

ANNUAL FINANCIAL REPORT

CITY OF HALE CENTER, TEXAS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

CITY OF HALE CENTER
Hale Center, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2013

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page Number</u>
INTRODUCTORY SECTION		
City Council and Administrative Staff		1
FINANCIAL SECTION		
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 Position	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 Position	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 Position	D-1	19
Statement of Revenues, Expenses, and Changes in Fund Net Position	D-2	20
Statement of Cash Flows	D-3	21
Notes to the Financial Statements		22
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedules:		
General Fund	E-1	38
TMRS Schedule of Funding Progress	E-2	39
OTHER SUPPLEMENTARY INFORMATION		
Schedule of Delinquent Taxes Receivable	F-1	40
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>		41
Schedule of Findings and Questioned Costs		43
Schedule of Status of Prior Year Findings		45

INTRODUCTORY SECTION

CITY OF HALE CENTER
Hale Center, Texas

September 30, 2013

CITY COUNCIL

Eugene Carter	Mayor
Christine Reyna	Mayor Pro Tem
Karen Boyce	Councilmember
Mario Martinez	Councilmember
Roger Mahagan	Councilmember
Richard Castillo	Councilmember

ADMINISTRATIVE STAFF

Joshua Jones	City Manager
Kami Eady	City Secretary

FINANCIAL SECTION

Terry & King, CPAs, P.C.

4216 102nd
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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

-2-



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

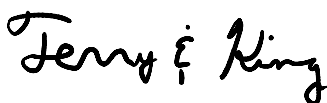
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hale Center's financial statements. 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 basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hale Center's internal control over financial reporting and compliance.

Respectfully submitted,



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, 2013. Please read this in conjunction with the City's financial statements, which follow this section

FINANCIAL HIGHLIGHTS

- The City's net position increased as a result of this year's operations. While net position of our business-type activities increased by \$42,497 or 3%, net position of our governmental activities decreased by \$12,115.
- During the year, the City had expenses that were \$120,505 more than the \$662,802 generated in tax and other revenues for governmental programs before transfers.
- In the City's business type activities, charges for services decreased \$25,333 to \$577,338 (or 4%) while operating expenses decreased \$98,194 to \$426,480.
- The General Fund reported a deficit this year of \$162,589 prior to inter-fund transfers in (\$108,390) and proceeds from long-term debt (\$29,217).
- The resources available for appropriation were \$96,748 less than budgeted for the General Fund. Expenditures for the General Fund were less than the budgeted amounts by \$76,772.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position 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 Position 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 position* and changes in it. You can think of the City's net position—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 position is 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 Position 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 Position 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 Position 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 position was \$ 1,701,785. Our following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City’s government and business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$1,701,785 at September 30, 2013. (See Table A-1).

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

	Governmental Activities			Business-type Activities			Total Primary Government		
	2013	2012	Percentage Change	2013	2012	Percentage Change	2013	2012	Percentage Change
Current assets:									
Cash in Bank	11,737	16,553	-29%	122,873	120,376	2%	134,610	136,929	-2%
Accounts Receivable-Utilities, net	-	-	0%	63,053	59,264	6%	63,053	59,264	6%
Taxes Receivable, net	71,028	70,211	1%	-	-	0%	71,028	70,211	1%
Due from Other Governments	977	1,145	-15%	-	-	0%	977	1,145	-15%
Internal Balances	60,221	81,941	-27%	(60,221)	(81,941)	-27%	-	-	0%
Total current assets:	143,963	169,850	-15%	125,705	97,699	29%	269,668	267,549	1%
Noncurrent assets:									
Land	3,778	3,778	0%	195,247	195,247	0%	199,025	199,025	0%
Infrastructure	945,532	945,532	0%	-	-	0%	945,532	945,532	0%
Less accumulated depreciation, infrastructure	(781,808)	(757,061)	3%	-	-	0%	(781,808)	(757,061)	3%
Buildings and Improvements	245,355	245,355	0%	2,761,369	2,761,369	0%	3,006,724	3,006,724	0%
Less accumulated depreciation, buildings & improvements	(205,878)	(203,001)	1%	(1,153,263)	(1,091,906)	6%	(1,359,141)	(1,294,907)	5%
Furniture & Equipment	273,922	244,705	12%	256,865	251,025	2%	530,787	495,730	7%
Less accumulated depreciation, furniture & equipment	(210,930)	(194,683)	8%	(185,640)	(172,390)	8%	(396,570)	(367,073)	8%
Total noncurrent assets	269,971	284,625	-5%	1,874,578	1,943,345	-4%	2,144,549	2,227,970	-4%
Total Assets	413,934	454,475	-9%	2,000,283	2,041,044	-2%	2,414,217	2,495,519	-3%
Current liabilities:									
Accounts Payable	26,150	28,745	-9%	3,222	15,929	-80%	29,372	44,674	-34%
Accrued Interest Expense	241	289	-17%	3,735	4,419	-15%	3,976	4,708	-16%
Total current liabilities	26,391	29,034	-9%	6,957	20,348	-66%	33,348	49,382	-32%
Noncurrent liabilities:									
Customer Deposits	-	-	0%	63,281	64,248	-2%	63,281	64,248	-2%
Due within one year	60,006	55,000	9%	76,730	68,900	11%	136,736	123,900	10%
Due in more than one year	24,211	55,000	-56%	454,856	531,586	-14%	479,067	586,586	-18%
Total noncurrent liabilities	84,217	110,000	-23%	594,867	664,734	-11%	679,084	774,734	-12%
Net Position:									
Net investment in capital assets	185,754	174,625	6%	1,342,992	1,342,859	0%	1,528,746	1,517,484	1%
Restricted For:									
Debt Service	65,852	64,597	2%	-	-	0%	65,852	64,597	2%
Specific Programs	9,261	8,144	14%	-	-	0%	9,261	8,144	14%
Unrestricted	42,459	68,075	-38%	55,467	13,103	323%	97,926	81,178	21%
Total Net Position	303,326	315,441	-4%	1,398,459	1,355,962	3%	1,701,785	1,671,403	2%

Net position of the City's governmental activities decreased (\$303,326 compared to \$315,441). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$68,075 at September 30, 2012 to \$42,459 at the end of this year. Net position of the City's business-type activities increased by 3%, from \$1,355,962 to \$1,398,459.

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

	Governmental Activities			Business-type Activities			Total Primary Government		
	2013	2012	Percentage Change	2013	2012	Percentage Change	2013	2012	Percentage Change
Program Revenues:									
Charges for Services	250,036	206,860	21%	577,338	602,671	-4%	827,374	809,531	2%
Grants & Contributions	-	29,048	-100%	-	3,427	-100%	-	32,475	-100%
General Revenues:									
Property Taxes	251,590	235,918	7%	-	-	0%	251,590	235,918	7%
Nonproperty Taxes	147,807	135,027	9%	-	-	0%	147,807	135,027	9%
Investment Earnings	168	79	113%	29	263	-89%	197	342	-42%
Other	13,201	96,202	-86%	-	-	0%	13,201	96,202	-86%
	<u>662,802</u>	<u>703,134</u>	<u>-6%</u>	<u>577,367</u>	<u>606,361</u>	<u>-5%</u>	<u>1,240,169</u>	<u>1,309,495</u>	<u>-5%</u>
Expenses:									
General Government	272,179	247,961	10%	-	-	0%	272,179	247,961	10%
Public Safety	234,592	265,109	-12%	-	-	0%	234,592	265,109	-12%
Public Works	263,814	248,567	6%	-	-	0%	263,814	248,567	6%
Culture and Recreation	9,305	5,612	66%	-	-	0%	9,305	5,612	66%
Interest on L-T Debt	3,417	5,621	-39%	-	-	0%	3,417	5,621	-39%
Water and Sewer	-	-	0%	426,480	524,674	-19%	426,480	524,674	-19%
	<u>783,307</u>	<u>772,870</u>	<u>1%</u>	<u>426,480</u>	<u>524,674</u>	<u>-19%</u>	<u>1,209,787</u>	<u>1,297,544</u>	<u>-7%</u>
Excess (Deficiency) Before Other Resources, Uses & Transfers	(120,505)	(69,736)	-73%	150,887	81,687	85%	30,382	11,951	154%
Other Resources (Uses) Transfers In (Out)	108,390	86,470	25%	(108,390)	(86,470)	-25%	-	-	0%
Increase (Decrease) in Net Position	(12,115)	16,734	172%	42,497	(4,783)	-989%	30,382	11,951	154%
Net Position - Beginning	315,441	298,707	6%	1,355,962	1,360,745	0%	1,671,403	1,659,452	1%
Net Position - Ending	<u>303,326</u>	<u>315,441</u>	<u>-4%</u>	<u>1,398,459</u>	<u>1,355,962</u>	<u>3%</u>	<u>1,701,785</u>	<u>1,671,403</u>	<u>2%</u>

The City's total revenues were \$1,240,169. A significant portion, 47%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (38%), non-property taxes (22%), charges for services (38%), and other (2%).

The total cost of all programs and services was \$1,209,787; 35% of these costs were for water and sewer production and administration expenses. Expenses for governmental activities consisted of costs for general administration (35%), public safety (30%), public works (34%), and culture and recreation (1%).

Governmental Activities

Revenues for the City's governmental activities decreased approximately 6%, while total expenses increased 1%.

- Property tax rates increased slightly from \$0.6152 to \$0.6452 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 \$6,759 to \$186,381.
- The cost of all *governmental* activities this year was \$783,307. As shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through tax collections was \$251,590 because some of the costs were paid by those who directly benefited from the programs (\$250,036), by nonproperty taxes (\$147,807), or miscellaneous revenues (\$13,201).

Business-type Activities

Revenues of the City's business-type activities (see table A-2) decreased by 5% (\$577,367 from \$606,361) and expenses decreased by 19% (\$426,480 from \$524,674). The overall decrease in revenues resulted from a decrease in water and sewer charges of \$25,333.

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 \$80,317, which is a decrease from the prior year’s total of \$102,556. The following items effecting fund balance should be noted:

- In the prior year, expenditures were more than revenues by \$121,326 prior to transfers. In the current year, expenditures were more than revenues by \$130,629 prior to transfers.
- The revenues in the governmental funds decreased approximately 5% from the prior period and expenses for the governmental funds increased 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 once. Even with these adjustments, actual revenues were \$96,748 less than budgeted amounts and expenditures were \$76,772 less than final budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City had \$4,682,068 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 \$35,056, or less than 1%, over last year.

Table A-3
Fixed Assets

Governmental <u>Activities:</u>	Balance <u>10-01-12</u>	<u>Additions</u>	Deletions/ <u>Reclassifications</u>	Balance <u>09-30-13</u>
Land	\$ 3,778	-	-	3,778
Infrastructure	945,532	-	-	945,532
Buildings& Improvements	245,355	-	-	245,355
Furniture & Equipment	244,705	29,217	-	273,922
Accumulated Depreciation	<u>(1,154,745)</u>	<u>(43,872)</u>	<u>-</u>	<u>(1,198,617)</u>
Net Capital Assets	<u>\$ 284,625</u>	<u>\$ (14,655)</u>	<u>\$ -</u>	<u>\$ 269,970</u>

Business-Type Activities:	Balance 10-01-12	Additions	Deletions/ Reclassifications	Balance 09-30-13
Land	\$ 195,247	-	-	195,247
Improvements	2,761,369	-	-	2,761,369
Vehicles & Equipment	251,026	5,839	-	256,865
Accumulated Depreciation	<u>(1,264,296)</u>	<u>(74,606)</u>	<u>-</u>	<u>(1,338,902)</u>
Net Capital Assets	<u>\$ 1,943,346</u>	<u>\$ (68,767)</u>	<u>\$ -</u>	<u>\$ 1,874,579</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, 2013, the City had 5 outstanding debt obligations. The City's governmental activities carried Tax Notes-Series 2007 and a bank note for the purchase of police car. 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 10-01-12	Additions	Decreases	Balance 09-30-13	Due Within One Year
Tax Notes-Series 2007	\$ 110,000	\$ -	\$ 55,000	\$ 55,000	\$ 55,000
Note Payable-Police Car	<u>-</u>	<u>29,217</u>	<u>-</u>	<u>\$ 29,217</u>	<u>\$ 5,006</u>
Total Tax Notes	<u>\$ 110,000</u>	<u>\$ 29,217</u>	<u>\$ 55,000</u>	<u>\$ 84,217</u>	<u>\$ 60,006</u>

Business-Type Activities:	Balance 10-01-12	Additions	Decreases	Balance 09-30-13	Due Within One Year
Revenue Bonds-1979	\$ 70,000	\$ -	\$ 9,000	\$ 61,000	\$ 9,000
Tax Notes-2010	490,000	-	55,000	435,000	60,000
Note Payable	<u>40,486</u>	<u>-</u>	<u>4,900</u>	<u>35,586</u>	<u>7,730</u>
Total Notes Payable	<u>\$ 600,486</u>	<u>\$ -</u>	<u>\$ 68,900</u>	<u>\$ 531,586</u>	<u>\$ 76,730</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 2014 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 increase slightly by the close of 2014.

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 POSITION
September 30, 2013

	Primary Government			Component Unit	Total Reporting Entity
	Governmental Activities	Business-type Activities	Total		
ASSETS:					
Cash in Bank	\$ 11,737	\$ 122,873	\$ 134,610	\$ 10,968	\$ 145,578
Accounts Receivable, net	-	63,053	63,053	46,000	109,053
Taxes Receivable, net	71,028	-	71,028	-	71,028
Internal Balances	60,221	(60,221)	-	-	-
Due from Primary Government	-	-	-	1,786	1,786
Due from Other Governments	977	-	977	-	977
Capital Assets:					
Land	3,778	195,247	199,025	-	199,025
Infrastructure	163,725	-	163,725	-	163,725
Buildings & Improvements, net	39,477	1,608,105	1,647,582	-	1,647,582
Furniture & Equipment, net	62,991	71,226	134,217	-	134,217
<u>TOTAL ASSETS</u>	<u>\$ 413,934</u>	<u>\$ 2,000,283</u>	<u>\$ 2,414,217</u>	<u>\$ 58,754</u>	<u>\$ 2,472,971</u>
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 26,150	\$ 3,222	\$ 29,372	\$ -	\$ 29,372
Accrued Interest	241	3,735	3,976	-	3,976
Noncurrent Liabilities:					
Customer Deposits	-	63,281	63,281	-	63,281
Due within one year	60,006	76,730	136,736	8,270	145,006
Due in more than one year	24,211	454,856	479,067	7,649	486,716
<u>Total Liabilities</u>	<u>\$ 110,608</u>	<u>\$ 601,824</u>	<u>\$ 712,432</u>	<u>\$ 15,919</u>	<u>\$ 728,351</u>
NET POSITION					
Net Investment in Capital Assets	\$ 185,754	\$ 1,342,992	\$ 1,528,746	\$ -	\$ 1,528,746
Restricted For:					
Debt Service	65,852	-	65,852	-	65,852
Specific Programs	9,261	-	9,261	-	9,261
Unrestricted	42,459	55,467	97,926	42,835	140,761
<u>Total Net Position</u>	<u>\$ 303,326</u>	<u>\$ 1,398,459</u>	<u>\$ 1,701,785</u>	<u>\$ 42,835</u>	<u>\$ 1,744,620</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			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	\$ 272,179	\$ 16,018	\$ -	\$ -	\$ (256,161)	-	(256,161)	-	(256,161)
Public Safety	234,592	47,637	-	-	(186,955)	-	(186,955)	-	(186,955)
Public Works	263,814	186,381	-	-	(77,433)	-	(77,433)	-	(77,433)
Culture and Recreation	9,305	-	-	-	(9,305)	-	(9,305)	-	(9,305)
Interest on Long-Term Debt	3,417	-	-	-	(3,417)	-	(3,417)	-	(3,417)
Total Governmental Activities	783,307	250,036	-	-	(533,271)	-	(533,271)	-	(533,271)
Business-type Activities									
Water and Sewer	426,480	577,338	-	-	-	150,858	150,858	-	150,858
Total Primary Government	\$ 1,209,787	\$ 827,374	\$ -	\$ -	\$ (533,271)	\$ 150,858	\$ (382,413)	\$ -	\$ (382,413)
Component Unit:									
Economic Development Corporation	\$ 14,057	\$ -	\$ -	\$ -	-	-	-	\$ (14,057)	\$ (14,057)
General Revenues									
Property Taxes, Levied for General Purpose					189,113	-	189,113	24,272	213,385
Property Taxes, Levied for Debt Service					62,477	-	62,477	-	62,477
Sales Taxes					54,957	-	54,957	-	54,957
Franchise Taxes					92,850	-	92,850	-	92,850
Unrestricted Investment Earnings					168	29	197	-	197
Miscellaneous					13,201	-	13,201	-	13,201
Transfers					108,390	(108,390)	-	-	-
Total General Revenues and Transfers					521,156	(108,361)	412,795	24,272	437,067
Change in Net Position					(12,115)	42,497	30,382	10,215	40,597
Net Position -- Beginning					315,441	1,355,962	1,671,403	32,620	1,704,023
Net Position -- Ending					\$ 303,326	\$ 1,398,459	\$ 1,701,785	\$ 42,835	\$ 1,744,620

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
September 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ -	\$ 11,737	\$ 11,737
Investments	-	-	-
Taxes Receivable, net	67,471	3,557	71,028
Due from Other Governments	977	-	977
Due from Other Funds	<u>582</u>	<u>63,132</u>	<u>63,714</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 69,030</u>	 <u>\$ 78,426</u>	 <u>\$ 147,456</u>
 LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 26,150	\$ -	\$ 26,150
Due to Other Funds	<u>2,711</u>	<u>782</u>	<u>3,493</u>
<u>Total Liabilities</u>	<u>28,861</u>	<u>782</u>	<u>29,643</u>
 DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	<u>\$ 33,939</u>	<u>\$ 3,557</u>	<u>\$ 37,496</u>
 FUND BALANCES:			
Restricted For:			
Debt Service	-	65,852	65,852
Specific Programs	-	9,261	9,261
Unassigned	<u>6,230</u>	<u>(1,026)</u>	<u>5,204</u>
<u>Total Fund Balances</u>	<u>6,230</u>	<u>74,087</u>	<u>80,317</u>
 <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	 <u>\$ 69,030</u>	 <u>\$ 78,426</u>	 <u>\$ 147,456</u>

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 POSITION
September 30, 2013

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 80,317
Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds	37,496
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	269,971
Some liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds	<u>(84,458)</u>
Net Position of Governmental Activities -- Statement of Net Position	<u><u>\$ 303,326</u></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, 2013

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
Property Taxes (Including Penalty & Interest)	\$ 192,947	\$ 59,696	\$ 252,643
Sales Taxes	54,957	-	54,957
Franchise Taxes	92,850	-	92,850
Sanitation Fees	186,381	-	186,381
Fees and Fines	47,637	-	47,637
Licenses and Permits	3,638	-	3,638
Leases and Rents	12,380	-	12,380
Investment Income	140	28	168
Miscellaneous	10,136	3,064	13,200
<u>Total Revenues</u>	<u>601,066</u>	<u>62,788</u>	<u>663,854</u>
EXPENDITURES			
Current			
General Government	271,221	100	271,321
Public Safety	247,151	1,480	248,631
Public Works	237,050	-	237,050
Culture and Recreation	8,233	-	8,233
Debt Service:			
Principal	-	55,000	55,000
Interest	-	3,465	3,465
<u>Total Expenditures</u>	<u>763,655</u>	<u>60,045</u>	<u>823,700</u>
Excess of Revenues Over (Under) Expenditures	(162,589)	2,743	(159,846)
OTHER FINANCING SOURCES (USES)			
Proceeds from Long-Term Debt	29,217	-	29,217
Transfers In/(Out)	108,390	-	108,390
<u>Total Other Sources (Uses)</u>	<u>137,607</u>	<u>-</u>	<u>137,607</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(24,982)	2,743	(22,239)
Fund Balance--Beginning of Year	31,212	71,344	102,556
<u>Fund Balance--End of Year</u>	<u>\$ 6,230</u>	<u>\$ 74,087</u>	<u>\$ 80,317</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, 2013

Net Change in Fund Balances -- Total Governmental Funds	\$ (22,239)
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.	29,217
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets	(43,871)
Certain property tax revenues are unavailable 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.	(1,053)
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.	48
The issuance of long-term debt is reported as an other resource in the governmental funds, but is an increase of long-term debt in the statement of net position. This amount is the total issuance of long-term debt in the current fiscal year.	(29,217)
Repayment of debt principal is an expenditure in the governmental funds, but is a reduction of long-term debt in the statement of net position. This amount is the total debt principal repaid on long-term debt.	<u>55,000</u>
Change in Net Position -- Statement of Activities	<u>\$ (12,115)</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUND
September 30, 2013

	<u>Business-Type Activities-- Enterprise Funds</u>
	<u>Water & Sewer</u>
ASSETS	
<u>Current Assets:</u>	
Cash	\$ 122,873
Accounts Receivable, net (allowance for uncollectible accounts of \$31,481)	63,053
Due from Other Funds	<u>2,711</u>
<u>Total Current Assets</u>	<u>188,637</u>
<u>Capital Assets:</u>	
Land	195,247
Construction in Progress	-
Improvements other than buildings, net	1,608,105
Vehicles, Machinery and Equipment, net	<u>71,226</u>
<u>Total Fixed Assets</u>	<u>1,874,578</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 2,063,215</u>
 LIABILITIES & NET POSITION	
<u>Current Liabilities</u>	
Accounts Payable	\$ 3,222
Accrued Interest	3,735
Due to Other Funds	62,932
Bonds Payable - due within one year	<u>76,730</u>
<u>Total Current Liabilities</u>	<u>146,619</u>
<u>Non-current Liabilities</u>	
Customer Deposits	63,281
Due in more than one year	<u>454,856</u>
<u>Total Non-Current Liabilities</u>	<u>518,137</u>
 NET POSITION	
Net investment in capital assets	1,342,992
Unrestricted	<u>55,467</u>
<u>Total Net Position</u>	<u>1,398,459</u>
 <u>TOTAL LIABILITIES & NET POSITION</u>	 <u>\$ 2,063,215</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 POSITION--
PROPRIETARY FUNDS
For the Year Ended September 30, 2013

	Business-Type Activities-- <u>Enterprise Funds</u>
	<u>Water & Sewer</u>
<u>Operating Revenues</u>	
Water Sales	\$ 395,200
Sewer Charges	121,928
Reconnect and Late Fees	47,313
Miscellaneous Income	12,897
<u>Total Operating Revenues</u>	<u>577,338</u>
<u>Operating Expenses</u>	
Salaries	134,620
Payroll Taxes	10,272
Employee Benefits	12,021
Insurance	15,145
Supplies	16,768
Sanitation Expense	-
Repairs and Maintenance	62,929
Utilities and Fuel	53,936
Professional Fees	3,670
Miscellaneous	21,976
Depreciation	74,606
<u>Total Operating Expenses</u>	<u>405,943</u>
<u>Operating Income (Loss)</u>	171,395
<u>Non-Operating Revenues (Expenses)</u>	
Interest Revenue	29
Interest Expense	(20,537)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>(20,508)</u>
<u>Income Before Contributions and Transfers</u>	<u>150,887</u>
<u>Contributions and Transfers</u>	
Grant Revenues	-
Transfer from/(to) Other Funds	(108,390)
<u>Total Contributions and Transfers</u>	<u>(108,390)</u>
Change in Net Position	42,497
NET POSITION	
Net Position, Beginning of Year	<u>1,355,962</u>
Net Position, End of Year	<u>\$ 1,398,459</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, 2013

	Business-Type Activities-- <u>Enterprise Funds</u>
	<u>Water & Sewer</u>
<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 572,582
Payments to Suppliers	(187,131)
Payments to Employees	<u>(156,913)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>228,538</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to Other Funds	(108,390)
Change in Due to Other Funds	<u>(21,720)</u>
<u>Net Cash Provided (Used) by Non-Capital Financing Activities</u>	<u>(130,110)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(5,839)
Principal Paid on Long-Term Debt	(68,900)
Interest Paid on Long-Term Debt	<u>(21,221)</u>
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>	<u>(95,960)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends	<u>29</u>
<u>Net Cash Provided (Used) by Investing Activities</u>	<u>29</u>
Net Increase (Decrease) in Cash & Cash Equivalents	2,497
Cash & Cash Equivalents--Beginning of Year	<u>120,376</u>
<u>Cash & Cash Equivalents--End of Year</u>	<u>\$ 122,873</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 171,395
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:	
Depreciation	74,606
(Increase) Decrease in Receivables	(3,789)
Increase (Decrease) in Liabilities	<u>(13,674)</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ 228,538</u>

The accompanying notes are an integral part of this statement.

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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 31st, which differs from that of the City's September 30th year end. Accordingly, HCEDC's financial information included in the basic financial statements is as of March 31, 2013 rather than September 30, 2013. 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 \$24,272 for the year ended March 31, 2013. 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, 2013

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 position 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, 2013

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, 2013

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 net investment in capital assets, restricted net position, and unrestricted net position.

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 \$65,852 restricted for Debt Service and \$9,261 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, 2013

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 1st 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 1st of the year following the year in which imposed. On January 1st 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, 2013, the amount deemed uncollectible by this estimate was \$17,446. 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, 2013

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 position. 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, 2013

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, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing saving accounts included in temporary investments) was \$134,610 and the bank balance was \$168,311. The City's cash deposits at September 30, 2013 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 \$10,968. All HCEDC's deposits were covered by FDIC insurance or pledged collateral held by the agent bank in HCEDC's name at March 31, 2013. 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, 2013

Note D: Receivables

Receivables as of September 30, 2013 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	\$ 50,286	\$ (16,347)	\$ 33,939
Franchise taxes	24,662	-	24,662
Sales taxes	8,870	-	8,870
Total governmental	<u>\$ 83,818</u>	<u>\$ (16,347)</u>	<u>\$ 67,471</u>
Business-type activities:			
Water and Sewer Fund			
Customer accounts	<u>\$ 94,534</u>	<u>\$ (31,481)</u>	<u>\$ 63,053</u>
Total business-type	<u>\$ 94,534</u>	<u>\$ (31,481)</u>	<u>\$ 63,053</u>
Component unit:			
Hale Center Economic Development Corporation			
Loans receivable	<u>\$ 46,000</u>	<u>\$ -</u>	<u>\$ 46,000</u>
Total component unit	<u>\$ 46,000</u>	<u>\$ -</u>	<u>\$ 46,000</u>

Note E: Capital Assets

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

Governmental Activities:	Balance <u>10-01-12</u>	Additions	Deletions/ Reclassifications	Balance <u>9-30-13</u>
Land	\$ 3,778	-	-	\$ 3,778
Infrastructure	945,532	-	-	945,532
Buildings & Improvements	245,355	-	-	245,355
Furniture & Equipment	<u>244,705</u>	<u>29,217</u>	<u>-</u>	<u>273,922</u>
Total Capital Assets	<u>\$ 1,439,370</u>	<u>\$ 29,217</u>	<u>\$ -</u>	<u>\$ 1,468,587</u>
<u>Less Accumulated Depreciation:</u>				
Infrastructure	\$ 757,061	\$ 24,747	-	\$ 781,808
Buildings & Improvements	203,001	2,877	-	205,878
Furniture & Equipment	<u>194,683</u>	<u>16,248</u>	<u>-</u>	<u>210,931</u>
Total Accumulated Depreciation	<u>\$ 1,154,745</u>	<u>\$ 43,872</u>	<u>\$ -</u>	<u>\$ 1,198,617</u>
Net Capital Assets	<u>\$ 284,625</u>	<u>\$ (14,655)</u>	<u>\$ -</u>	<u>\$ 269,970</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
September 30, 2013

Note E: Capital Assets (continued)

<u>Business-Type Activities:</u>	<u>Balance 10-01-12</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 9-30-13</u>
Land	\$ 195,247	-	-	\$ 195,247
Buildings& Improvements	2,761,369	-	-	2,761,369
Vehicles, Machinery & Furniture & Fixtures	<u>251,026</u>	<u>5,839</u>	<u>-</u>	<u>256,865</u>
Total Capital Assets	<u>\$ 3,207,642</u>	<u>\$ 5,839</u>	<u>\$ -</u>	<u>\$ 3,213,481</u>
 <u>Less Accumulated Depreciation:</u>	 <u>Balance 10-01-12</u>	 <u>Additions</u>	 <u>Deletions/ Reclassifications</u>	 <u>Balance 9-30-13</u>
Buildings& Improvements	\$ 1,091,906	\$ 61,357	-	\$ 1,153,263
Vehicles, Machinery & Furniture & Fixtures	<u>172,390</u>	<u>13,249</u>	<u>-</u>	<u>185,639</u>
Total Accumulated Depreciation	<u>\$ 1,264,296</u>	<u>\$ 74,606</u>	<u>\$ -</u>	<u>\$ 1,338,902</u>
Net Capital Assets	<u>\$ 1,943,346</u>	<u>\$ (68,767)</u>	<u>\$ -</u>	<u>\$ 1,874,579</u>

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

General Government	\$ 858
Public Safety	15,178
Public Works	26,763
Culture and Recreation	1,073
Water and Sewer	<u>74,606</u>
	<u>\$118,478</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
September 30, 2013

Note F: Interfund Balances and Activities

Interfund balances at September 30, 2013 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	\$ 582	\$ -
Proprietary Fund	<u>-</u>	<u>2,711</u>
<u>Total General Fund</u>	<u>582</u>	<u>2,711</u>
<u>Debt Service Fund:</u>		
Proprietary Fund	<u>62,932</u>	<u>-</u>
<u>Special Revenue Fund:</u>		
General Fund	<u>200</u>	<u>782</u>
<u>Proprietary Fund:</u>		
General Fund	2,711	-
Debt Service Fund	<u>-</u>	<u>62,932</u>
<u>Total Proprietary Fund</u>	<u>2,711</u>	<u>62,932</u>
<u>Total</u>	<u>\$ 66,425</u>	<u>\$ 66,425</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, 2013 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>General Fund:</u>		
Proprietary Fund	\$ 108,390	-
<u>Total General Fund</u>	<u>108,390</u>	<u>-</u>
<u>Proprietary Fund:</u>		
General Fund	<u>-</u>	<u>108,390</u>
<u>Total</u>	<u>\$ 108,390</u>	<u>\$ 108,390</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
September 30, 2013

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.

The City borrowed \$29,217 to finance the purchase of a police vehicle. The note is secured by the vehicle. Interest accrues at 4.25%. The note is payable in quarterly payments of \$2,003 through October 2, 2017.

Interest expense incurred during the current fiscal year was \$3,417 for governmental activities and \$20,537 for business-type activities.

Changes in long-term obligations for the year ended September 30, 2013 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>
Note Payable-Vehicle	\$ -	\$ 29,217	\$ -	\$ 29,217	\$ 5,006
Tax Notes-Series 2007	<u>110,000</u>	<u>-</u>	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>
<u>Total Governmental Funds:</u>	<u>\$ 110,000</u>	<u>\$ 29,217</u>	<u>\$ 55,000</u>	<u>\$ 84,217</u>	<u>\$ 60,006</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	\$ 70,000	\$ -	\$ 9,000	\$ 61,000	\$ 9,000
Tax Notes-Series 2010	490,000	-	55,000	435,000	60,000
Note Payable-Tractor	<u>40,486</u>	<u>-</u>	<u>4,900</u>	<u>35,586</u>	<u>7,730</u>
<u>Total Business-Type Funds:</u>	<u>\$ 600,486</u>	<u>\$ -</u>	<u>\$ 68,900</u>	<u>\$ 531,586</u>	<u>\$ 76,730</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
September 30, 2013

Note H: Long-Term Debt (continued)

Debt service requirements on long-term debt at September 30, 2013 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>
2014	60,006	2,160	76,730	18,554
2015	7,093	920	137,111	15,803
2016	7,401	613	143,510	11,113
2017	7,722	292	148,930	6,193
2018	1,995	21	13,305	1,174
2019	<u>-</u>	<u>-</u>	<u>12,000</u>	<u>600</u>
Total	<u>\$ 84,217</u>	<u>\$ 4,006</u>	<u>\$ 531,586</u>	<u>\$ 53,437</u>

The general fund and debt service fund are 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, 2013, and the debt services requirements are as follows:

<u>Component Unit:</u>	<u>Balance at</u> <u>04-01-2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>3-31-2013</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Note Payable	<u>\$ 23,708</u>	<u>\$ -</u>	<u>\$ 7,789</u>	<u>\$ 15,919</u>	<u>\$ 8,270</u>

Debt Service Requirements

Year Ending March 31,	<u>Principal</u>	<u>Interest</u>
2014	8,270	730
2015	<u>7,649</u>	<u>220</u>
Total	<u>\$ 15,919</u>	<u>\$ 950</u>

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
September 30, 2013

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.

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 2011 and 2012:

Employee 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, 2011 valuation is effective for rates beginning January 2013).

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 14
September 30, 2013

Note I: Pension Plan (continued)

Annual Pension Cost: The City's contributions to the TMRS plan for the years ended September 30, 2013, 2012, and 2011 were \$8,922, \$9,442, and \$21,972, respectively, which equaled the required contributions each year. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 8,922
Interest on NPO	-
Adjustment to the ARC	-
Annual Pension Cost	<u>\$ 8,922</u>
Contributions Made	<u>(8,922)</u>
Increase (decrease) in net pension obligation	\$ -
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	<u><u>\$ -</u></u>

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, 2011	\$ 21,972	100%	\$ 0
September 30, 2012	9,442	100%	0
September 30, 2013	8,922	100%	0

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations.

	Actuarial Information		
	<u>12/31/09</u>	<u>12/31/2010</u>	<u>12/31/2011</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	20.9 years-Closed period
Amortization Period for new Gains/Losses	25 years	15 years	15 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions			
Investment return	7.5%	7.0%	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%

CITY OF HALE CENTER
Hale Center, Texas

NOTES TO FINANCIAL STATEMENTS, Page 15
September 30, 2013

Note I: Pension Plan (continued)

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Schedule of Funding Information

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2011	\$ 150,054	\$ 248,868	60.3%	\$ 98,814	\$ 362,616	27.3%

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.

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 16
September 30, 2013

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, 2013, 2012, and 2011 were \$373, \$212, and \$552, 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, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HALE CENTER
Hale Center, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended September 30, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>				
Property Taxes (Including Penalty & Interest)	\$ 202,884	\$ 202,884	\$ 192,947	\$ (9,937)
Sales Taxes	49,650	49,650	54,957	5,307
Franchise Taxes	106,500	106,500	92,850	(13,650)
Sanitation Fees	190,000	190,000	186,381	(3,619)
Fees and Fines	115,000	115,000	47,637	(67,363)
Licenses and Permits	3,400	3,400	3,638	238
Leases and Rents	12,180	12,180	12,380	200
Investment Income	-	-	140	140
Miscellaneous	18,200	18,200	10,136	(8,064)
<u>Total Revenues</u>	<u>697,814</u>	<u>697,814</u>	<u>601,066</u>	<u>(96,748)</u>
<u>Expenditures</u>				
Current				
General Government	243,355	272,572	271,221	1,351
Public Safety	296,605	292,105	247,151	44,954
Public Works	205,515	267,050	237,050	30,000
Culture and Recreation	4,200	8,700	8,233	467
<u>Total Expenditures</u>	<u>749,675</u>	<u>840,427</u>	<u>763,655</u>	<u>76,772</u>
<u>Other Financing Sources (Uses)</u>				
Proceeds from Long-Term Debt	-	29,217	29,217	-
Transfer In/(Out)	51,861	113,396	108,390	(5,006)
<u>Total Other Financing Sources (Uses)</u>	<u>51,861</u>	<u>142,613</u>	<u>137,607</u>	<u>(5,006)</u>
<u>Excess of Revenues and Other Sources</u>				
<u>Over (Under) Expenditures and Other Uses</u>	-	-	(24,982)	(24,982)
Fund Balance, Beginning of Year	31,212	31,212	31,212	-
<u>Fund Balance, End of Year</u>	<u>\$ 31,212</u>	<u>\$ 31,212</u>	<u>\$ 6,230</u>	<u>\$ (24,982)</u>

CITY OF HALE CENTER
Hale Center, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	\$ 85,224	\$ 168,309	50.6%	\$ 83,085	\$ 319,379	26.0%
12/31/2010	\$ 115,885	\$ 212,347	54.6%	\$ 96,462	\$ 318,028	30.3%
12/31/2011	\$ 150,054	\$ 248,868	60.3%	\$ 98,814	\$ 362,616	27.3%

OTHER SUPPLEMENTARY INFORMATION

CITY OF HALE CENTER
Hale Center, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended September 30, 2013

Years Ended September 30	Original Tax Levy	Balance 10/01/12	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 09/30/13
2003 and Prior	\$ --	\$ 7,603	\$ -	\$ 347	\$ (199)	\$ 7,057
2004	174,876	1,479	-	35	(14)	1,430
2005	178,756	2,120	-	269	(14)	1,837
2006	187,551	2,840	-	246	(46)	2,548
2007	206,388	2,696	-	309	(8)	2,379
2008	218,748	4,043	-	762	(43)	3,238
2009	227,654	5,673	-	1,402	(44)	4,227
2010	234,049	8,680	-	3,604	(45)	5,031
2011	233,709	17,198	-	8,183	139	9,154
2012	247,626	-	247,626	229,655	71	18,042
	<u>Totals</u>	<u>\$ 52,332</u>	<u>\$ 247,626</u>	<u>\$ 244,812</u>	<u>\$ (203)</u>	<u>\$ 54,943</u>

Terry & King, CPAs, P.C.

4216 102nd
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, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Hale Center's basic financial statements and have issued our report thereon dated September 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hale Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Hale Center's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 that we consider to be material weaknesses.

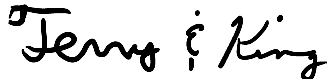
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hale Center's financial statements are free from 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



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, 2013

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

Finding 2013-1: 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 2013-2: 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: 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 2013-3: 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 response/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, 2013

Finding 2013-4: 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, 2013

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 2013-1.

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 2013-2.

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 2013-3.

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 2013-4.