

ANNUAL FINANCIAL REPORT

CITY OF HALE CENTER, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

CITY OF HALE CENTER  
Hale Center, Texas

ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2012

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page Number</u>
<b>INTRODUCTORY SECTION</b>		
City Council and Administrative Staff		1
<b>FINANCIAL SECTION</b>		
Independent Auditors' Report on Financial Statements		2
Management's Discussion and Analysis (Required Supplementary Information)		4
<u>Basic Financial Statements</u>		
Government-Wide Financial Statements:		
Statement of Net Assets	A-1	13
Statement of Activities	B-1	14
Governmental Fund Financial Statements:		
Balance Sheet-Governmental Funds	C-1	15
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets	C-1R	16
Statement of Revenues, Expenditures, and Changes In Fund Balances – Governmental Funds	C-2	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities		
	C-3	18
Proprietary Fund Financial Statements		
Statement of Net Assets	D-1	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	D-2	20
Statement of Cash Flows	D-3	21
Notes to the Financial Statements		22
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Budgetary Comparison Schedules:		
General Fund	E-1	39
TMRS Schedule of Funding Progress	E-2	40
<b>OTHER SUPPLEMENTARY INFORMATION</b>		
Schedule of Delinquent Taxes Receivable	F-1	41
Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		42
Schedule of Findings and Questioned Costs		44
Schedule of Status of Prior Year Findings		46

*INTRODUCTORY SECTION*

CITY OF HALE CENTER  
Hale Center, Texas

September 30, 2012

CITY COUNCIL

Eugene Carter

Mayor

Roger Mahagan

Mayor Pro Tem

Karen Boyce

Councilmember

Mario Martinez

Councilmember

Christine Reyna

Councilmember

Jimmy Cameron

Councilmember

ADMINISTRATIVE STAFF

Joshua Jones  
Kami Eady

City Administrator  
City Secretary

*FINANCIAL SECTION*

# Terry & King, CPAs, P.C.

4216 102<sup>nd</sup>  
P.O. Box 93550  
Lubbock, TX 79493-3550

Randel J. Terry, CPA  
Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

---

## Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council  
City of Hale Center, Texas  
P.O. Box 532  
Hale Center, Texas 79041

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hale Center, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hale Center's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hale Center, Texas as of September 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

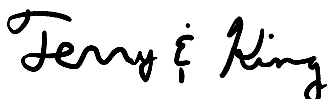
In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2015, on our consideration of the City of Hale Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, identified as Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hale Center's financial statements as a whole. The accompanying other schedules listed in the table of contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

A handwritten signature in black ink that reads "Terry & King". The signature is written in a cursive, flowing style.

Terry & King, CPAs, P.C.  
September 15, 2015

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

Our discussion and analysis of the City of Hale Center's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2012. Please read this in conjunction with the City's financial statements, which follow this section

### **FINANCIAL HIGHLIGHTS**

- The City's net assets increased as a result of this year's operations. While net assets of our business-type activities decreased by \$4,783 or less than 1%, net assets of our governmental activities increased by \$16,734.
- During the year, the City had expenses that were \$69,736 more than the \$703,134 generated in tax and other revenues for governmental programs before transfers.
- In the City's business type activities, charges for services increased \$132,763 to \$602,671 (or 28%) while operating expenses increased \$33,797 to \$524,674.
- The General Fund reported a deficit this year of \$60,680 prior to inter-fund transfers.
- The resources available for appropriation were \$84,579 less than budgeted for the General Fund. Expenditures for the General Fund were less than the budgeted amounts by \$55,544.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.



## **Reporting the City as a Whole -- The Statement of Net Assets and the Statement of Activities**

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the differences between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the ambulance, fire, police, sanitation, streets, and parks departments, and general administration. Property taxes, franchise taxes, charges to customers, and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover the cost of certain services it provides. The City's water and sewer services are reported here.

## **Reporting the City's Most Significant Funds – Fund Financial Statements**

Our analysis of the City's major funds begins on page 10. The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. At times a city council may establish other funds to help it control and manage money for particular purposes, such as special projects or to show that it is meeting legal responsibilities for using certain Federal or State grants. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds*—Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation on Exhibits C-1R and C-3.
- *Proprietary funds*—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

## **THE CITY AS A WHOLE**

The City’s combined net assets were \$ 1,671,403. Our following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City’s government and business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$3,416,368 at March 31, 2012. (See Table A-1).

Table A-1  
City of Hale Center's Net Assets

	Governmental Activities			Business-type Activities			Total Primary Government		
	2012	2011	Percentage Change	2012	2011	Percentage Change	2012	2011	Percentage Change
<b>Current assets:</b>									
Cash in Bank	16,553	37,694	-56%	120,376	276,998	-57%	136,929	314,692	-56%
Accounts Receivable-Utilities, net	-	-	0%	59,264	57,404	3%	59,264	57,404	3%
Taxes Receivable, net	70,211	66,108	6%	-	-	0%	70,211	66,108	6%
Due from Other Governments	1,145	-	100%	-	-	0%	1,145	-	100%
Internal Balances	81,941	95,766	-14%	(81,941)	(95,766)	-14%	-	-	0%
Total current assets:	169,850	199,568	-15%	97,699	238,636	-59%	267,549	438,204	-39%
<b>Noncurrent assets:</b>									
Land	3,778	3,778	0%	195,247	195,247	0%	199,025	199,025	0%
Construction in Progress	-	-	0%	-	225,853	-100%	-	225,853	-100%
Infrastructure	945,532	945,532	0%	-	-	0%	945,532	945,532	0%
Less accumulated depreciation, infrastructure	(757,061)	(730,312)	4%	-	-	0%	(757,061)	(730,312)	4%
Buildings and Improvements	245,355	245,355	0%	2,761,369	2,396,441	15%	3,006,724	2,641,796	14%
Less accumulated depreciation, buildings & improvements	(203,001)	(200,124)	1%	(1,091,906)	(1,031,158)	6%	(1,294,907)	(1,231,282)	5%
Furniture & Equipment	244,705	198,324	23%	251,025	210,539	19%	495,730	408,863	21%
Less accumulated depreciation, furniture & equipment	(194,683)	(172,058)	13%	(172,390)	(146,160)	18%	(367,073)	(318,218)	15%
Total noncurrent assets	284,625	290,495	-2%	1,943,345	1,850,762	5%	2,227,970	2,141,257	4%
Total Assets	454,475	490,063	-7%	2,041,044	2,089,398	-2%	2,495,519	2,579,461	-3%
<b>Current liabilities:</b>									
Accounts Payable	28,745	24,581	17%	15,929	35,219	-55%	44,674	59,800	-25%
Accrued Interest Expense	289	1,775	-84%	4,419	9,487	-53%	4,708	11,262	-58%
Total current liabilities	29,034	26,356	10%	20,348	44,706	-54%	49,382	71,062	-31%
<b>Noncurrent liabilities:</b>									
Customer Deposits	-	-	0%	64,248	60,947	5%	64,248	60,947	5%
Due within one year	55,000	55,000	0%	68,900	63,000	9%	123,900	118,000	5%
Due in more than one year	55,000	110,000	-50%	531,586	560,000	-5%	586,586	670,000	-12%
Total noncurrent liabilities	110,000	165,000	-33%	664,734	683,947	-3%	774,734	848,947	-9%
<b>Net Assets:</b>									
Invested in capital assets, net of related debt	174,625	125,495	39%	1,342,859	1,227,762	9%	1,517,484	1,353,257	12%
Restricted For:									
Debt Service	64,597	54,134	19%	-	-	0%	64,597	54,134	19%
Specific Programs	8,144	30,926	-74%	-	-	0%	8,144	30,926	-74%
Unrestricted	68,075	88,152	-23%	13,103	132,983	-90%	81,178	221,135	-63%
Total Net Assets	315,441	298,707	6%	1,355,962	1,360,745	0%	1,671,403	1,659,452	1%

Net assets of the City's governmental activities increased (\$315,441 compared to \$298,707). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$88,152 at September 30, 2011 to \$68,075 at the end of this year. Net assets of the City's business-type activities decreased by less than 1%, from \$1,360,745 to \$1,355,962.

Table A-2  
Changes in City of Hale Center's Net Assets

	Governmental Activities			Business-type Activities			Total Primary Government		
	2012	2011	Percentage Change	2012	2011	Percentage Change	2012	2011	Percentage Change
<b>Program Revenues:</b>									
Charges for Services	206,860	303,566	-32%	602,671	469,908	28%	809,531	773,474	5%
Grants & Contributions	29,048	-	100%	3,427	162,213	-98%	32,475	162,213	-80%
<b>General Revenues:</b>									
Property Taxes	235,918	243,475	-3%	-	-	0%	235,918	243,475	-3%
Nonproperty Taxes	135,027	141,180	-4%	-	-	0%	135,027	141,180	-4%
Investment Earnings	79	88	-10%	263	1,048	-75%	342	1,136	-70%
Other	96,202	40,916	135%	-	9,432	-100%	96,202	50,348	91%
	<u>703,134</u>	<u>729,225</u>	<u>-4%</u>	<u>606,361</u>	<u>642,601</u>	<u>-6%</u>	<u>1,309,495</u>	<u>1,371,826</u>	<u>-5%</u>
<b>Expenses:</b>									
General Government	247,961	460,013	-46%	-	-	0%	247,961	460,013	-46%
Public Safety	265,109	112,909	135%	-	-	0%	265,109	112,909	135%
Public Works	248,567	244,103	2%	-	-	0%	248,567	244,103	2%
Culture and Recreation	5,612	5,273	6%	-	-	0%	5,612	5,273	6%
Interest on L-T Debt	5,621	5,641	0%	-	-	0%	5,621	5,641	0%
Water and Sewer	-	-	0%	524,674	490,877	7%	524,674	490,877	7%
	<u>772,870</u>	<u>827,939</u>	<u>-7%</u>	<u>524,674</u>	<u>490,877</u>	<u>7%</u>	<u>1,297,544</u>	<u>1,318,816</u>	<u>-2%</u>
<b>Excess (Deficiency) Before Other Resources, Uses &amp; Transfers</b>	(69,736)	(98,714)	29%	81,687	151,724	-46%	11,951	53,010	-77%
<b>Other Resources (Uses) Transfers In (Out)</b>	86,470	317,109	-73%	(86,470)	(317,109)	73%	-	-	0%
<b>Increase (Decrease) in Net Assets</b>	16,734	218,395	92%	(4,783)	(165,385)	-97%	11,951	53,010	-77%
<b>Net Assets - Beginning</b>	298,707	80,312	272%	1,360,745	1,526,130	-11%	1,659,452	1,606,442	3%
<b>Net Assets - Ending</b>	<u>315,441</u>	<u>298,707</u>	<u>6%</u>	<u>1,355,962</u>	<u>1,360,745</u>	<u>0%</u>	<u>1,671,403</u>	<u>1,659,452</u>	<u>1%</u>

The City's total revenues were \$1,309,495. A significant portion, 46%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (34%), non-property taxes (19%), charges for services (29%), grants and contributions (4%) and other (14%).

The total cost of all programs and services was \$1,297,544; 40% of these costs were for water and sewer production and administration expenses. Expenses for governmental activities consisted of costs for general administration (32%), public safety (34%), public works (32%), culture and recreation (1%), interest on long-term debt (1%).

### **Governmental Activities**

Revenues for the City's governmental activities decreased approximately 4%, while total expenses decreased 7%.

- Property tax rates decreased slightly from \$0.6452 to \$0.6152 per \$100 valuation. The ad valorem tax levy for the previous fiscal year was \$233,709, compared to \$247,626 for the current year. Total tax collections were \$244,812 in the current year.
- Sanitation and landfill revenues decreased \$43,636 to \$193,140.
- The cost of all *governmental* activities this year was \$772,870. As shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through tax collections was \$235,918 because some of the costs were paid by those who directly benefited from the programs (\$206,860), by nonproperty taxes (\$135,027), or miscellaneous revenues (\$96,202).

### **Business-type Activities**

Revenues of the City's business-type activities (see table A-2) decreased by 6% (\$606,361 from \$642,601) and expenses increased by 7% (\$524,674 from \$490,877). The overall decrease in revenues resulted from increased water and sewer charges (\$132,763) along with decreased grant revenues (\$158,786).

## THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a *combined* fund balance of \$102,556, which is a decrease from the prior year's total of \$137,412. The following items effecting fund balance should be noted:

- In the prior year, expenditures were more than revenues by \$95,483 prior to transfers. In the current year, expenditures were more than revenues by \$121,326 prior to transfers.
- The revenues in the governmental funds decreased approximately 4% from the prior period and expenses for the governmental funds decreased less than 1% from the prior period.

### General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City's budget several times. Even with these adjustments, actual revenues were \$84,579 less than budgeted amounts and expenditures were \$55,544 less than final budget amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2012, the City had \$4,647,011 invested in a broad range of capital assets, including buildings, furniture and equipment, and utilities facilities (see Table A-3). This amount represents a net increase (including additions and deductions) of \$225,942, or less than 5%, over last year.

Table A-3  
Fixed Assets

Governmental Activities:	Balance 10-01-11	Additions	Deletions/ Reclassifications	Balance 09-30-12
Land	\$ 3,778	-	-	3,778
Infrastructure	945,532	-	-	945,532
Buildings & Improvements	245,355	-	-	245,355
Furniture & Equipment	198,324	46,381	-	244,705
Accumulated Depreciation	(1,102,493)	(52,251)	-	(1,154,744)
Net Capital Assets	\$ 290,496	\$ ( 5,870)	\$ -	\$ 284,626

Business-Type Activities:	Balance 10-01-11	Additions	Deletions/ Reclassifications	Balance 09-30-12
Land	\$ 195,247	-	-	195,247
Construction in Progress	225,853	-	(225,853)	-
Improvements	2,396,441	139,075	225,853	2,761,369
Vehicles & Equipment	210,539	40,486	-	251,025
Accumulated Depreciation	<u>(1,177,317)</u>	<u>( 86,979)</u>	<u>-</u>	<u>(1,264,296)</u>
Net Capital Assets	<u>\$ 1,850,763</u>	<u>\$ ( 92,582)</u>	<u>\$ -</u>	<u>\$ 1,943,345</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements.

### Debt

A municipal government can finance activities such as capital improvements and acquisitions through general tax bonds or revenue bonds. Additionally, a government may purchase items through the use of capital leases or notes payable with a financial institution.

At September 30, 2012, the City had 4 outstanding debt obligations. The City's governmental activities carried Tax Notes-Series 2007. The City's business-type activities carried Revenue Bonds-Series 1979, Tax Notes-Series 2010, and a note for the purchase of a tractor.

Governmental Activities:	Balance 10-01-11	Additions	Decreases	Balance 09-30-12	Due Within One Year
Tax Notes-Series 2007	<u>\$ 165,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 110,000</u>	<u>\$ 55,000</u>
Total Tax Notes	<u>\$ 165,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 110,000</u>	<u>\$ 55,000</u>
Business-Type Activities:	Balance 10-01-11	Additions	Decreases	Balance 09-30-12	Due Within One Year
Revenue Bonds-1979	\$ 78,000	\$ -	\$ 8,000	\$ 70,000	\$ 9,000
Tax Notes-2010	545,000	-	55,000	490,000	55,000
Note Payable	<u>-</u>	<u>40,486</u>	<u>-</u>	<u>40,486</u>	<u>4,900</u>
Total Notes Payable	<u>\$ 623,000</u>	<u>\$ 40,486</u>	<u>\$ 63,000</u>	<u>\$ 600,486</u>	<u>\$ 68,900</u>

More detailed information about the City's long-term obligations is presented in the notes to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected officials considered many factors when setting the fiscal year 2013 budget, tax rates, and fees. Factors considered include the current economy, property tax values and the needs of the City in the coming year. The Council has adopted tax rates, budgets and set fees accordingly.

If these estimates are realized, the City's budgetary general fund fund balance is expected to decrease slightly by the close of 2013.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Administrator at the City's office located in Hale Center, Texas.



## *BASIC FINANCIAL STATEMENTS*

CITY OF HALE CENTER  
Hale Center, Texas

STATEMENT OF NET ASSETS  
September 30, 2012

	Primary Government			Component Unit	Total Reporting Entity
	Governmental Activities	Business-type Activities	Total		
<b>ASSETS:</b>					
Cash in Bank	\$ 16,553	\$ 120,376	\$ 136,929	\$ 6,892	\$ 143,821
Accounts Receivable, net	-	59,264	59,264	47,800	107,064
Taxes Receivable, net	70,211	-	70,211	-	70,211
Internal Balances	81,941	(81,941)	-	-	-
Due from Primary Government	-	-	-	1,636	1,636
Due from Other Governments	1,145	-	1,145	-	1,145
<b>Capital Assets:</b>					
Land	3,778	195,247	199,025	-	199,025
Infrastructure	188,471	-	188,471	-	188,471
Buildings & Improvements, net	42,354	1,669,463	1,711,817	-	1,711,817
Furniture & Equipment, net	50,022	78,635	128,657	-	128,657
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 454,475</u></b>	<b><u>\$ 2,041,044</u></b>	<b><u>\$ 2,495,519</u></b>	<b><u>\$ 56,328</u></b>	<b><u>\$ 2,551,847</u></b>
<b>LIABILITIES:</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$ 28,745	\$ 15,929	\$ 44,674	\$ -	\$ 44,674
Accrued Interest	289	4,419	4,708	-	4,708
<b>Noncurrent Liabilities:</b>					
Customer Deposits	-	64,248	64,248	-	64,248
Due within one year	55,000	68,900	123,900	7,789	131,689
Due in more than one year	55,000	531,586	586,586	15,919	602,505
<b><u>Total Liabilities</u></b>	<b><u>\$ 139,034</u></b>	<b><u>\$ 685,082</u></b>	<b><u>\$ 824,116</u></b>	<b><u>\$ 23,708</u></b>	<b><u>\$ 847,824</u></b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	\$ 174,625	\$ 1,342,859	\$ 1,517,484	\$ -	\$ 1,517,484
<b>Restricted For:</b>					
Debt Service	64,597	-	64,597	-	64,597
Specific Programs	8,144	-	8,144	-	8,144
Unrestricted	68,075	13,103	81,178	32,620	113,798
<b><u>Total Net Assets</u></b>	<b><u>\$ 315,441</u></b>	<b><u>\$ 1,355,962</u></b>	<b><u>\$ 1,671,403</u></b>	<b><u>\$ 32,620</u></b>	<b><u>\$ 1,704,023</u></b>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

STATEMENT OF ACTIVITIES  
Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit	Total Reporting Entity
		Fees, Fines, Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government				
					Governmental Activities	Business-type Activities	Total		
Government Activities:									
General Government	\$ 247,961	\$ 11,603	\$ -	\$ -	\$ (236,358)	-	(236,358)	-	(236,358)
Public Safety	265,109	2,117	-	29,048	(233,944)	-	(233,944)	-	(233,944)
Public Works	248,567	193,140	-	-	(55,427)	-	(55,427)	-	(55,427)
Culture and Recreation	5,612	-	-	-	(5,612)	-	(5,612)	-	(5,612)
Interest on Long-Term Debt	5,621	-	-	-	(5,621)	-	(5,621)	-	(5,621)
<b>Total Governmental Activities</b>	<b>772,870</b>	<b>206,860</b>	<b>-</b>	<b>29,048</b>	<b>(536,962)</b>	<b>-</b>	<b>(536,962)</b>	<b>-</b>	<b>(536,962)</b>
Business-type Activities									
Water and Sewer	524,674	602,671	-	3,427	-	81,424	81,424	-	81,424
<b>Total Primary Government</b>	<b>\$ 1,297,544</b>	<b>\$ 809,531</b>	<b>\$ -</b>	<b>\$ 32,475</b>	<b>\$ (536,962)</b>	<b>\$ 81,424</b>	<b>\$ (455,538)</b>	<b>\$ -</b>	<b>\$ (455,538)</b>
Component Unit:									
Economic Development Corporation	\$ 51,158	-	-	-	-	-	-	\$ (51,158)	\$ (51,158)
General Revenues									
Property Taxes, Levied for General Purpose					235,918	-	235,918	-	235,918
Sales Taxes					48,618	-	48,618	24,367	72,985
Franchise Taxes					86,409	-	86,409	-	86,409
Unrestricted Investment Earnings					79	263	342	-	342
Miscellaneous					96,202	-	96,202	-	96,202
Transfers					86,470	(86,470)	-	-	-
<b>Total General Revenues and Transfers</b>					<b>553,696</b>	<b>(86,207)</b>	<b>467,489</b>	<b>24,367</b>	<b>491,856</b>
Change in Net Assets					16,734	(4,783)	11,951	(26,791)	(14,840)
Net Assets -- Beginning					311,491	1,360,745	1,672,236	59,411	1,731,647
Prior Period Adjustment					(12,784)	-	(12,784)	-	(12,784)
<b>Net Assets -- Ending</b>					<b>\$ 315,441</b>	<b>\$ 1,355,962</b>	<b>\$ 1,671,403</b>	<b>\$ 32,620</b>	<b>\$ 1,704,023</b>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS  
September 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash	\$ 2,099	\$ 14,454	\$ 16,553
Investments	-	-	-
Taxes Receivable, net	70,211	-	70,211
Due from Other Governments	1,145	-	1,145
Due from Other Funds	<u>25,051</u>	<u>66,381</u>	<u>91,432</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 98,506</u></b>	<b><u>\$ 80,835</u></b>	<b><u>\$ 179,341</u></b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 28,745	\$ -	\$ 28,745
Due to Other Funds	-	9,491	9,491
Deferred Revenues	<u>38,549</u>	<u>-</u>	<u>38,549</u>
<b><u>Total Liabilities</u></b>	<b><u>67,294</u></b>	<b><u>9,491</u></b>	<b><u>76,785</u></b>
<b>FUND BALANCES:</b>			
<b>Restricted For:</b>			
Debt Service	-	64,597	64,597
Specific Programs	-	8,144	8,144
Unassigned	<u>31,212</u>	<u>(1,397)</u>	<u>29,815</u>
<b><u>Total Fund Equities</u></b>	<b><u>31,212</u></b>	<b><u>71,344</u></b>	<b><u>102,556</u></b>
<b><u>TOTAL LIABILITIES &amp; FUND EQUITIES</u></b>	<b><u>\$ 98,506</u></b>	<b><u>\$ 80,835</u></b>	<b><u>\$ 179,341</u></b>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
September 30, 2012

Total Fund Balances -- Governmental Funds Balance Sheet	\$	102,556
Amounts reported for governmental activities in the statement of net assets (A-1) are different because:		
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds		38,549
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		284,625
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds		<u>(110,289)</u>
Net Assets of Governmental Activities -- Statement of Net Assets	\$	<u>315,441</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--  
GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2012

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Property Taxes (Including Penalty & Interest)	\$ 233,649	\$ -	\$ 233,649
Sales Taxes	48,618	-	48,618
Franchise Taxes	86,409	-	86,409
Sanitation Fees	193,140	-	193,140
Fees and Fines	60,143	-	60,143
Animal Control	2,117	-	2,117
Licenses and Permits	2,998	-	2,998
Leases and Rents	8,605	-	8,605
Investment Income	49	31	80
Grants	29,048	-	29,048
Miscellaneous	31,523	4,535	36,058
<u>Total Revenues</u>	<u>696,299</u>	<u>4,566</u>	<u>700,865</u>
<b>EXPENDITURES</b>			
Current			
General Government	242,425	2,164	244,589
Public Safety	282,128	2,235	284,363
Public Works	227,887	-	227,887
Culture and Recreation	4,539	-	4,539
Debt Service:			
Principal	-	55,000	55,000
Interest	-	5,813	5,813
<u>Total Expenditures</u>	<u>756,979</u>	<u>65,212</u>	<u>822,191</u>
Excess of Revenues Over (Under) Expenditures	(60,680)	(60,646)	(121,326)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In/(Out)	53,081	33,389	86,470
<u>Total Other Sources (Uses)</u>	<u>53,081</u>	<u>33,389</u>	<u>86,470</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(7,599)	(27,257)	(34,856)
Fund Balance--Beginning of Year	38,811	111,385	150,196
Prior Period Adjustment	-	(12,784)	(12,784)
<u>Fund Balance--End of Year</u>	<u>\$ 31,212</u>	<u>\$ 71,344</u>	<u>\$ 102,556</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2012

Net Change in Fund Balances -- Total Governmental Funds	\$ (34,856)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount of capital outlays during the current period.	46,381
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(52,251)
Certain property tax revenues are deferred in the funds. These are the amounts that have not been collected and are therefore do not provide current financial resources. This is the amount that these accounts have changed during the current period.	2,268
Under the modified accrual basis of accounting used in the governmental funds interest expense is recognized when paid. In the statement of activities, however, which is presented on the accrual basis, accrued interest is reported as it accrues.	192
Repayment of debt principal is an expenditure in the governmental funds, but is a reduction of long-term debt in the statement of net assets. This amount is the total debt principal repaid on long-term debt.	<u>55,000</u>
Change in Net Assets -- Statement of Activities	<u><u>\$ 16,734</u></u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUND  
September 30, 2012

	<u>Business-Type Activities-- Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<b>ASSETS</b>	
<u>Current Assets:</u>	
Cash	\$ 120,376
Accounts Receivable, net (allowance for uncollectible accounts of \$27,740)	59,264
<u>Total Current Assets</u>	<u>179,640</u>
<u>Capital Assets:</u>	
Land	195,247
Construction in Progress	-
Improvements other than buildings, net	1,669,463
Vehicles, Machinery and Equipment, net	78,635
<u>Total Fixed Assets</u>	<u>1,943,345</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 2,122,985</u>
 <b>LIABILITIES &amp; NET ASSETS</b>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 15,929
Accrued Interest	4,419
Due to Other Funds	81,941
Bonds Payable - due within one year	68,900
<u>Total Current Liabilities</u>	<u>171,189</u>
<u>Non-current Liabilities</u>	
Customer Deposits	64,248
Due in more than one year	531,586
<u>Total Non-Current Liabilities</u>	<u>595,834</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,342,859
Unrestricted	13,103
<u>Total Net Assets</u>	<u>1,355,962</u>
 <u>TOTAL LIABILITIES &amp; NET ASSETS</u>	 <u>\$ 2,122,985</u>

The accompanying notes are an integral part of this statement.



CITY OF HALE CENTER  
Hale Center, Texas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS--  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2012

	Business-Type Activities-- <u>Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<u>Operating Revenues</u>	
Water Sales	\$ 419,483
Sewer Charges	124,804
Sanitation Charges	-
Reconnect and Late Fees	41,212
Miscellaneous Income	17,172
	<u>602,671</u>
<u>Operating Expenses</u>	
Salaries	132,414
Payroll Taxes	11,318
Employee Benefits	11,138
Supplies	25,017
Sanitation Expense	-
Repairs and Maintenance	120,043
Utilities and Fuel	67,163
Professional Fees	13,929
Miscellaneous	34,512
Depreciation	86,979
	<u>502,513</u>
<u>Operating Income (Loss)</u>	100,158
<u>Non-Operating Revenues (Expenses)</u>	
Interest Revenue	263
Interest Expense	(22,161)
	<u>(21,898)</u>
<u>Income Before Contributions and Transfers</u>	<u>78,260</u>
<u>Contributions and Transfers</u>	
Grant Revenues	3,427
Transfer from/(to) Other Funds	(86,470)
	<u>(83,043)</u>
Change in Net Assets	(4,783)
NET ASSETS	
Net Assets, Beginning of Year	<u>1,360,745</u>
Net Assets, End of Year	<u>\$ 1,355,962</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

STATEMENT OF CASH FLOWS--  
PROPRIETARY FUNDS  
For the Year Ended September 30, 2012

	<u>Business-Type Activities-- Enterprise Funds</u>
	<u>Water &amp; Sewer</u>
<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 604,112
Payments to Suppliers	(281,036)
Payments to Employees	(159,686)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>163,390</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to Other Funds	(86,470)
Change in Due to Other Funds	(13,825)
<u>Net Cash Provided (Used) by Non-Capital Financing Activities</u>	<u>(100,295)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(179,562)
Principal Paid on Long-Term Debt	(63,000)
Interest Paid on Long-Term Debt	(21,331)
Proceeds from Issuance of Note Payable	40,486
Proceeds from grants	3,427
<u>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</u>	<u>(219,980)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends	263
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>263</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(156,622)
Cash & Cash Equivalents--Beginning of Year	276,998
<u>Cash &amp; Cash Equivalents--End of Year</u>	<u>\$ 120,376</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 100,158
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:	
Depreciation	86,979
(Increase) Decrease in Receivables	(1,860)
Increase (Decrease) in Liabilities	(21,887)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ 163,390</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS  
September 30, 2012

Note A: Summary of Significant Accounting Policies

The basic financial statements of the City of Hale Center have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants (AICPA), and by the Financial Accounting Standards Board (FASB), when applicable. Proprietary funds apply FASB pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails.

1. The Reporting Entity

The City of Hale Center (the City) was founded in 1921. The City operates under the Council-Manager form of government. Prior to the year ended September 30, 2009, the City operated under a Council-Mayor form of government. The City provides a full range of municipal services including public safety (police and fire), highway and streets, sanitation, culture and recreation, public improvement, planning and zoning, and general administrative services. In addition, the City provides water and sewer service as a proprietary function of the City.

The City of Hale Center is a home rule municipality governed by an elected mayor and five member City Council who appoint a City Manager. The City's financial statements include its component units. The accompanying basic financial statements comply with the provisions of GASB Statement No. 14, "The Financial Reporting Entity" (as amended by GASB Statement No. 39) in that the financial statements include all organizations, activities, functions and component units for which the City is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Discretely Presented Component Units

The Hale Center Economic Development Corporation (HCEDC), a non-profit corporation, was created to promote future economic development in Hale Center, Texas. The HCEDC is included in the reporting entity because the City Council appoints the five-member Board of Directors and approves its annual budget. Accordingly, the City is financially accountable and is able to impose its will on the organization. The HCEDC is reported as a governmental fund type component unit, HCEDC's fiscal year end is March 31<sup>st</sup>, which differs from that of the City's September 30<sup>th</sup> year end. Accordingly, HCEDC's financial information included in the basic financial statements is as of March 31, 2012 rather than September 30, 2012. The difference in fiscal year ends results in inconsistencies in amounts reported in due to/from accounts. Significant transactions between the City and HCEDC included the City's disbursement of HCEDC's share of sales tax revenues to HCEDC amounting to \$24,367 for the year ended March 31, 2012. Separate HCEDC financial information can be obtained by writing to Hale Center Economic Development Corporation, P.O. Box 957, Hale Center, TX 79041.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2  
September 30, 2012

Note A: Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and 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. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all of taxes, are presented as general revenues.

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

The City reports the following major governmental funds:

General Fund: This is the primary operating fund of the City. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

In addition, the City reports the following fund types:

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds: Debt Service Funds are used to account for the accumulation of an use of property and sales tax revenue to meet the debt service requirements of the City's general and revenue bonded debt.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3  
September 30, 2012

Note A: Summary of Significant Accounting Policies--Continued

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims, and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4  
September 30, 2012

Note A: Summary of Significant Accounting Policies (continued)

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus utilizing the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. The fund equity is segregated in invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

c. Fund Balance Classification

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Currently, the City's restricted fund balances are made up of \$64,597 restricted for Debt Service and \$8,144 restricted for Specific Programs.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. Currently, the City does not have an committed fund balances.

Unassigned: This classification includes the residual fund balance for the General Fund.

The City would typically use Restricted fund balances first, followed by Committed resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

3. Financial Statement Amounts

a. 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.

For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments having a maturity of one year or more, when purchased, are stated at fair value. Short-term investments are stated a cost or amortized cost.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5  
September 30, 2012

Note A: Summary of Significant Accounting Policies (continued)

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1<sup>st</sup> for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1<sup>st</sup> of the year following the year in which imposed. On January 1<sup>st</sup> of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of September 30, 2012, the amount deemed uncollectible by this estimate was \$13,784. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect cost applicable to future periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The City has elected not to retroactively report its infrastructure assets. Infrastructure assets acquired after the implementation of GASB 34 will be capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20
Buildings	30
Building Improvements	15
System and Improvements	50
Vehicles	5-10
Office Equipment and Furniture	5-10
Computer Equipment	3

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6  
September 30, 2012

Note A: Summary of Significant Accounting Policies (continued)

e. Receivable and Payable Balances

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

All trade receivables are shown net of an allowance for uncollectible. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectible.

f. Long-Term Debt

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

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

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management’s estimates. Actual results could differ from those estimates.

Note B: Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violations</u>	<u>Action Taken</u>
None Reported	Not Applicable



CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7  
September 30, 2012

Note C: Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At September 30, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$136,929 and the bank balance was \$153,818. The City's cash deposits at September 30, 2012 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. HCEDC's carrying and bank balance was \$6,892. All HCEDC's deposits were covered by FDIC insurance or pledged collateral held by the agent bank in HCEDC's name at September 30, 2012. Accordingly, the City and the HCEDC had no custodial risk for deposits.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8  
September 30, 2012

Note D: Receivables

Receivables as of September 30, 2012 for the City's major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts are as follows:

Governmental activities:			
General Fund	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Property taxes	\$ 52,333	\$ (13,784)	\$ 38,549
Franchise taxes	25,560	-	25,560
Sales taxes	<u>6,102</u>	<u>-</u>	<u>6,102</u>
Total governmental	<u>\$ 83,995</u>	<u>\$ (13,784)</u>	<u>\$ 70,211</u>
Business-type activities:			
Water and Sewer Fund			
Customer accounts	<u>\$ 87,004</u>	<u>\$ (27,740)</u>	<u>\$ 59,264</u>
Total business-type	<u>\$ 87,004</u>	<u>\$ (27,740)</u>	<u>\$ 59,264</u>
Component unit:			
Hale Center Economic Development Corporation			
Loans receivable	<u>\$ 47,800</u>	<u>\$ -</u>	<u>\$ 47,800</u>
Total component unit	<u>\$ 47,800</u>	<u>\$ -</u>	<u>\$ 47,800</u>

Note E: Capital Assets

Capital asset activity for the period ended September 30, 2012, was as follows:

<b>Governmental Activities:</b>	Balance <u>10-01-11</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	Balance <u>9-30-12</u>
Land	\$ 3,778	-	-	\$ 3,778
Infrastructure	945,532	-	-	945,532
Buildings & Improvements	245,355	-	-	245,355
Furniture & Equipment	<u>198,324</u>	<u>46,381</u>	<u>-</u>	<u>244,705</u>
Total Capital Assets	<u>\$ 1,392,989</u>	<u>\$ 46,381</u>	<u>\$ -</u>	<u>\$ 1,439,370</u>
<u>Less Accumulated Depreciation:</u>				
Infrastructure	\$ 730,312	\$ 26,749	-	\$ 757,061
Buildings & Improvements	200,124	2,877	-	203,001
Furniture & Equipment	<u>172,057</u>	<u>22,625</u>	<u>-</u>	<u>194,682</u>
Total Accumulated Depreciation	<u>\$ 1,102,493</u>	<u>\$ 52,251</u>	<u>\$ -</u>	<u>\$ 1,154,744</u>
Net Capital Assets	<u>\$ 290,496</u>	<u>\$ (5,870)</u>	<u>\$ -</u>	<u>\$ 284,626</u>

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9  
September 30, 2012

Note E: Capital Assets (continued)

<b><u>Business-Type Activities:</u></b>	<u>Balance 10-01-11</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-12</u>
Land	\$ 195,247	-	-	\$ 195,247
Construction in Progress	225,853	-	(225,853)	-
Buildings& Improvements	2,396,441	139,075	225,853	2,761,369
Vehicles, Machinery & Furniture & Fixtures	<u>210,539</u>	<u>40,486</u>	<u>-</u>	<u>251,025</u>
Total Capital Assets	<u>\$ 3,028,080</u>	<u>\$ 179,561</u>	<u>\$ -</u>	<u>\$ 3,207,641</u>
 <u>Less Accumulated Depreciation:</u>	 <u>Balance 10-01-11</u>	 <u>Additions</u>	 <u>Deletions/ Reclassifications</u>	 <u>Balance 9-30-12</u>
Buildings& Improvements	\$ 1,031,157	\$ 60,749	-	\$ 1,091,906
Vehicles, Machinery & Furniture & Fixtures	<u>146,160</u>	<u>26,230</u>	<u>-</u>	<u>172,390</u>
Total Accumulated Depreciation	<u>\$ 1,177,317</u>	<u>\$ 86,979</u>	<u>\$ -</u>	<u>\$ 1,264,296</u>
Net Capital Assets	<u>\$ 1,850,763</u>	<u>\$ 92,582</u>	<u>\$ -</u>	<u>\$ 1,943,345</u>

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

General Government	\$ 3,372
Public Safety	19,476
Public Works	28,330
Culture and Recreation	1,073
Water and Sewer	<u>86,979</u>
	<u>\$139,230</u>

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10  
September 30, 2012

Note F: Interfund Balances and Activities

Interfund balances at September 30, 2012 consisted of the following individual fund balances:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<u>General Fund:</u>		
Special Revenue Funds	\$ 6,041	\$ -
Proprietary Fund	<u>19,010</u>	<u>-</u>
<u>Total General Fund</u>	<u>25,051</u>	<u>-</u>
<u>Debt Service Fund:</u>		
Proprietary Fund	<u>62,931</u>	<u>-</u>
<u>Special Revenue Fund:</u>		
General Fund	<u>-</u>	<u>6,041</u>
<u>Proprietary Fund:</u>		
General Fund	-	19,010
Debt Service Fund	<u>-</u>	<u>62,931</u>
<u>Total Proprietary Fund</u>	<u>-</u>	<u>81,941</u>
<u>Total</u>	<u>\$ 87,982</u>	<u>\$ 87,982</u>

These interfund receivables and payables were recorded to eliminate cash flow deficits of various funds.

Note G: Interfund Transfers

Interfund transfers for the year ended September 30, 2012 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund:</u>		
Special Revenue Funds	\$ 23,640	\$ -
Debt Service Fund	-	57,029
Proprietary Fund	<u>86,470</u>	<u>-</u>
<u>Total General Fund</u>	<u>110,110</u>	<u>57,029</u>
<u>Debt Service Fund:</u>		
Proprietary Fund	<u>57,029</u>	<u>-</u>
<u>Special Revenue Fund:</u>		
General Fund	<u>-</u>	<u>23,640</u>
<u>Proprietary Fund:</u>		
General Fund	<u>-</u>	<u>86,470</u>
<u>Total</u>	<u>\$ 167,139</u>	<u>\$ 167,139</u>

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11  
September 30, 2012

Note H: Long-Term Debt

Short term loans are accounted for through the applicable fund. General Fund proceeds from loans (except those issued and retired during the current year) are shown in the financial statements as Other Resources and principal payments as Other Uses. Enterprise fund loans are shown in the appropriate fund.

During the year ended September 30, 1979, the City issued \$135,000 in revenue bonds. The bonds are payable in annual installments of \$8,000 to \$9,000 from 2011 through 2109, with semi-annual interest payments at 5%. The final maturity date is December 31, 2019.

During the year ended September 30, 2011, the City issued \$600,000 in tax notes bonds. The bonds are payable in annual installments of \$69,773 to \$134,160 from 2011 through 2017, with semi-annual interest payments at 3.2%. The final maturity date is September 1, 2017.

The City borrowed \$40,486 to finance the purchase of a tractor. The note is secured by the equipment acquired. Interest accrues at 4.822%. The note is payable in quarterly payments of \$2,328 through November 1, 2017.

Interest expense incurred during the current fiscal year was \$5,621 for governmental activities and \$22,161 for business-type activities.

Changes in long-term obligations for the year ended September 30, 2012 are as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Tax Notes-Series 2007	\$ 165,000	\$ -	\$ 55,000	\$ 110,000	\$ 55,000
<u>Total Governmental Funds:</u>	<u>\$ 165,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 110,000</u>	<u>\$ 55,000</u>
<u>Business-Type Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Rev. Bonds-Series 1979	\$ 78,000	\$ -	\$ 8,000	\$ 70,000	\$ 9,000
Tax Notes-Series 2010	545,000	-	55,000	490,000	55,000
Note Payable-Tractor	-	40,486	-	40,486	4,900
<u>Total Business-Type Funds:</u>	<u>\$ 623,000</u>	<u>\$ 40,486</u>	<u>\$ 63,000</u>	<u>\$ 600,486</u>	<u>\$ 68,900</u>

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12  
September 30, 2012

Note H: Long-Term Debt (continued)

Debt service requirements on long-term debt at September 30, 2012 are as follows:

Year Ending September,	<u>Governmental Funds</u>		<u>Business-Type Funds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	55,000	3,465	68,900	21,265
2014	55,000	1,155	76,730	18,554
2015	-	-	137,111	15,803
2016	-	-	143,510	11,113
2017	-	-	148,930	6,193
2018	-	-	13,305	1,174
2016	<u>-</u>	<u>-</u>	<u>12,000</u>	<u>600</u>
Total	<u>\$ 110,000</u>	<u>\$ 4,620</u>	<u>\$ 600,486</u>	<u>\$ 74,702.</u>

The general fund is used to liquidate the governmental activities long-term debt and the water and sewer fund liquidates the business-type activities long-term debt.

The Hale Center Economic Development Corporation issued a loan in the amount of \$25,000 in January 2012 to finance a project pursuant to Chapter 380 of the Texas Local Government Code. This project was implemented to provide funding for the building cost of the Hale Center Medical Clinic. The note is payable in monthly installments of \$750 with an interest rate of 6.0%. A summary of changes in the note for the year ended March 31, 2012, and the debt services requirements are as follows:

<u>Component Unit:</u>	<u>Balance at</u> <u>04-01-2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>3-31-2012</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Note Payable	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 1,292</u>	<u>\$ 23,708</u>	<u>\$ 7,789</u>

Debt Service Requirements

Year Ending March 31,	<u>Principal</u>	<u>Interest</u>
2013	7,789	1,211
2014	8,270	730
2017	<u>7,649</u>	<u>220</u>
Total	<u>\$ 23,708</u>	<u>\$ 2,161</u>

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13  
September 30, 2012

Note I: Pension Plan

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

Upon retirement, benefits depend on the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as an Updated Service Credit. This monetary credit is determined by hypothetically re-computing the member's account balance by assuming that the current deposit rate of the City has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to member accounts in previous years, and increased by the City match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted.

At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three survivor lifetime options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. The City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City may adopt annuity increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14  
September 30, 2012

Note I: Pension Plan (continued)

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 for plan years 2010 and 2011:

Deposit Rate:	5.00%
Matching Ratio (City to Employee):	1 to 1
A member is vested after	5 years
Updated Service Credit Annually Repeating	0%
Annuity Increase (to retirees)	0% of CPI
Supplemental Death Benefit	
For active employees (Y/N)	Y
For retirees (Y/N)	Y

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city are: 5yrs/age 60, 20 yrs/any age.

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 contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the 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 the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the contribution rate and the calendar year when the rate goes into effect. (i.e. December 31, 2010 valuation is effective for rates beginning January 2012).

Annual Pension Cost: The City's contributions to the TMRS plan for the years ended September 30, 2012, 2011, and 2010 were \$9,442, \$21,972, and \$17,524, respectively, which equaled the required contributions each year. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 9,442
Interest on NPO	-
Adjustment to the ARC	-
Annual Pension Cost	\$ 9,442
Contributions Made	( 9,442)
Increase (decrease) in net pension obligation	\$ -
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	\$ -



CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15  
September 30, 2012

Note I: Pension Plan (continued)

Trend Information for the Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of AP Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2010	\$ 17,524	100%	\$ 0
September 30, 2011	21,972	100%	0
September 30, 2012	9,442	100%	0

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

	Actuarial Information		
	<u>12/31/09</u>	<u>12/31/10 – prior to restructuring</u>	<u>12/31/10 Restructured</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent Of payroll	Level percent Of payroll	Level Percent Of payroll
GASB 25 Equivalent Single Amortization period	22.9 years-Closed period	22.0 years-Closed period	22.0 years-Closed period
Amortization Period for new Gains/Losses	25 years	25 years	15 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions			
Investment return	7.5%	7.5%	7.0%
Projected salary increases	Varies by age And service	Varies by age And service	Varies by age And service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

CITY OF HALE CENTER  
 Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 16  
 September 30, 2012

Note I: Pension Plan (continued)

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Schedule of Funding Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010-(a)	\$ 107,968	\$ 195,230	55.3%	\$ 87,262	\$ 318,028	27.4%
12/31/2010-(b)	\$ 115,885	\$ 212,347	54.6%	\$ 96,462	\$ 318,028	30.3%

- (a) Actuarial valuation performed under the original fund structure.
- (b) Actuarial valuation performed under the new fund structure.

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.

Note J: Supplemental Death Benefits Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at [www.TMRS.com](http://www.TMRS.com).

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.

CITY OF HALE CENTER  
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 17  
September 30, 2012

Note J: Supplemental Death Benefits Plan (continued)

Contributions

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

The city's contributions to the TMRS SDBF for the years ended September 30, 2012, 2010, and 2009 were \$212, \$552, and \$405, respectively, which equaled the required contributions each year.

Note K: Litigation

There was no reportable litigation pending or in progress against the city at September 30, 2012.

Note L: Prior Period Adjustment

The prior restricted debt service fund balance was decreased \$14,220 to adjust an amount previously reported as prepaid expenditures.

The prior restricted fund balance reported in the Crime Line Fund (a special revenue fund) was increased by \$1,436.

*REQUIRED SUPPLEMENTARY INFORMATION*

CITY OF HALE CENTER  
Hale Center, Texas

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Fiscal Year Ended September 30, 2012

	General Fund			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 234,000	\$ 234,000	\$ 233,649	\$ (351)
Sales Taxes	45,000	45,000	48,618	3,618
Franchise Taxes	92,000	92,000	86,409	(5,591)
Sanitation Fees	207,700	207,700	193,140	(14,560)
Fees and Fines	130,250	130,250	60,143	(70,107)
Animal Control	-	-	2,117	2,117
Licenses and Permits	2,400	2,400	2,998	598
Leases and Rents	8,480	8,480	8,605	125
Investment Income	-	-	49	49
Grants	-	29,048	29,048	-
Miscellaneous	32,000	32,000	31,523	(477)
<u>Total Revenues</u>	<u>751,830</u>	<u>780,878</u>	<u>696,299</u>	<u>(84,579)</u>
<u>Expenditures</u>				
<u>Current</u>				
General Government	261,529	261,529	242,425	19,104
Public Safety	289,494	318,042	282,128	35,914
Public Works	227,752	228,252	227,887	365
Culture and Recreation	4,700	4,700	4,539	161
<u>Total Expenditures</u>	<u>783,475</u>	<u>812,523</u>	<u>756,979</u>	<u>55,544</u>
<u>Other Financing Sources (Uses)</u>				
Transfer In/(Out)	31,645	31,645	53,081	21,436
<u>Total Other Financing Sources (Uses)</u>	<u>31,645</u>	<u>31,645</u>	<u>53,081</u>	<u>21,436</u>
<u>Excess of Revenues and Other Sources</u>				
<u>Over (Under) Expenditures and Other Uses</u>	-	-	(7,599)	(7,599)
Fund Balance, Beginning of Year	38,811	38,811	38,811	-
<u>Fund Balance, End of Year</u>	<u>\$ 38,811</u>	<u>\$ 38,811</u>	<u>\$ 31,212</u>	<u>\$ (7,599)</u>

CITY OF HALE CENTER  
Hale Center, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS  
(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2008	\$ 50,677	\$ 139,817	36.2%	\$ 89,140	\$ 266,102	33.5%
12/31/2009	\$ 85,224	\$ 168,309	50.6%	\$ 83,085	\$ 319,379	26.0%
12/31/2010-(a)	\$ 107,968	\$ 195,230	55.3%	\$ 87,262	\$ 318,028	27.4%
12/31/2010-(b)	\$ 115,885	\$ 212,347	54.6%	\$ 96,462	\$ 318,028	30.3%

(a) Actuarial valuation performed under the original fund structure

(b) Actuarial valuation performed under the new fund structure

*OTHER SUPPLEMENTARY INFORMATION*

CITY OF HALE CENTER  
Hale Center, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
For the Year Ended September 30, 2012

Years Ended September 30	Original Tax Levy	Balance 10/01/11	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/12
2002 and Prior	\$ --	\$ 7,533	\$ -	\$ 159	\$ (1,104)	\$ 6,270
2003	174,388	1,491	-	155	(3)	1,333
2004	174,876	1,650	-	171	-	1,479
2005	178,756	2,406	-	286	-	2,120
2006	187,551	3,254	-	414	-	2,840
2007	206,388	3,394	-	698	-	2,696
2008	218,748	5,406	-	1,363	-	4,043
2009	227,654	7,872	-	2,199	-	5,673
2010	234,049	14,656	-	5,976	-	8,680
2011	233,709	-	233,709	216,471	(40)	17,198
	<u>Totals</u>	<u>\$ 47,662</u>	<u>\$ 233,709</u>	<u>\$ 227,892</u>	<u>\$ (1,147)</u>	<u>\$ 52,332</u>



# Terry & King, CPAs, P.C.

4216 102<sup>nd</sup>  
P.O. Box 93550  
Lubbock, TX 79493-3550

Randel J. Terry, CPA  
Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

---

## Independent Auditors' Report

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and City Council  
City of Hale Center, Texas  
P.O. Box 532  
Hale Center, Texas 79041

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hale Center, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City of Hale Center's basic financial statements, and have issued our report thereon dated September 15, 2015. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hale Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.



Independent Auditors' Report  
Page 2

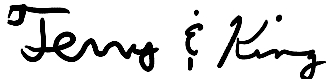
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hale Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-1.

This report is intended solely for the information and use of management, City Council, federal awarding agencies and pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Terry & King". The signature is written in a cursive, flowing style.

Terry & King, CPAs, P.C.  
September 15, 2015

CITY OF HALE CENTER  
Hale Center, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2012

**A. Findings Required to be Reported in Accordance with Government Auditing Standards**

Finding 2012-1: Reconciliation of cash accounts

Comment: Our testing in the area of cash disclosed that monthly reconciliations for all of the various bank accounts are not occurring. The lack of this control feature allows for differences to occur and accumulate over a period of time and makes it possible for the cash to be misappropriated. In order to maintain proper control over cash, we suggest that the accounts be reconciled to the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate cash balance.

Recommendation: We recommend the City adopt policies to verify that all cash accounts are reconciled to the general ledger monthly, and those reconciliations are properly reviewed and approved.

Management response/corrective action plan: The City has new financial reporting personnel. These individuals are working diligently to learn the software and procedures. The reconciliations will be performed timely going forward.

Finding 2012-2: Reconciliation of accounts receivable

Comment: Our testing in the area of accounts receivable for utilities disclosed that monthly reconciliations between the billing system and the general ledger are not being performed. The lack of this control feature allows for differences to occur and accumulate over a period of time. In order to maintain proper control over accounts receivable and cash receipts, we suggest that the billing system be reconciled with the balance in the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts receivable balance supported by the billing system.

Recommendation: We recommend the City adopt a stringent review policy to verify that all activity in the billing system and the general ledger is reconciled monthly.

Management response/corrective action plan: Utility billing was interfaced with the general ledger in October 2012. This allows for the automatic posting of utility billing transactions to the general ledger at the end of business each day. This eliminated the need for manual entry by utility billing personnel which was leading to various and numerous mistakes. Small inconsistencies exist in balances due to edits, returned checks, etc. in the utility billing system; however, utility billing personnel now submits reports on all utility billing edits, reversals and changes as they are made.

Finding 2012-3: Controls over cash receipts

Comment: Our testing over cash receipts of utility revenue indicated that substantially all procedures over the cash receipts were performed by one employee. The lack of segregation of duties could lead to a heightened risk of error or misappropriation. We recommend the various duties, including opening mail, logging receipts, depositing cash, and recording deposits in the system, be assigned to as many employees as feasible. We also recommend that the City Manager and other personnel outside of the water and sewer department perform periodic review procedures over utility billing and cash receipts.

Recommendation: We recommend the City review its procedures for receiving cash and consider strengthening the related internal controls.

Management respons/corrective action plan: The City is now segregating the cash collection and deposit duties among several employees. The City manager and city secretary are now more involved in these duties.

CITY OF HALE CENTER  
Hale Center, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2012

Finding 2012-4: Reconciliation of internal balances and internal transfers

Comment: Our testing in the area of internal balances and transfers disclosed that monthly reconciliations of the balances are not occurring.

Recommendation: We recommend the City adopt policies to verify that all internal transactions are timely and properly recorded and reconciled.

Management response/corrective action plan: Errors and omissions in the accounting of internal balances and transfers were mostly due to an improper initial setup of the City's financial software upon its adoption in 2007. Significant corrections have been made to the setup and account mapping to correct the problems. Also, the City consolidated bank accounts in April of 2013. This alleviated many of the issues in tracking and documenting transfers.

CITY OF HALE CENTER  
Hale Center, Texas

SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS  
For the Year Ended September 30, 2012

**A. Findings Required to be Reported in Accordance with Government Auditing Standards**

*Reconciliation of cash accounts*

Comment: Our testing in the area of cash disclosed that monthly reconciliations for all of the various bank accounts are not occurring. The lack of this control feature allows for differences to occur and accumulate over a period of time and makes it possible for the cash to be misappropriated. In order to maintain proper control over cash, we suggest that the accounts be reconciled to the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate cash balance.

Management response/corrective action plan: See current year finding 2012-1.

*Reconciliation of accounts receivable*

Comment: Our testing in the area of accounts receivable for utilities disclosed that monthly reconciliations between the billing system and the general ledger are not being performed. The lack of this control feature allows for differences to occur and accumulate over a period of time. In order to maintain proper control over accounts receivable and cash receipts, we suggest that the billing system be reconciled with the balance in the general ledger at the end of every month. If any differences exist, they should be investigated and resolved promptly. These procedures will ensure that the balance in the general ledger reflects the accurate accounts receivable balance supported by the billing system.

Management response/corrective action plan: See current year finding 2012-2.

*Controls over cash receipts*

Comment: Our testing over cash receipts of utility revenue indicated that substantially all procedures over the cash receipts were performed by one employee. The lack of segregation of duties could lead to a heightened risk of error or misappropriation. We recommend the various duties, including opening mail, logging receipts, depositing cash, and recording deposits in the system, be assigned to as many employees as feasible. We also recommend that the City Manager and other personnel outside of the water and sewer department perform periodic review procedures over utility billing and cash receipts.

Management response/corrective action plan: See current year finding 2012-3.

*Reconciliation of internal balances and internal transfers*

Comment: Our testing in the area of internal balances and transfers disclosed that monthly reconciliations of the balances are not occurring. We encountered significant difficulties in being able to reconcile these internal balances, adding significant time to completing the audit.

Management response/corrective action plan: See current year finding 2012-4.