,828	417,608
Buildings and improvements	2,253,309	2,305,278
Infrastructure	15,482,339	15,354,121
<b>Totals</b>	<b>\$ 18,734,238</b>	<b>\$ 18,554,769</b>

Additional information on the City’s capital assets can found in Note 5 in the Notes to Financial Statements.

**LONG-TERM DEBT**

At the end of the current fiscal year, the City’s total long-term debt decreased by \$392,572. A schedule of the City’s long-term debt follows:

**SCHEDULE OF LONG-TERM DEBT  
December 31, 2013 and 2012**

	Governmental Activities	
	2013	2012
Bonds payable:		
General obligation refunding bonds	\$ 2,270,000	\$ 2,670,000
Total bonds payable	2,270,000	2,670,000
Compensated absences	101,172	93,744
<b>Total</b>	<b>\$ 2,371,172</b>	<b>\$ 2,763,744</b>

All bonded debt is scheduled to be retired by 2022.

Additional information on the City’s long-term debt can found in Note 6 in the Notes to Financial Statements.

**ECONOMIC FACTORS**

- Unassigned fund balance in the General Fund decreased by \$187,884. However, it is intended that the use of available fund balance, if needed, will avoid the need to raise taxes in the near future.
- The 2014 adopted budget represents an increase of 1.81% in comparison to the 2013 adopted budget for the General Fund. The City continues to hold the line on expenditures. The sales tax and mixed beverage revenues remain steady. The City also continues to see an increase in commercial and retail expansion and residential construction.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Hedwig Village, Texas’ finances for all those with an interest in the City’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Hedwig Village, Texas: Beth Staton, City Administrator/City Secretary-Treasurer, City Hall, 955 Piney Point Road, Houston, Texas, 77024-2797, (713) 465-6009.

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**BASIC FINANCIAL STATEMENTS**

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# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-1

## STATEMENT OF NET POSITION

December 31, 2013

	<u>Primary Government Governmental Activities</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 1,588,853
Investments	1,033,665
Receivables, net	1,350,697
Prepays	1,345
Capital assets, net of accumulated depreciation:	
Land	477,762
Vehicles and equipment	520,828
Buildings and improvements	2,253,309
Infrastructure	15,482,339
<b>Total Assets</b>	<u>22,708,798</u>
<b><u>Liabilities</u></b>	
Accounts payable and other current liabilities	102,201
Accrued interest payable	8,134
Noncurrent liabilities:	
Due within one year	415,117
Due in more than one year	1,956,055
<b>Total Liabilities</b>	<u>2,481,507</u>
<b><u>Deferred Inflows of Resources</u></b>	
Unavailable revenues - property taxes	1,546,502
<b>Total Deferred Inflows of Resources</b>	<u>1,546,502</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	16,464,238
Restricted for:	
Debt service	452,361
Traffic mitigation	1,037,043
Police seizure	2,084
Capital projects	71,304
Unrestricted	653,759
<b>Total Net Position</b>	<u>\$ 18,680,789</u>

See Notes to Financial Statements.

**CITY OF HEDWIG VILLAGE, TEXAS**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

**December 31, 2013**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 487,278	\$	\$ 69,746
Investments	399,763	611,279	1,513
Receivables:			
Property taxes	677,987	268,550	
Sales taxes	343,313		
Hotel/motel taxes	2,102		
Franchise taxes	34,853		
Mixed beverage taxes	11,948		
Other	11,899		45
Prepays	1,345		
Due from other funds	13,812	31,067	
<b>Total Assets</b>	<b>\$ 1,984,300</b>	<b>\$ 910,896</b>	<b>\$ 71,304</b>
<b><u>Liabilities, Deferred Inflows of Resources and Fund Balances</u></b>			
<b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	\$ 102,201	\$	\$
Due to other funds	31,067		
<b>Total Liabilities</b>	<b>133,268</b>		
<b><u>Deferred Inflows of Resources</u></b>			
Unavailable revenues - property taxes	1,144,116	450,401	
<b>Total Deferred Inflows of Resources</b>	<b>1,144,116</b>	<b>450,401</b>	
<b><u>Fund Balances</u></b>			
Nonspendable	1,345		
Restricted		460,495	71,304
Unassigned	705,571		
<b>Total Fund Balances</b>	<b>706,916</b>	<b>460,495</b>	<b>71,304</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,984,300</b>	<b>\$ 910,896</b>	<b>\$ 71,304</b>

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

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.
- Long-term liabilities, including accrued compensated absences are not due and payable in the current period and are therefore not reported in the funds.
- Revenues that do not provide current financial resources are reported as deferred in the governmental funds.

**Net Position of Governmental Activities**

See Notes to Financial Statements.



<u>Traffic Mitigation</u>	<u>Police Seizure</u>	<u>Total Governmental Funds</u>
\$ 1,031,829	\$	\$ 1,588,853
19,026	2,084	1,033,665
		946,537
		343,313
		2,102
		34,853
		11,948
		11,944
		1,345
		44,879
<u>\$ 1,050,855</u>	<u>\$ 2,084</u>	<u>\$ 4,019,439</u>
\$	\$	\$ 102,201
13,812		44,879
<u>13,812</u>		<u>147,080</u>
		1,594,517
		1,594,517
1,037,043	2,084	1,345
		1,570,926
		705,571
<u>1,037,043</u>	<u>2,084</u>	<u>2,277,842</u>
<u>\$ 1,050,855</u>	<u>\$ 2,084</u>	
		18,734,238
		(2,379,306)
		48,015
		<u>\$ 18,680,789</u>

**CITY OF HEDWIG VILLAGE, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**For the Year Ended December 31, 2013**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b><u>Revenues</u></b>			
Property taxes	\$ 1,084,418	\$ 430,299	\$
Sales taxes	1,731,794		
Franchise taxes	346,324		
Hotel/motel occupancy taxes	33,283		
Mixed beverage taxes	35,596		
Licenses and permits	313,059		
Fines and forfeitures	255,088		
Intergovernmental			817,304
Investment earnings	1,253	354	136
Other revenue	152,929		
<b>Total Revenues</b>	<u>3,953,744</u>	<u>430,653</u>	<u>817,440</u>
<b><u>Expenditures</u></b>			
<b>Current:</b>			
General government	659,236		
Public safety	3,251,541		
Culture and recreation	52,404		
Public works	591,066		
<b>Capital Outlay</b>	200,712		818,817
<b>Debt Service:</b>			
Principal		400,000	
Interest and fiscal agent fees		28,475	
<b>Total Expenditures</b>	<u>4,754,959</u>	<u>428,475</u>	<u>818,817</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(801,215)</u>	<u>2,178</u>	<u>(1,377)</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	613,331		
Transfers (out)			
<b>Total Other Financing Sources (Uses)</b>	<u>613,331</u>		
<b>Net Change in Fund Balances</b>	<u>(187,884)</u>	<u>2,178</u>	<u>(1,377)</u>
Fund Balances - Beginning	894,800	458,317	72,681
<b>Fund Balances - Ending</b>	<u>\$ 706,916</u>	<u>\$ 460,495</u>	<u>\$ 71,304</u>

See Notes to Financial Statements.

<u>Traffic Mitigation</u>	<u>Police Seizure</u>	<u>Total Governmental Funds</u>
\$	\$	\$ 1,514,717
		1,731,794
		346,324
		33,283
		35,596
		313,059
		255,088
749,000		1,566,304
1,176		2,919
		152,929
<u>750,176</u>		<u>5,952,013</u>
		659,236
		3,251,541
		52,404
		591,066
		1,019,529
		400,000
		28,475
		<u>6,002,251</u>
<u>750,176</u>		<u>(50,238)</u>
		613,331
<u>(613,331)</u>		<u>(613,331)</u>
<u>(613,331)</u>		
136,845		(50,238)
900,198	2,084	2,328,080
<u>\$ 1,037,043</u>	<u>\$ 2,084</u>	<u>\$ 2,277,842</u>

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-5

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013

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

Net change in fund balances - total governmental funds	\$ (50,238)
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 outlay	379,858
Depreciation expense	(200,389)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,440)
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Principal expenditures	400,000
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.	
Accrued interest	15,276
Compensated absences	(7,428)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 535,639</b>

See Notes to Financial Statements.

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **A. Financial Reporting Entity**

The City of Hedwig Village, Texas (the "City"), was incorporated under the laws of the State of Texas on December 23, 1954. The City has operated under a "General Law" City which provides for a "Mayor-Council" form of government.

The City provides the following services: public safety to include police, fire, and emergency medical services; streets; sanitation, 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 of five residents 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 the 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. Financial Statement Presentation**

These financial statements include the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments.

Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the City’s activities.
- Fund financial statements focusing on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the reclassification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### **C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

In September 1993, the Governmental Accounting Standards Board issued Statement No. 29, “Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting.” This statement provides guidance on accounting and financial reporting for business-type and enterprise fund activities. The City has elected alternative number one (1) from those provided by this standard. This alternative method elects to apply all GASB pronouncements as well as FASB pronouncements that were issued after November 30, 1989.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. In the fund financial statements, 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, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

#### **Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed.

##### **General Fund**

The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, and fines and forfeitures. Expenditures include general government, public safety, culture and recreation, and public works. The General Fund is always considered a major fund for reporting purposes.

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

### Debt Service Fund

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.

### Capital Projects Fund

The Capital Projects Fund is used to account for the expenditures of resources accumulated from various grants and other sources to construct or acquire capital facilities and improvements. The Capital Projects Fund is considered a major fund for reporting purposes.

### Special Revenue Funds

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are restricted for specified activities. The Traffic Mitigation Fund, used to account for the receipt and expenditure of funds received from the Metropolitan Transit Authority of Harris County, Texas (METRO), and Police Seizure Fund are considered major funds for reporting purposes. The Police Seizure Fund did not meet the technical requirements for reporting as a major fund, however, it is considered to be significant in presenting the overall operations of the City and as such, has been presented as a major fund.

#### **D. Measurement Focus and Basis of Accounting**

The government-wide Statement of Net Position and Statement of Activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

### **E. Deposits and Investments**

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.

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, such as TexPool, 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 Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

### **F. Receivables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (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" in the fund financial statements.

All trade receivables are shown net of an allowance for uncollectibles.

### **Property Taxes**

All taxes due to the City on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31 of the subsequent year, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest as the Council may provide by ordinance.

The Spring Branch Independent School District Tax Assessor-Collector bills and collects taxes on behalf of the City.

### **G. Interfund Receivables and Payables**

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are, for the most part, eliminated from the government-wide Statement of Net Position and are classified as "due from other funds" or "due to other funds" in the fund financial statements.



**CITY OF HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

**H. 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 recognized as expenditures when utilized.

**I. Capital Assets**

Capital assets, which include land, construction in progress, vehicles and equipment, buildings and improvements and infrastructure assets (e.g., roads and similar items) are reported in the applicable governmental 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 government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of four years for personal property and \$25,000 or more for buildings and infrastructure. 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 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>
Vehicles	5-20 years
Furniture and equipment	5-20 years
Infrastructure	20-75 years
Buildings and improvements	20-75 years

**J. Compensated Employee Absences**

The City maintains formal programs for vacation and sick leave. The City's vacation policy provides vacations of ten days after one year of service, up to 15 days with five years of service and up to 20 days with 15 years of service. No vacation can be carried over to the ensuing calendar year. The City provides sick leave of ten days per year which accumulates up to a maximum of 180 days. Payment may be made for up to 30 days unused sick leave. In addition, employees are allowed to accrue up to 60 hours of compensatory time which is paid upon termination.

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 upon maturity. Amounts of vested or accumulated sick leave and compensatory time that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

### **K. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debts for governmental funds are not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

The property tax rate is allocated each year between the General Fund and Debt Service Fund. The full amount estimated to be required for debt service on improvement bonds and certificate of obligation debt is provided by the tax along with the interest earned in the Debt Service Fund.

### **L. Deferred Inflows of Resources**

Deferred inflows of resources represent 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. Deferred inflows of resources consist of unavailable property tax revenues.

### **M. 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.

### **N. Restricted Resources**

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### **O. Interfund Activity**

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. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **P. Date of Management's Review**

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through April 30, 2014, the date that the financial statements were available to be issued.

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the Capital Projects Fund, which adopts a project length budget. The original budget is adopted by City Council prior to the beginning of the year. The legal level of control is at the departmental level as stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made during the year.

### NOTE 3 - DEPOSITS AND INVESTMENTS

As of December 31, 2013, the City has the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 1,033,665	1
<b>Total Investments</b>	<u>\$ 1,033,665</u>	
Portfolio weighted average maturity		1

*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 with a collective market value of at least 102 percent. As of December 31, 2013, the total FDIC coverage and the total market values of pledged securities was \$1,631,651 and the bank balances were \$1,401,123.

*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 all securities bought be held in safekeeping by either the City, the City's designated depository, a City account in an independent third party financial institution or with the Federal Reserve Bank. Furthermore, 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 Texas 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 Texas 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 & Poor's has assigned TexPool a rate of AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

**CITY OF HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – RECEIVABLES**

Receivables as of year-end for the City’s individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Net Receivables:				
Property taxes	\$ 677,987	\$ 268,550	\$	\$ 946,537
Sales taxes	343,313			343,313
Hotel/motel taxes	2,102			2,102
Franchise taxes	34,853			34,853
Mixed beverage taxes	11,948			11,948
Other	11,899		45	11,944
<b>Total</b>	<b>\$ 1,082,102</b>	<b>\$ 268,550</b>	<b>\$ 45</b>	<b>\$ 1,350,697</b>

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Current property taxes receivable - General Fund	\$	\$ 1,112,487
Delinquent property taxes receivable - General Fund	31,629	
Current property taxes receivable - Debt Service Fund		434,015
Delinquent property taxes receivable - Debt Service Fund	16,386	
	<u>\$ 48,015</u>	<u>\$ 1,546,502</u>

**CITY OF HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2013:

	<u>Balance</u> <u>Jan. 1, 2013</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance</u> <u>Dec. 31, 2013</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 477,762	\$	\$	\$ 477,762
Total capital assets not being depreciated	<u>477,762</u>			<u>477,762</u>
Capital assets being depreciated:				
Vehicles and equipment	946,988	235,104	(127,322)	1,054,770
Buildings and improvements	3,036,217			3,036,217
Infrastructure	21,093,700	148,224		21,241,924
Total capital assets being depreciated	<u>25,076,905</u>	<u>383,328</u>	<u>(127,322)</u>	<u>25,332,911</u>
Less accumulated depreciation for:				
Vehicles and equipment	(529,380)	(128,414)	123,852	(533,942)
Buildings and improvements	(730,939)	(51,969)		(782,908)
Infrastructure	(5,739,579)	(20,006)		(5,759,585)
Total accumulated depreciation	<u>(6,999,898)</u>	<u>(200,389)</u>	<u>123,852</u>	<u>(7,076,435)</u>
Total capital assets being depreciated, net	<u>18,077,007</u>	<u>182,939</u>	<u>(3,470)</u>	<u>18,256,476</u>
Governmental activities capital assets, net	<u>\$ 18,554,769</u>	<u>\$ 182,939</u>	<u>\$ (3,470)</u>	<u>\$ 18,734,238</u>

Depreciation was charged to governmental activities as follows:

General government	\$ 81,630
Public safety	83,554
Public works	<u>35,205</u>
<b>Total Governmental Activities Depreciation Expense</b>	<b><u>\$ 200,389</u></b>

**NOTE 6 - LONG-TERM DEBT**

General obligation refunding bonds are direct obligations and pledge the full faith and credit of the City. A summary of the general obligation refunding bonds outstanding as of December 31, 2013, is as follows:

<u>Purpose</u>	<u>Interest Rates (%)</u>	<u>Amount</u>
<b>Governmental Activities:</b>		
Series 2012 general obligation refunding bonds	1.00-1.75	\$ 2,270,000
<b>Total Governmental Activities</b>		<b><u>\$ 2,270,000</u></b>

**CITY OF HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

Annual debt service requirements to maturity for the debt issue outstanding as of December 31, 2013, are as follows:

Year Ending December 31,	Governmental Activities		
	General Obligation Refunding Bonds Series 2012		
	Principal	Interest	Total
2014	\$ 405,000	\$ 24,200	\$ 429,200
2015	400,000	20,175	420,175
2016	410,000	16,125	426,125
2017	420,000	11,975	431,975
2018	120,000	9,125	129,125
2019-2022	515,000	17,514	532,514
	<u>\$ 2,270,000</u>	<u>\$ 99,114</u>	<u>\$ 2,369,114</u>

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2013, is as follows:

	Balance Jan. 1, 2013	Additions	(Reductions)	Balance Dec. 31, 2013	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation refunding bonds	\$ 2,670,000	\$	\$ (400,000)	\$ 2,270,000	\$ 405,000
Total bonds payable	2,670,000		(400,000)	2,270,000	405,000
Compensated absences	93,744	22,415	(14,987)	101,172	10,117
<b>Total Governmental Activities</b>	<u>\$ 2,763,744</u>	<u>\$ 22,415</u>	<u>\$ (414,987)</u>	<u>\$ 2,371,172</u>	<u>\$ 415,117</u>

**Other Long-Term Liabilities**

For governmental activities, claims and judgments and other long-term liabilities are generally liquidated by the General Fund.

**NOTE 7 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of December 31, 2013 is as follows:

**Due to/from other funds**

Receivable Fund	Payable Fund	Amounts
General Fund	Traffic Mitigation Fund	\$ 13,812
Debt Service Fund	General Fund	31,067
Total		<u>\$ 44,879</u>

**CITY OF HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

**Interfund transfers**

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Total</u>
Traffic Mitigation Fund	General Fund	\$ 613,331
Total		<u>\$ 613,331</u>

Transfers are used to move unrestricted General Fund revenues to finance various other programs that the City must or has elected to account for in other funds in accordance with budgetary authorizations. In addition, the Traffic Mitigation Fund transfers revenues to the General Fund to pay for eligible METRO activities during the year.

**NOTE 8 – FUND BALANCES**

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following five fund balance categories:

*Nonspendable:*

To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

*Restricted:*

To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

*Committed:*

To indicate fund balance that can be used only for the specific purposes determined by a formal action of the City Council (the City's highest level of decision-making authority). The City Council must place an item on the Council's agenda, followed by a formal action to approve such, in order to establish, modify or rescind a fund balance commitment.

*Assigned:*

To indicate fund balance to be used for specific purposes but do meet the criteria to be classified as restricted or committed. Currently, only the City Council has the authority to assign fund balances.

*Unassigned:*

To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

**CITY OF HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

Fund balances for all the major and nonmajor governmental funds as of December 31, 2013, were distributed as follows:

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Traffic Mitigation</b>	<b>Police Seizure</b>	<b>Total Governmental Funds</b>
<b>Nonspendable:</b>						
Prepays	\$ 1,345					\$ 1,345
Subtotal	<u>1,345</u>					<u>1,345</u>
<b>Restricted for:</b>						
Traffic mitigation				\$ 1,037,043		\$ 1,037,043
Police seizure					2,084	2,084
Capital projects			71,304			71,304
Debt service		460,495				460,495
Subtotal		<u>460,495</u>	<u>71,304</u>	<u>1,037,043</u>	<u>2,084</u>	<u>1,570,926</u>
<b>Unassigned</b>	<u>705,571</u>					<u>705,571</u>
<b>Total</b>	<u>\$ 706,916</u>	<u>\$ 460,495</u>	<u>\$ 71,304</u>	<u>\$ 1,037,043</u>	<u>\$ 2,084</u>	<u>\$ 2,277,842</u>

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The City does not currently have any such policies.

**NOTE 9 – EMPLOYEE RETIREMENT PLAN**

**Texas Municipal Retirement System**

**Plan Description**

The City provides pension benefits for all of its full-time 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 TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS's website at [www.TMRS.com](http://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:

	<b>Plan Year 2012</b>	<b>Plan Year 2013</b>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 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)	0% of CPI	0% of CPI



**CITY OF HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contributions 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 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 TMRS 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 is the basis for the rate and the calendar year when the rate goes into effect.

Three year trend information is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Required Contributions (ARC)	\$ 117,084	\$ 125,238	\$ 149,015
Percentage of ARC Contributed	100%	100%	100%
Net Pension Obligation at the End of Period	\$ 0	\$ 0	\$ 0

Because the actuary determines contribution rates on an annual basis and the City pays the calculated rate each month, the City will always have a net pension obligation (NPO) of zero at the beginning and end of the period, and the annually required contributions (ARC) will always equal contributions made.

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

	<u>Valuation Date</u>	
	<u>12/31/11</u>	<u>12/31/12</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	21.0 Years; Closed Period	20.0 Years; Closed Period
Amortization Period for new Gains/Losses	25 Years	25 Years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return *	7.0%	7.0%
Projected Salary Increases *	Varies by Age and Service	Varies by Age and Service
* - Includes Inflation at Cost-of-Living Adjustments	3.00%	3.00%
	0.00%	0.00%

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

### Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/12	\$ 3,398,054	\$ 3,721,824	91.3%	\$ 323,770	\$ 1,722,987	18.8%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information 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 liability of benefits.

### Supplemental Death Benefits Fund

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$3,042, \$3,618 and \$4,541, respectively, which equaled the required contributions each year.

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

Schedule of Contribution Rates			
<u>Plan/Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2011	0.27 %	0.27 %	100.0 %
2012	0.21 %	0.21 %	100.0 %
2013	0.17 %	0.17 %	100.0 %

### NOTE 10 – RELATED ORGANIZATIONS AND JOINT VENTURES

On December 20, 1978, the City entered into an interlocal cooperation agreement with the Cities of Bunker Hill Village, Hilshire Village, Hunter's Creek Village, Piney Point Village, and Spring Valley Village, Texas, creating the Village Fire Department. The agreement ran for a period of twelve years beginning January 1, 1979 and ended December 31, 1990. Effective January 1, 1991, the agreement automatically renewed for a period of five years and will continue to renew on each expiration date unless terminated by at least one of the contracting cities. Under the terms of this agreement, the City is liable for 18.5 percent of the Village Fire Department's approved budget. In addition, the City is responsible for 18.5 percent of the Village Fire Department's TMRS unfunded pension liability. As of December 31, 2012, the latest actuarial valuation date, the unfunded actuarial accrued liability was \$651,085. Further, the City is also responsible for 18.5 percent of the Village Fire Department's other post-employment benefits (OPEB) and the accrued compensated absences liability. As of January 1, 2011, the latest valuation date, the unfunded actuarial accrued liability for the OPEB was \$147,392, and as of December 31, 2013, the accrued compensated absences liability was \$365,584. The Village Fire Department plans to end health insurance coverage for retired employees by January 1, 2015. Further, this coverage will not be available between the years 2011 to 2014, if the retiree or the spouse of the retiree, as applicable, is otherwise covered under another employer medical plan.

Consolidated financial information of the Village Fire Department extracted from the Department's audited financial statements for the year ended December 31, 2013, on which the Department's auditors expressed an unqualified opinion, are as follows:

Total assets	\$ 326,967
Total liabilities	37,714
Total participants' equity	<u>\$ 289,253</u>
Total revenues	4,968,657
Total expenditures	<u>4,768,414</u>
Revenues over expenditures	200,243
Transfers out	(160,000)
Beginning participants' equity	<u>249,010</u>
Ending participants' equity	<u>\$ 289,253</u>

# CITY OF HEDWIG VILLAGE, TEXAS

Exhibit A-6

## NOTES TO FINANCIAL STATEMENTS

### NOTE 11 – REVENUE AGREEMENT WITH METRO

#### Revenue Allocation Agreement

Effective July 1, 1999, the City entered into a Congestion Mitigation/Traffic Management Agreement (the "Agreement") with METRO, which continues through September 30, 2014, unless terminated earlier per the provisions of the agreement. Under the terms of the agreement, the City received \$749,000 in the current year and will receive \$749,000 in each succeeding year through 2014. The City may utilize the funds for traffic-related projects and costs. The funds are accounted for in the Traffic Mitigation Fund.

### NOTE 12 – 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 in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers compensation. The City has no additional risk or responsibility to the Texas Municipal League 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 years.

### NOTE 13 – HEALTH INSURANCE

In September 2007, the City entered into an agreement (the insurance agreement) by and between the Memorial Villages Water Authority, the Cities of Hunters Creek Village and Spring Valley Village and the Village Fire Department to provide employee health insurance for the participants. The insurance agreement expired on December 31, 2013, and shall be automatically renewed for successive one year terms on January 1 of each succeeding year. Under the terms of the insurance agreement, each party is responsible for the monthly premiums covering that entity's employees and no entity is liable for any losses or damages caused by another participant.

### NOTE 14 – 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 amount 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 HEDWIG VILLAGE, TEXAS**

**Exhibit A-6**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE**

In the current fiscal year, the City implemented the following new standard:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”), clarifies which financial statement items should continue to be presented as assets and liabilities and which should be reclassified as deferred outflows or inflows, and which items should be treated as current period expenditures (outflows) or current period inflows.

The beginning net position has been restated by \$88,923 to reflect bond issuance costs which were previously capitalized.

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER THAN MANAGEMENT'S**  
**DISCUSSION AND ANALYSIS**

**CITY OF HEDWIG VILLAGE, TEXAS**

Exhibit B-1

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

**Year Ended December 31, 2013**

	Budgeted Amounts		Actual	Variance from Final Budget
	Original	Final		
<b><u>Revenues</u></b>				
Property taxes	\$ 1,033,841	\$ 1,063,293	\$ 1,084,418	\$ 21,125
Sales taxes	1,679,806	1,798,530	1,731,794	(66,736)
Franchise fees	340,000	349,899	346,324	(3,575)
Hotel occupancy taxes	43,000	31,181	33,283	2,102
Mixed beverage taxes	23,000	35,596	35,596	
Licenses and permits	156,000	313,058	313,059	1
Fines and forfeitures	480,000	292,153	255,088	(37,065)
Investment earnings	3,200	1,253	1,253	
Other revenue	113,000	317,091	152,929	(164,162)
<b>Total Revenues</b>	<b>3,871,847</b>	<b>4,202,054</b>	<b>3,953,744</b>	<b>(248,310)</b>
<b><u>Expenditures</u></b>				
<b>General Government</b>				
Operations	375,111	364,873	284,426	80,447
Buildings and grounds	96,870	125,317	124,763	554
Professional services	189,301	252,263	250,047	2,216
<b>Total General Government</b>	<b>661,282</b>	<b>742,453</b>	<b>659,236</b>	<b>83,217</b>
<b>Public Safety</b>				
Fire protection	899,996	899,996	899,995	1
Police	1,478,160	1,568,875	1,600,609	(31,734)
Municipal court	155,236	145,110	141,931	3,179
Traffic mitigation	749,000	613,331	609,006	4,325
<b>Total Public Safety</b>	<b>3,282,392</b>	<b>3,227,312</b>	<b>3,251,541</b>	<b>(24,229)</b>
<b>Culture and Recreation</b>				
Parks	38,544	37,544	37,463	81
Community relations	15,500	14,993	14,941	52
<b>Total Culture and Recreation</b>	<b>54,044</b>	<b>52,537</b>	<b>52,404</b>	<b>133</b>
<b>Public Works</b>	<b>483,529</b>	<b>591,636</b>	<b>591,066</b>	<b>570</b>
<b>Capital Outlay</b>	<b>139,600</b>	<b>201,447</b>	<b>200,712</b>	<b>735</b>
<b>Total Expenditures</b>	<b>4,620,847</b>	<b>4,815,385</b>	<b>4,754,959</b>	<b>60,426</b>
<b>(Deficiency) of Revenues</b>				
<b>(Under) Expenditures</b>	<b>(749,000)</b>	<b>(613,331)</b>	<b>(801,215)</b>	<b>(187,884)</b>
<b><u>Other Financing Sources</u></b>				
Transfers in	749,000	613,331	613,331	
<b>Total Other Financing Sources</b>	<b>749,000</b>	<b>613,331</b>	<b>613,331</b>	
<b>Net Change in Fund Balance</b>			<b>(187,884)</b>	<b>(187,884)</b>
Fund Balance, Beginning	894,800	894,800	894,800	
<b>Fund Balance, Ending</b>	<b>\$ 894,800</b>	<b>\$ 894,800</b>	<b>\$ 706,916</b>	<b>\$ (187,884)</b>



**CITY OF HEDWIG VILLAGE, TEXAS**

Exhibit B-2

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**TRAFFIC MITIGATION FUND**

**Year Ended December 31, 2013**

	<b>Original and Final Budgeted Amounts</b>	<b>Actual</b>	<b>Variance from Final Budget</b>
<b><u>Revenues</u></b>			
Intergovernmental	\$ 749,000	\$ 749,000	\$
Investment earnings	500	1,176	676
<b>Total Revenues</b>	<b>749,500</b>	<b>750,176</b>	<b>676</b>
<b><u>Expenditures</u></b>			
General government	500		500
<b>Total Expenditures</b>	<b>500</b>		<b>500</b>
<b>Excess of Revenues Over Expenditures</b>	<b>749,000</b>	<b>750,176</b>	<b>1,176</b>
<b><u>Other Financing (Uses)</u></b>			
Transfers (out)	(749,000)	(613,331)	135,669
<b>Total Other Financing (Uses)</b>	<b>(749,000)</b>	<b>(613,331)</b>	<b>135,669</b>
<b>Net Change in Fund Balance</b>		<b>136,845</b>	<b>136,845</b>
Fund Balance, Beginning	900,198	900,198	
<b>Fund Balance, Ending</b>	<b>\$ 900,198</b>	<b>\$ 1,037,043</b>	<b>\$ 136,845</b>

**CITY OF HEDWIG VILLAGE, TEXAS**

Exhibit B-5

**TEXAS MUNICIPAL RETIREMENT SYSTEM - SCHEDULE OF FUNDING PROGRESS**

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all of the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Funded Ratio</b>	<b>Unfunded AAL (UAAL)</b>	<b>Covered Payroll</b>	<b>UAAL As A Percentage of Covered Payroll</b>
12/31/2010	\$ 2,684,856	\$ 3,137,083	85.6%	\$ 452,227	\$ 1,662,610	27.2%
12/31/2011	3,058,891	3,470,207	88.1%	411,316	1,693,359	24.3%
12/31/2012	3,398,054	3,721,824	91.3%	323,770	1,722,987	18.8%

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF HEDWIG VILLAGE, TEXAS**

Exhibit C-1

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**

**Year Ended December 31, 2013**

	<b><u>Original and Final Budgeted Amounts</u></b>	<b><u>Actual</u></b>	<b><u>Variance from Final Budget</u></b>
<b><u>Revenues</u></b>			
Property taxes	\$ 428,225	\$ 430,299	\$ 2,074
Investment earnings	500	354	(146)
<b>Total Revenues</b>	<b><u>428,725</u></b>	<b><u>430,653</u></b>	<b><u>1,928</u></b>
<b><u>Expenditures</u></b>			
Principal	400,000	400,000	
Interest and fiscal agent fees	28,725	28,475	250
<b>Total Expenditures</b>	<b><u>428,725</u></b>	<b><u>428,475</u></b>	<b><u>250</u></b>
<b>Net Change in Fund Balance</b>		2,178	2,178
Fund Balance, Beginning	<u>458,317</u>	<u>458,317</u>	
<b>Fund Balance, Ending</b>	<b><u>\$ 458,317</u></b>	<b><u>\$ 460,495</u></b>	<b><u>\$ 2,178</u></b>