

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

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

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

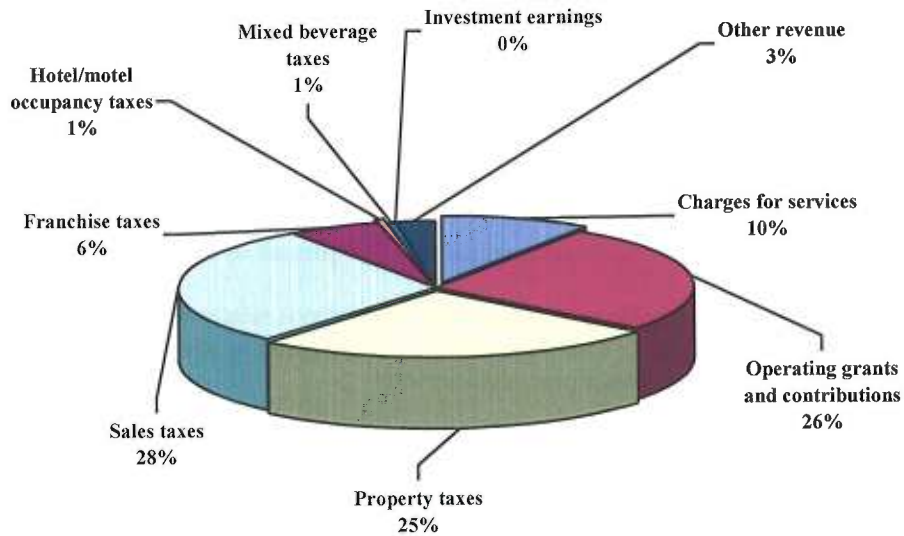
	Governmental Activities	
	2013	2012
Revenues		
Program revenues:		
Charges for services	\$ 568,147	\$ 563,271
Operating grants and contributions	1,566,304	825,746
General revenues:		
Property taxes	1,513,277	1,489,341
Sales taxes	1,731,794	1,595,210
Franchise taxes	346,324	341,133
Hotel/motel occupancy taxes	33,283	34,989
Mixed beverage taxes	35,596	22,433
Investment earnings	2,919	5,448
Other revenue	149,459	76,568
Total Revenues	5,947,103	4,954,139
Expenses		
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
Total Expenses	5,411,464	5,054,288
Change in Net Position	535,639	(100,149)
Net Position, Beginning	18,145,150	18,245,299
Net Position, Ending	\$ 18,680,789	\$ 18,145,150

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.

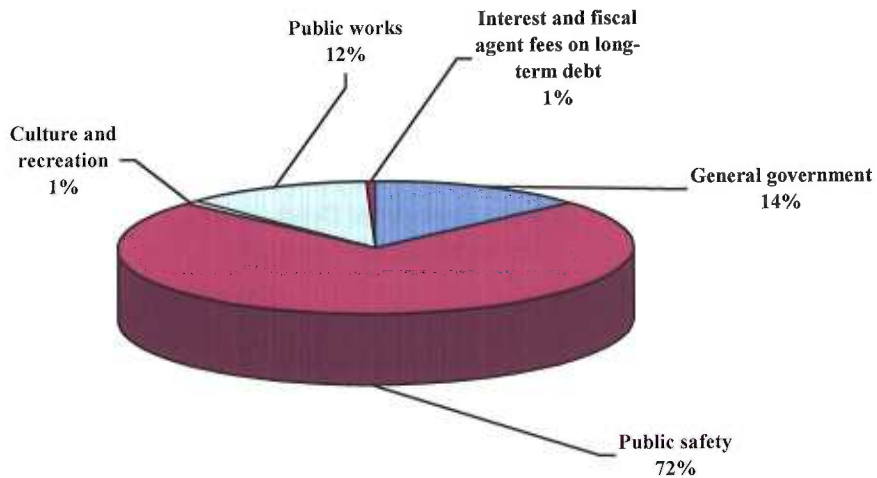
Graphic presentations of selected data from the changes in net position table follow to assist in the analysis of the City's activities.

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

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
Total	\$ 2,371,172	\$ 2,763,744

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>
<u>Assets</u>	
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
Total Assets	<u>22,708,798</u>
<u>Liabilities</u>	
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
Total Liabilities	<u>2,481,507</u>
<u>Deferred Inflows of Resources</u>	
Unavailable revenues - property taxes	1,546,502
Total Deferred Inflows of Resources	<u>1,546,502</u>
<u>Net Position</u>	
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
Total Net Position	<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>
<u>Assets</u>			
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	
Total Assets	\$ 1,984,300	\$ 910,896	\$ 71,304
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 102,201	\$	\$
Due to other funds	31,067		
Total Liabilities	133,268		
<u>Deferred Inflows of Resources</u>			
Unavailable revenues - property taxes	1,144,116	450,401	
Total Deferred Inflows of Resources	1,144,116	450,401	
<u>Fund Balances</u>			
Nonspendable	1,345		
Restricted		460,495	71,304
Unassigned	705,571		
Total Fund Balances	706,916	460,495	71,304
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,984,300	\$ 910,896	\$ 71,304

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>
\$ 13,812	\$	\$ 102,201
<u>13,812</u>		<u>44,879</u>
		<u>147,080</u>
		<u>1,594,517</u>
		<u>1,594,517</u>
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>
<u>Revenues</u>			
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		
Total Revenues	<u>3,953,744</u>	<u>430,653</u>	<u>817,440</u>
<u>Expenditures</u>			
Current:			
General government	659,236		
Public safety	3,251,541		
Culture and recreation	52,404		
Public works	591,066		
Capital Outlay	200,712		818,817
Debt Service:			
Principal		400,000	
Interest and fiscal agent fees		28,475	
Total Expenditures	<u>4,754,959</u>	<u>428,475</u>	<u>818,817</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(801,215)</u>	<u>2,178</u>	<u>(1,377)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	613,331		
Transfers (out)			
Total Other Financing Sources (Uses)	<u>613,331</u>		
Net Change in Fund Balances	(187,884)	2,178	(1,377)
Fund Balances - Beginning	894,800	458,317	72,681
Fund Balances - Ending	<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)
Change in Net Position of Governmental Activities	<u>\$ 535,639</u>

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: