

CITY OF HALLSVILLE, TEXAS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2014

CITY OF HALLSVILLE, TEXAS

CITY COUNCIL

<u>Name</u>	<u>Address</u>	<u>Usual Occupation</u>
Jerri Lee Medrano, Mayor	312 Country Club Lane Hallsville, Texas	Professional Volunteer
James Earl Mizell, Mayor Pro-tem	515 Laurel Lane Hallsville, Texas	Retired Manager - Gum Springs Water System

<u>Aldermen</u>		
Gary Nash	502 Coleman St. Hallsville, Texas	Welder
Eric S. Anderson	P. O. Box 1413 Hallsville, Texas	Environmental Manager North American Coal - Sabine Mine
Tim Hatten	129 Labrador Lane Hallsville, Texas	Sales Representative Sysco Foods
Jake Walker	P. O. Box 539 Hallsville, Texas	Retired - AEP/SWEPCO

CITY OF HALLSVILLE, TEXAS

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KNUCKOLS • DUVALL • HALLUM & CO. *A Professional Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

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MARSHALL, TEXAS 75670
(903) 938-0331 • FAX (903) 938-0334

INDEPENDENT AUDITORS' REPORT

City Council
City of Hallsville, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Hallsville, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Hallsville, Texas' 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.

Auditors' 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 auditors' 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, and each major fund of City of Hallsville, Texas, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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 City of Hallsville, Texas' basic financial statements. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.


The supplemental schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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, the supplemental schedule 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 February 12, 2015, on our consideration of City of Hallsville, Texas' 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 City of Hallsville, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

KNUCKOLS, DUVAL, HALLUM & CO.


Certified Public Accountants

Marshall, Texas

February 12, 2015

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INDEPENDENT AUDITORS' 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

City Council
City of Hallsville, Texas

We have audited in accordance with the 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, and each major fund of City of Hallsville, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Hallsville, Texas' basic financial statements, and have issued our report thereon dated February 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hallsville, Texas' 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 City of Hallsville, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hallsville, Texas' 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

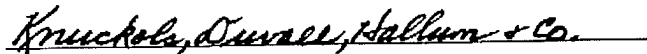
As part of obtaining reasonable assurance about whether City of Hallsville, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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,

KNUCKOLS, DUVALL, HALLUM & CO.



Certified Public Accountants

Marshall, Texas

February 12, 2015

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2014

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Hallsville, Texas (City), discuss and analyze the City's financial performance for the year ended September 30, 2014. Please read it in conjunction with the Independent Auditors' Report on page 1, and the City's Basic Financial Statements, which begin on page 10.

USING THIS REPORT

This report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources. For proprietary activities, fund financial statements tell how services of the City were sold to external customers and how the sales revenues covered the expenses of the services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begin on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs and revenues provided by taxpayers (property, sales, and franchise tax revenue). All of the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2014

In the Statement of Net Position, the City has two types of activities:

Governmental activities – Most of the City's basic services are reported here, including administrative, police, volunteer fire department, and parks. Property taxes, sales taxes, franchise fees, sanitation fees, and fines finance most of these activities.

Business-type activities – The City charges a fee to "customers" to help it cover all or most of the cost of certain services it provides. The City's water and sewer activities are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds – not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories-governmental funds and proprietary funds.

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

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

The City maintains two governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund and the Debt Service Fund, both of which are considered to be major funds.

Proprietary Funds – The City maintains one type of proprietary fund, which is the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for the water and sewer activities.

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2014

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered to be a major fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indication of a government's financial position. In the case of the City of Hallsville, assets exceeded liabilities by \$6,398,139 as of September 30, 2014. Approximately 31% of the City's net position is unrestricted.

**TABLE I
CITY OF HALLSVILLE, TEXAS' NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	1,243,271	1,237,184	6,131,625	1,512,855	7,374,896	2,750,039
Capital Assets	<u>2,359,293</u>	<u>2,341,139</u>	<u>4,697,188</u>	<u>4,678,939</u>	<u>7,056,481</u>	<u>7,020,078</u>
Total Assets	<u>3,602,564</u>	<u>3,578,323</u>	<u>10,828,813</u>	<u>6,191,794</u>	<u>14,431,377</u>	<u>9,770,117</u>
Long-Term Liabilities	1,706,464	1,983,197	6,044,500	1,140,000	7,750,964	3,123,197
Other Liabilities	<u>52,043</u>	<u>78,534</u>	<u>230,231</u>	<u>160,210</u>	<u>282,274</u>	<u>238,744</u>
Total Liabilities	<u>1,758,507</u>	<u>2,061,731</u>	<u>6,274,731</u>	<u>1,300,210</u>	<u>8,033,238</u>	<u>3,361,941</u>
Net Position:						
Invested in Capital Assets,						
Net of Related Debt	652,829	357,942	3,540,052	3,538,939	4,192,881	3,896,881
Restricted for: Debt Service	207,722	167,344	-	364,439	207,722	531,783
Unrestricted	<u>983,506</u>	<u>991,306</u>	<u>1,014,030</u>	<u>988,206</u>	<u>1,997,536</u>	<u>1,979,512</u>
Total Net Position	<u>1,844,057</u>	<u>1,516,592</u>	<u>4,554,082</u>	<u>4,891,584</u>	<u>6,398,139</u>	<u>6,408,176</u>

CITY OF HALLSVILLE, TEXAS**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2014****TABLE II
CITY OF HALLSVILLE, TEXAS' CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue:						
Program Revenues:						
Fees, Fines, & Charges for Serv.	430,756	492,032	1,362,741	1,382,363	1,793,497	1,874,395
Operating Grants & Contributions	77,569	38,500	-	-	77,569	38,500
General Revenues:						
Property Taxes	475,831	478,275	-	-	475,831	478,275
Sales Taxes	304,839	312,406	-	-	304,839	312,406
Franchise Taxes	73,701	72,636	-	-	73,701	72,636
Investment Earnings	1,853	1,294	1,591	1,461	3,444	2,755
Miscellaneous	<u>11,126</u>	<u>44,815</u>	<u>-</u>	<u>-</u>	<u>11,126</u>	<u>44,815</u>
Total Revenue	<u>1,375,675</u>	<u>1,439,958</u>	<u>1,364,332</u>	<u>1,383,824</u>	<u>2,740,007</u>	<u>2,823,782</u>
Expenses:						
General Govt. & Public Safety	1,204,245	1,111,231	-	-	1,204,245	1,111,231
Water and Sewer	<u>-</u>	<u>-</u>	<u>1,545,799</u>	<u>1,235,082</u>	<u>1,545,799</u>	<u>1,235,082</u>
Total Expenses	<u>1,204,245</u>	<u>1,111,231</u>	<u>1,545,799</u>	<u>1,235,082</u>	<u>2,750,044</u>	<u>2,346,313</u>
Increase (Decrease) in Net Position Before Transfers	171,430	328,727	(181,467)	148,742	(10,037)	477,469
Transfers	<u>156,035</u>	<u>129,944</u>	<u>(156,035)</u>	<u>(129,944)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	327,465	458,671	(337,502)	18,798	(10,037)	477,469
Net Position at Beginning of Year	<u>1,516,592</u>	<u>1,057,921</u>	<u>4,891,584</u>	<u>4,872,786</u>	<u>6,408,176</u>	<u>5,930,707</u>
Net Position at End of Year	<u>1,844,057</u>	<u>1,516,592</u>	<u>4,554,082</u>	<u>4,891,584</u>	<u>6,398,139</u>	<u>6,408,176</u>

As of September 30, 2014, the City is able to report positive balances in all three categories of net position for the government as a whole.

Governmental Activities - The City's general revenues decreased approximately 5% for the year, while general government and public service and safety expenses increased about 8%. Fees, fines, and charges for services decreased approximately 12% this year. Operating grants and contributions increased 101% this year. This was due to the Police Department receiving a grant this year for law enforcement equipment. The City also received a grant from the East Texas Council of Government for the Solid Waste Grants Program. Property tax revenue decreased less than 1%, which was due to the fact that the City's property tax rates decreased from \$0.278590 rate per \$100 valuation to \$0.275811 rate per \$100 valuation.

Business-Type Activities - Business-type activities net position decreased by \$337,502 or approximately 7%.

CITY OF HALLSVILLE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2014

CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$1,186,695, which is an increase over last year's total of \$1,159,941. Included in this year's change in fund balance is a decrease of \$13,624 in the General Fund. This decrease was mainly due to a decrease in sales tax revenue and police department income.

At the end of the year, unrestricted net position for the enterprise fund was \$1,014,030. Net position for the Water and Sewer Fund decreased \$337,502 for the year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$12,073,179 invested in a broad range of capital assets. This amount represents a net increase of approximately 4% above last year.

This year's major additions included:

Construction in Progress - Water and Sewer	168,125
Police & Other General Fund Equipment	170,261
Water and Sewer System Equipment	8,811
Water and Sewer System Improvements	<u>95,697</u>
Total	<u>442,894</u>

Long-Term Debt

At year-end, the City had \$7,600,000 in bonds outstanding versus \$2,940,000 last year - an increase of \$4,660,000.

This increase included the issuance of \$5,050,000 Combination Tax and Revenue Certificates of Obligation, Series 2014, to fund water and sewer infrastructure improvements. It also included the issuance of \$2,865,000 General Obligation Refunding Bonds, Series 2014, to refund a portion of the City of Hallsville, Texas, Tax and Waterworks and Sewer System Revenue Certificates of Obligations, Series 2008, and the City of Hallsville Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998. The General Obligation Bonds are secured by the City's limited ad valorem tax levy.

Also, at year-end, the City had \$150,964 of loans payable outstanding versus \$183,197 from last year - a decrease of 18%.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

The City's elected officials and administration considered many factors when approving the property tax rate of \$.258957 in August 2014, which consists of \$.151094 for the General Fund and \$.107863 for the Debt Service Fund.

CONTACTING CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 questions about this report or need additional financial information, contact the City's office at 115 W. Main, Hallsville, Texas.

CITY OF HALLSVILLE, TEXAS**GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	PRIMARY GOVERNMENT		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash on Hand and in Bank	698,508	926,322	1,624,830
Investments - Time Certificates of Deposit	472,805	-	472,805
Interest Receivable - Investments	866	-	866
Receivables (Net, Where Applicable, of Allowance for Uncollectibles)	73,519	147,838	221,357
Internal Balances	(2,427)	2,427	-
Restricted Assets:			
Cash on Hand and in Bank	-	5,030,019	5,030,019
Investments - Time Certificates of Deposit	-	25,000	25,000
Interest Receivable - Investments	-	19	19
Capital Assets:			
Land	76,892	180,720	257,612
Construction in Progress	-	168,125	168,125
Buildings	442,201	-	442,201
Water and Sewer System	-	7,994,455	7,994,455
Equipment	716,449	645,553	1,362,002
Improvements	112,223	-	112,223
Infrastructure	1,736,561	-	1,736,561
Accumulated Depreciation	<u>(725,033)</u>	<u>(4,291,665)</u>	<u>(5,016,698)</u>
TOTAL ASSETS	<u>3,602,564</u>	<u>10,828,813</u>	<u>14,431,377</u>
LIABILITIES			
Accounts Payable	41,479	81,091	122,570
Accrued Interest Payable	4,861	28,358	33,219
Accrued Liabilities	5,703	-	5,703
Payable From Restricted Assets:			
Accounts Payable	-	7,580	7,580
Customer Deposits	-	113,202	113,202
Noncurrent Liabilities:			
Due Within One Year	196,863	103,350	300,213
Due in More Than One Year	<u>1,509,601</u>	<u>5,941,150</u>	<u>7,450,751</u>
TOTAL LIABILITIES	<u>1,758,507</u>	<u>6,274,731</u>	<u>8,033,238</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	652,829	3,540,052	4,192,881
Restricted for:			
Debt Service	207,722	-	207,722
Unrestricted	<u>983,506</u>	<u>1,014,030</u>	<u>1,997,536</u>
TOTAL NET POSITION	<u>1,844,057</u>	<u>4,554,082</u>	<u>6,398,139</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>PROGRAM ACTIVITIES</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION</u>		
		<u>Fees, Fines and Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:						
General Government and Public Safety	<u>1,204,245</u>	<u>430,756</u>	<u>77,569</u>	<u>(695,920)</u>	<u>-</u>	<u>(695,920)</u>
Total Governmental Activities	<u>1,204,245</u>	<u>430,756</u>	<u>77,569</u>	<u>(695,920)</u>	<u>-</u>	<u>(695,920)</u>
Business-Type Activities:						
Water and Sewer	<u>1,545,799</u>	<u>1,362,741</u>	<u>-</u>	<u>-</u>	<u>(183,058)</u>	<u>(183,058)</u>
Total Business-Type Activities	<u>1,545,799</u>	<u>1,362,741</u>	<u>-</u>	<u>-</u>	<u>(183,058)</u>	<u>(183,058)</u>
Total Government	<u>2,750,044</u>	<u>1,793,497</u>	<u>77,569</u>	<u>(695,920)</u>	<u>(183,058)</u>	<u>(878,978)</u>
General Revenues:						
Taxes:						
Property				475,831	-	475,831
Sales				304,839	-	304,839
Franchise				73,701	-	73,701
Miscellaneous				11,126	-	11,126
Investment Earnings				1,853	1,591	3,444
Transfers				<u>156,035</u>	<u>(156,035)</u>	<u>-</u>
Total General Revenues and Transfers				<u>1,023,385</u>	<u>(154,444)</u>	<u>868,941</u>
Changes in Net Position				<u>327,465</u>	<u>(337,502)</u>	<u>(10,037)</u>
Net Position At Beginning of Year				<u>1,516,592</u>	<u>4,891,584</u>	<u>6,408,176</u>
Net Position At End of Year				<u>1,844,057</u>	<u>4,554,082</u>	<u>6,398,139</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2014**

<u>ASSETS</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Cash on Hand and in Bank	485,931	212,577	698,508
Investments - Time Certificates of Deposit	472,805	-	472,805
Interest Receivable - Investments	866	-	866
Sales Tax Receivable	22,500	-	22,500
Taxes Receivable	8,693	7,803	16,496
Street Usage Fees Receivable	16,370	-	16,370
Garbage Collection Fees Receivable	25,255	-	25,255
Allowance for Uncollectible Taxes	(3,779)	(3,323)	(7,102)
Due from Other Funds	<u>4,855</u>	<u>-</u>	<u>4,855</u>
TOTAL ASSETS	<u>1,033,496</u>	<u>217,057</u>	<u>1,250,553</u>
<u>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE</u>			
<u>Liabilities:</u>			
Accounts Payable	41,479	-	41,479
Accrued Liabilities	5,703	-	5,703
Due to Other Funds	<u>2,427</u>	<u>4,855</u>	<u>7,282</u>
Total Liabilities	<u>49,609</u>	<u>4,855</u>	<u>54,464</u>
<u>Deferred Inflows of Resources:</u>			
Unavailable Revenue - Property Taxes	<u>4,914</u>	<u>4,480</u>	<u>9,394</u>
Total Inflows of Resources	<u>4,914</u>	<u>4,480</u>	<u>9,394</u>
<u>Fund Balance:</u>			
Restricted:			
Construction	13,521	-	13,521
Muni-Court Technology	2,649	-	2,649
Purpose of Grantors	6,692	-	6,692
Debt Service	-	207,722	207,722
Assigned:			
Street Repairs	67,291	-	67,291
Unassigned	<u>888,820</u>	<u>-</u>	<u>888,820</u>
Total Fund Balance	<u>978,973</u>	<u>207,722</u>	<u>1,186,695</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	<u>1,033,496</u>	<u>217,057</u>	<u>1,250,553</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

***RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014***

Total Fund Balances - Total Governmental Funds	1,186,695
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	2,359,293
Long-term liabilities are not due and payable in the current period, and therefore, they are not reported in the governmental fund balance sheet.	(1,706,464)
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental fund balance sheet.	(4,861)
Assets not available to pay for current period expenditures are deferred in the governmental fund balance sheet.	<u>9,394</u>
Net Position of Governmental Activities	<u>1,844,057</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Ad Valorem Taxes, Penalties and Interest	247,086	228,405	475,491
Sales Tax	304,839	-	304,839
Garbage Collection Fees	292,200	-	292,200
Utilities Franchise Taxes (Street Rentals)	73,701	-	73,701
Interest Income	1,853	-	1,853
Police Department Income	103,432	-	103,432
Grant Income	75,855	-	75,855
Building and Mobile Home Permits	35,124	-	35,124
Donations	1,714	-	1,714
Miscellaneous Fees and Revenues	<u>11,127</u>	<u>-</u>	<u>11,127</u>
Total Revenues	<u>1,146,931</u>	<u>228,405</u>	<u>1,375,336</u>
<u>EXPENDITURES:</u>			
General Government			
Salaries, Payroll Taxes, Retirement, and Insurance	446,409	-	446,409
Repairs and Maintenance	20,313	-	20,313
Garbage Collection Fees	217,601	-	217,601
Utilities and Telephone	29,786	-	29,786
Miscellaneous Expenditures	6,106	-	6,106
City Hall and Election Expenditures	5,894	-	5,894
Office Expenditures	10,450	-	10,450
Insurance	17,300	-	17,300
Legal and Audit Fees	14,006	-	14,006
Travel and Seminars	18,085	-	18,085
Tax Appraisal and Collection	11,607	-	11,607
Public Safety - Police	153,946	-	153,946
Debt Service	38,791	280,135	318,926
Capital Outlay	<u>170,261</u>	<u>-</u>	<u>170,261</u>
Total Expenditures	<u>1,160,555</u>	<u>280,135</u>	<u>1,440,690</u>
Excess (Deficiency) of Revenue Over Expenditures Before Other Financing Sources (Uses)	<u>(13,624)</u>	<u>(51,730)</u>	<u>(65,354)</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Transfer In	-	156,035	156,035
Refunding Bonds Issued	-	1,747,650	1,747,650
Payments to Bond Refunding Escrow Agent (Use)	<u>-</u>	<u>(1,811,577)</u>	<u>(1,811,577)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>92,108</u>	<u>92,108</u>
Net Change in Fund Balances	(13,624)	40,378	26,754
Fund Balances, Beginning of Year	<u>992,597</u>	<u>167,344</u>	<u>1,159,941</u>
Fund Balances, End of Year	<u>978,973</u>	<u>207,722</u>	<u>1,186,695</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, 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, 2014***

Net Change in Fund Balances - Total Governmental Funds	26,754
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the net amount of capital assets purchased and sold in the current period.	170,261
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental fund.	(152,107)
The issuance of long-term debt provides current financial resources to governmental funds; while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however, this has no effect on net position.	276,733
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources.	5,485
Some property tax will not be collected for several months after the City's fiscal year end. These are not considered "available" revenues in the governmental fund until received.	<u>339</u>
Changes in Net Position of Governmental Activities	<u>327,465</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>		Actual	Positive
	<u>Original</u>	<u>Final</u>	<u>GAAP</u>	(Negative)
			<u>Basis</u>	<u>Variance with</u>
				<u>Final Budget</u>
<u>REVENUES:</u>				
Ad Valorem Taxes, Penalties and Interest	239,000	239,000	247,086	8,086
Sales Tax	315,000	315,000	304,839	(10,161)
Garbage Collection Fees	275,000	275,000	292,200	17,200
Utilities Franchise Taxes (Street Rentals)	70,700	70,700	73,701	3,001
Interest Income	100	100	1,853	1,753
Police Department Income	91,000	95,000	103,432	8,432
Grant Income	20,000	20,000	75,855	55,855
Building and Mobile Home Permits	28,000	28,000	35,124	7,124
Donations	1,000	1,000	1,714	714
Miscellaneous Fees and Revenues	<u>9,000</u>	<u>9,000</u>	<u>11,127</u>	<u>2,127</u>
Total Revenues	<u>1,048,800</u>	<u>1,052,800</u>	<u>1,146,931</u>	<u>94,131</u>
<u>EXPENDITURES:</u>				
General Government:				
Salaries, Payroll Taxes,				
Retirement, and Insurance	417,445	446,960	446,409	551
Repairs and Maintenance	27,500	25,100	20,313	4,787
Garbage Collection Fees	212,000	212,000	217,601	(5,601)
Utilities and Telephone	22,000	26,550	29,786	(3,236)
Miscellaneous Expenditures	8,100	12,798	6,106	6,692
City Hall and Election Expenditures	9,700	3,100	5,894	(2,794)
Office Expenditures	12,200	12,750	10,450	2,300
Insurance	13,000	18,300	17,300	1,000
Legal and Audit Fees	25,000	13,100	14,006	(906)
Travel and Seminars	10,500	16,200	18,085	(1,885)
Tax Appraisal and Collection	11,000	8,725	11,607	(2,882)
Public Safety - Police	127,650	163,500	153,946	9,554
Street Maintenance	15,000	-	-	-
Debt Services	40,000	32,000	38,791	(6,791)
Capital Outlay	<u>27,500</u>	<u>67,602</u>	<u>170,261</u>	<u>(102,659)</u>
Total Expenditures	<u>978,595</u>	<u>1,058,685</u>	<u>1,160,555</u>	<u>(101,870)</u>
Net Change in Fund Balance	70,205	(5,885)	(13,624)	(7,739)
Fund Balance, Beginning of Year	<u>992,597</u>	<u>992,597</u>	<u>992,597</u>	<u>-</u>
Fund Balance, End of Year	<u>1,062,802</u>	<u>986,712</u>	<u>978,973</u>	<u>(7,739)</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

**PROPRIETARY FUND
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

**BUSINESS - TYPE ACTIVITIES
Enterprise Fund**

	<u>Water & Sewer Fund</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash on Hand and in Bank	926,322
Accounts Receivable (Net of Reserve for Uncollectible Accounts of \$27,382)	147,838
Due From Other Funds	2,427
Total Current Assets	<u>1,076,587</u>
<u>Restricted Assets:</u>	
Cash on Hand and in Bank	5,030,019
Investments - Time Certificates of Deposit	25,000
Interest Receivable - Investments	19
Total Restricted Assets	<u>5,055,038</u>
<u>Capital Assets:</u>	
Land	180,720
Construction in Progress	168,125
Water and Sewer System	7,994,455
Equipment	645,553
Less Accumulated Depreciation	<u>(4,291,665)</u>
Total Capital Assets	<u>4,697,188</u>
TOTAL ASSETS	<u>10,828,813</u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Accounts Payable	81,091
Accrued Interest Payable	28,358
Bonds Payable - Current	103,350
Total Current Liabilities	<u>212,799</u>
<u>Liabilities Payable From Restricted Assets:</u>	
Accounts Payable	7,580
Customer Deposits	113,202
Total Liabilities Payable From Restricted Assets	<u>120,782</u>
<u>Noncurrent Liabilities:</u>	
Bonds Payable	5,941,150
Total Noncurrent Liabilities	<u>5,941,150</u>
TOTAL LIABILITIES	<u>6,274,731</u>
<u>NET POSITION</u>	
Invested in Capital Assets, Net of Related Debt	3,540,052
Unrestricted	<u>1,014,030</u>
TOTAL NET POSITION	<u>4,554,082</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>BUSINESS - TYPE ACTIVITIES</u> <u>Enterprise Fund</u>
	<u>Water & Sewer Fund</u>
<u>OPERATING REVENUES:</u>	
Water and Sewer Revenues, Including Penalties	1,335,795
Meter and Tap Fees	6,100
Connection Fees	17,296
Other Revenues	<u>3,550</u>
Total Operating Revenues	<u>1,362,741</u>
<u>OPERATING EXPENSES:</u>	
Salaries	272,769
Payroll Taxes	22,117
TMRS Retirement	9,401
Truck and Auto Allowance	29,647
Repairs and Maintenance	137,323
Insurance	46,636
Legal and Audit Fees	4,906
Office Expense	18,446
Miscellaneous Expense	13,042
Materials and Supplies	36,471
Water Purchased - City of Longview	427,097
Engineering and Contract Services	19,221
Permits and Fees	12,139
Utilities and Telephone	79,395
Depreciation	<u>254,384</u>
Total Operating Expenses	<u>1,382,994</u>
Operating Income (Loss)	<u>(20,253)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>	
Interest Income	1,591
Interest Expense	(125,851)
Bond Issuance Costs and Fees	<u>(36,954)</u>
Total Non-Operating Revenues (Expenses)	<u>(161,214)</u>
Income before Transfers	(181,467)
Transfers Out	<u>(156,035)</u>
Change in Net Position	<u>(337,502)</u>
Net Position at Beginning of Year	<u>4,891,584</u>
Net Position at End of Year	<u>4,554,082</u>

- See the accompanying notes to these financial statements -

***PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014***

	<u>BUSINESS - TYPE ACTIVITIES</u> <u>Enterprise Fund</u>
	<u>Water & Sewer Fund</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Cash Receipts From Customers	1,396,102
Cash Payments to Suppliers for Goods and Services	(772,457)
Cash Payments to Employees for Services and Benefits	<u>(314,432)</u>
Net Cash Provided by Operating Activities	<u>309,213</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>	
Acquisition and Construction of Capital Assets	(272,631)
Transfer Out to Debt Service Fund	(156,035)
Interest Paid on Debt	(118,244)
Retirement of Debt	(122,850)
Paid Bond Issuance Costs and Fees	(18,732)
Proceeds From Issuance of Bonds	6,167,350
Payment to Bond Refunding Escrow Agent	<u>(1,158,221)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>4,320,637</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Purchase of Investments	(25,000)
Proceeds From Sale and Maturities of Investments	25,000
Interest on Cash and Investments	<u>2,252</u>
Net Cash Provided By Investing Activities	<u>2,252</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 4,632,102
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>1,324,239</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>5,956,341</u>

***PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014*****BUSINESS - TYPE ACTIVITIES
Enterprise Fund****Water &
Sewer
Fund****CONTINUED:****RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income (Loss) From Operations	(20,253)
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided (Used) by Operating Activities:	
Depreciation	254,384
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivables	12,671
Increase (Decrease) in Accounts Payable and Accrued Liabilities	41,721
Increase (Decrease) in Deposits	<u>20,690</u>
Net Cash Provided by Operating Activities	<u>309,213</u>

RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:

Current Assets - Cash on Hand and in Bank	926,322
Restricted Cash on Hand and in Bank	<u>5,030,019</u>
Total Cash and Cash Equivalents	<u>5,956,341</u>

- See the accompanying notes to these financial statements -

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2014**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The City of Hallsville is an incorporated municipality. The City operates under an alderman-mayor form of government and provides the following services authorized by its charter: public safety, public improvements, highway and streets, and water and sewer.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting practices generally accepted in the United States of America applicable to state and local governments. 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 in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting and reporting policies and practices used by the City are described below.

Basis of Presentation:

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds:

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

General Fund:

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from this fund.

Additionally, the City reports the following governmental fund type:

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest, and related costs. The fund balance of the debt service fund is reserved to signify the amounts that are restricted exclusively for debt service.

Proprietary Funds:

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Water and Sewer Fund:

Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Measurement Focus/Basis of Accounting:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2014**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual that are associated with the current fiscal year are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Budgetary Control:

The City Mayor submits an annual budget to the City Council and the City Council adopts annual fiscal year budgets for City operating funds (General Fund) and for Proprietary Fund Operations (Water and Sewer Enterprise Fund). Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and expenditures. There were several amendments made to the budgets during the year. The City adopted the budgets on a September 30 fiscal year for the 13-14 year.

The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results for the year ended September 30, 2014. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

As noted in the General Fund, Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual, General Government expenditures exceeded the budget by the following categories: Garbage Collection Fees by \$5,601; Utilities and Telephone by \$3,236; City Hall and Election Expenditures by \$2,794; Legal and Audit Fees by \$906; Travel and Seminars by \$1,885; Tax Appraisal and Collection by \$2,882; Debt Services by \$6,791; and Capital Outlay by \$102,659. In the future, the City will strive to amend the budget throughout the year to adhere to the budget that is legally adopted.

The Water and Sewer Fund - Schedule of Revenues, Expenses, and Changes in Net Position - Budget and Actual also presents a comparison of budgetary data to actual results for the year ended.

Interfund Receivables and Payables:

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Transactions Between Funds:

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2014**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

Investments:

Investments are stated at cost or amortized cost, which is equivalent to market value.

Restricted Assets:

The assets consist of cash and short-term investments restricted for water and sewer construction and customer meter deposits.

Capital Assets:

Capital assets, which includes property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 Years
Water and Sewer Systems	50 Years
Machinery and Equipment	5-10 Years
Improvements	20 Years
Infrastructure	20-40 Years

Bond Issuance Costs:

Bond issuance costs in governmental funds and enterprise funds are expensed in the year that the bonds are issued.

Revenue Recognition - Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent July 1 of the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are recorded as unavailable revenue - property taxes, unless collected within sixty days after year-end.

Net Position:

Net Position represents the residual of assets plus deferred outflows less liabilities plus deferred inflows. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS ***SEPTEMBER 30, 2014***

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES: *(Continued)*

In the governmental funds financial statements, fund balances are classified into various categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance - amounts that are available for any purpose; positive amounts are reported only in the General Fund.

The Council shall approve all commitments by formal action. The action to commit funds must occur prior to fiscal year-end in order to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A commitment can only be modified or removed by the same formal action.

When it is appropriate for fund balance to be assigned, the Council delegates the responsibility to assign funds to the Mayor or her designee. Assignments may occur subsequent to fiscal year-end.

The Council will utilize the funds in the following order:

- Restricted
- Committed
- Assigned
- Unassigned

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS ***SEPTEMBER 30, 2014***

NOTE 2 - DEPOSITS AND INVESTMENTS:

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

1. **Custodial Credit Risk For Deposits** - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is:

The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis. 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.

The City is exposed to custodial credit risk for its deposits as follows:

At September 30, 2014, the carrying amount of the City's deposits (cash, petty cash, interest-bearing checking accounts, non-interest bearing checking accounts, money market accounts, and certificates of deposit) was \$7,152,654 and the bank balances were \$7,169,384. The City's cash deposits at September 30, 2014, and during the year were entirely covered by FDIC insurance or by pledged collateral held by the pledging financial institution's agent in the City's name. The certificates of deposit total \$497,805 and are classified as current investments for report purposes. The certificates of deposit mature within a year.

At September 30, 2014, the City had \$537,013 of deposits, which were fully insured by the FDIC. The remaining deposit balances at the bank totaled \$6,632,371 and were collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS ***SEPTEMBER 30, 2014***

NOTE 2 - DEPOSITS AND INVESTMENTS: *(Continued)*

2. Custodial Credit Risk For Investments - This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

At September 30, 2014, the City was not exposed to custodial credit risk. The City only had investments in certificates of deposit, which are included in cash custodial credit risk as mention above.

3. Interest Rate Risk - Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise.

According to City policy, investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flows of the City and conforming to all applicable state and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. The City was not subject to interest rate risk during the year ended September 30, 2014. As mentioned previously, the City had investments in certificates of deposit.

4. Credit Risk and Concentration Risk - The City's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. The City's investment policy states that diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

U.S. Treasuries and securities with the U.S. Government's guarantee	100%
U.S. Government agencies and instrumentalities	not to exceed 50%
Fully insured or collateralized CD's	100%
Money Market Funds	
Operating Funds	not to exceed 50%
Bond Funds	80%
Local Government Investment Pools (Constant dollar)	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than one (1) year.

5. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end and during the year, the City was not exposed to foreign currency risk.

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS: *(Continued)*

Time certificates of deposit include restricted, assigned, and unrestricted investments. Time certificates of deposit of the various funds at September 30, 2014 in the amount of \$497,805 are detailed as follows:

<u>ISSUING BANK</u>	<u>CERTIFICATE NUMBER</u>	<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>AMOUNT</u>	
<u>Restricted Funds:</u>					
Water and Sewer Fund -					
Guaranty Bond Bank Hallsville, TX	40543	0.45%	11/01/14	<u>25,000</u>	25,000
 <u>Assigned Funds:</u>					
General Fund -					
Guaranty Bond Bank Hallsville, TX	40572	0.45%	03/28/15	<u>67,291</u>	67,291
 <u>Unrestricted Funds:</u>					
General Fund -					
Guaranty Bond Bank Hallsville, TX	40513	0.45%	03/31/15	102,128	
Guaranty Bond Bank Hallsville, TX	40514	0.45%	03/31/15	51,202	
Guaranty Bond Bank Hallsville, TX	40554	0.25%	01/01/15	50,578	
Guaranty Bond Bank Hallsville, TX	40562	0.45%	01/01/15	100,803	
Guaranty Bond Bank Hallsville, TX	40565	0.45%	01/01/15	<u>100,803</u>	<u>405,514</u>
Total Certificates of Deposit					<u>497,805</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3 - TAXES ASSESSED AND DELINQUENT TAXES:

Taxes assessed for the years 2010 through 2013 and delinquent taxes as of September 30, 2014, are detailed as follows:

COMPARISON OF ASSESSED VALUATIONS FOR THE YEARS 2010 - 2013

	<u>TAX ASSESSMENTS</u>			
	<u>YEAR 2010</u>	<u>YEAR 2011</u>	<u>YEAR 2012</u>	<u>YEAR 2013</u>
Total Assessed Valuation	159,057,190	163,114,379	170,107,685	170,597,619
Rate per \$100 Valuation	<u>.306000</u>	<u>.306000</u>	<u>.278590</u>	<u>.275811</u>
Total Taxes Assessed	<u><u>486,715</u></u>	<u><u>499,130</u></u>	<u><u>473,903</u></u>	<u><u>470,527</u></u>

DELINQUENT TAXES RECEIVABLE
AT SEPTEMBER 30, 2014

2012 and Prior Taxes Receivable	9,469
2013 Uncollected Taxes	<u>7,027</u>
Total Uncollected Taxes - September 30, 2014	16,496
Less: Reserve for Uncollectible Taxes	<u>(7,102)</u>
Net Delinquent Taxes Receivable	<u><u>9,394</u></u>

A reserve for uncollectible taxes in the amount of \$7,102 at September 30, 2014, represents 75% of delinquent taxes receivable at September 30, 2014.

CITY OF HALLSVILLE, TEXAS**NOTES TO THE FINANCIAL STATEMENTS**
SEPTEMBER 30, 2014**NOTE 4 - CAPITAL ASSETS:**

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

	<u>September 30,</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30,</u> <u>2014</u>
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	<u>76,892</u>	<u>-</u>	<u>-</u>	<u>76,892</u>
Total Capital Assets Not Being Depreciated	<u>76,892</u>	<u>-</u>	<u>-</u>	<u>76,892</u>
Capital Assets Being Depreciated:				
Buildings	442,201	-	-	442,201
Equipment	592,178	144,389	(20,118)	716,449
Improvements	86,351	25,872	-	112,223
Infrastructure	<u>1,736,561</u>	<u>-</u>	<u>-</u>	<u>1,736,561</u>
Total Capital Assets, Being Depreciated	<u>2,857,291</u>	<u>170,261</u>	<u>(20,118)</u>	<u>3,007,434</u>
Less Accumulated Depreciation For:				
Buildings	90,824	12,034	-	102,858
Equipment	300,754	93,844	(20,118)	374,480
Improvements	96,732	2,815	-	99,547
Infrastructure	<u>104,734</u>	<u>43,414</u>	<u>-</u>	<u>148,148</u>
Total Accumulated Depreciation	<u>593,044</u>	<u>152,107</u>	<u>(20,118)</u>	<u>725,033</u>
Total Capital Assets, Being Depreciated, Net	<u>2,264,247</u>	<u>18,154</u>	<u>-</u>	<u>2,282,401</u>
Governmental Activities Capital Assets, Net	<u>2,341,139</u>	<u>18,154</u>	<u>-</u>	<u>2,359,293</u>
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	180,720	-	-	180,720
Construction in Progress	<u>-</u>	<u>168,125</u>	<u>-</u>	<u>168,125</u>
Total Capital Assets Not Being Depreciated	<u>180,720</u>	<u>168,125</u>	<u>-</u>	<u>348,845</u>
Capital Assets Being Depreciated:				
Water and Sewer System	7,898,758	95,697	-	7,994,455
Equipment	<u>636,742</u>	<u>8,811</u>	<u>-</u>	<u>645,553</u>
Total Capital Assets, Being Depreciated	<u>8,535,500</u>	<u>104,508</u>	<u>-</u>	<u>8,640,008</u>
Less Accumulated Depreciation For:				
Water and Sewer System	3,661,598	198,366	-	3,859,964
Equipment	<u>375,683</u>	<u>56,018</u>	<u>-</u>	<u>431,701</u>
Total Accumulated Depreciation	<u>4,037,281</u>	<u>254,384</u>	<u>-</u>	<u>4,291,665</u>
Total Capital Assets, Being Depreciated, Net	<u>4,498,219</u>	<u>(149,876)</u>	<u>-</u>	<u>4,348,343</u>
Business-Type Activities Capital Assets, Net	<u>4,678,939</u>	<u>18,249</u>	<u>-</u>	<u>4,697,188</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 4 - CAPITAL ASSETS: (Continued)

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

Governmental Activities:

General Government and Public Safety	<u>152,107</u>
Total Depreciation Expense - Governmental Activities	<u>152,107</u>

Business-Type Activities:

Water and Sewer	<u>254,384</u>
Total Depreciation Expense - Business-Type Activities	<u>254,384</u>

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND:

On February 18, 2014, the City issued \$2,865,000 General Obligation Refunding Bonds, Series 2014, to refund a portion of the City of Hallsville, Texas, Tax and Waterworks and Sewer System Revenue Certificates of Obligations, Series 2008, and the City of Hallsville Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998. \$1,117,350 of the proceeds (39%) of issuance are to be used for the purpose of refunding the 2014 through 2019 maturities of the City's currently outstanding Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998. This portion of the proceeds is accounted for in the Water and Sewer Fund. The remaining \$1,747,650 (61%) of the Refunding Bonds is being used to refund the Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2008, that is accounted for in the governmental activities. (See Note 6) The General Obligation Bonds are secured by the City's limited ad valorem tax levy. The City is refunding the Refunded Obligations in order to realize a net present value savings of \$249,684 or 8.493%.

The proceeds from the refunded existing bond maturities and interest thereon were placed with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the Refunded Bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest of the Refunding Bonds. Accordingly, pursuant to the terms of the ordinance authorizing the issuance of the refunded bonds and in accordance with Texas Law, the refunded bonds are deemed to be no longer outstanding obligations payable from the General Obligation Debt Service or for any other purpose except for the purpose of being paid from the funds held in such Escrow Fund. On September 30, 2014, \$2,680,000 of the bonds considered defeased are still outstanding.

The City also issued \$5,050,000 Combination Tax and Revenue Certificates of Obligation, Series 2014, to fund water and sewer infrastructure improvements. The Certificates of Obligation are secured by the same ad valorem tax levy in addition to surplus water and sewer revenue.

Schedule of Refunded Bonds

	<u>Dates of Maturity</u>	<u>Interest Rates</u>	<u>Amount</u>
Waterworks and Sewer System Subordinate Lien Revenue Bonds, Series 1998	May 1, 2014-2019	4.250% - 4.450%	995,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2008	August 1, 2014-2028	4.573%	<u>1,685,000</u>
	Total		<u>2,680,000</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND: (Continued)

A schedule of the bonded indebtedness of the City of Hallsville as of September 30, 2014, is as follows:

CITY OF HALLSVILLE - WATERWORKS AND SEWER SYSTEM

SUBORDINATE LIEN REVENUE BONDS:

Series 1998 - 2.90% - 4.45% Interest Rate

Maturing Serially 2000 through 2019

Total Bonds Issued 2,250,000

Less: Bonds Retired and Refunded (2,250,000)

Balance Outstanding, September 30, 2014 -

CITY OF HALLSVILLE, TEXAS GENERAL OBLIGATION

REFUNDING BONDS:

Series 2014, Dated January 21, 2014 - 1.25% - 3.00% Interest

Rate Maturing Serially 2014 through 2021

Total Bonds Issued (39%) 1,117,350

Less: Bonds Retired (122,850)

Balance Outstanding, September 30, 2014 994,500

CITY OF HALLSVILLE, TEXAS COMBINATION TAX AND

REVENUE CERTIFICATES OF OBLIGATION BONDS:

Series 2014, Dated January 21, 2014 - 2.00% - 2.50% Interest

Rate Maturing Serially 2016 through 2024

Total Bonds Issued 5,050,000

Less: Bonds Retired -

Balance Outstanding, September 30, 2014 5,050,000

Total Bonded Indebtedness 6,044,500

Less: Amount Classified Current Portion (103,350)

Bonds Payable - Net of Current Portion 5,941,150

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 5 - BONDS PAYABLE - WATER & SEWER ENTERPRISE FUND: *(Continued)*

The annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2014, are as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2015	1.250%	103,350	19,841	123,191
2016	1.250%	62,400	18,549	80,949
2017	1.250%	62,400	17,769	80,169
2018	1.250%	64,350	16,989	81,339
2019	1.250%	64,350	16,185	80,535
2020 - 2024	1.750% - 2.500%	337,350	64,155	401,505
2025 - 2028	2.500% - 3.000%	<u>300,300</u>	<u>21,513</u>	<u>321,813</u>
Total		<u>994,500</u>	<u>175,001</u>	<u>1,169,501</u>

The annual requirements to retire City of Hallsville, Texas Combination Tax and Revenue Certificates of Obligation, Series 2014, as of September 30, 2014, are as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2015	2.000%	-	170,644	170,644
2016	2.000%	115,000	170,644	285,644
2017	2.000%	120,000	168,344	288,344
2018	2.000%	125,000	165,944	290,944
2019	2.000%	125,000	163,444	288,444
2020 - 2024	2.000% - 2.500%	655,000	777,694	1,432,694
2025 - 2029	2.500% - 3.375%	950,000	686,369	1,636,369
2030 - 2034	3.500% - 4.000%	2,030,000	432,175	2,462,175
2035 - 2036	4.000%	<u>930,000</u>	<u>56,200</u>	<u>986,200</u>
Total		<u>5,050,000</u>	<u>2,791,458</u>	<u>7,841,458</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 6 - BONDS AND NOTES PAYABLE - GOVERNMENTAL ACTIVITIES:

A schedule of bonded and note indebtedness of the City of Hallsville as of September 30, 2014, is as follows:

City of Hallsville, Texas Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation:

Series 2008, Dated May 15, 2008 - 4.573% Interest Rate	
Maturing Serially 2009 through 2028	
Total Bonds Issued	2,300,000
Less: Bonds Retired and Refunded	(2,300,000)
Balance Outstanding, September 30, 2014	<u> -</u>

City of Hallsville, Texas General Obligation Refunding Bonds:

Series 2014, Dated January 21, 2014 - 1.250% - 3.000% Interest Rate	
Maturing Serially 2014 through 2021	
Total Bonds Issued (61%) (See Note 5)	1,747,650
Less: Bonds Retired	<u>(192,150)</u>
Balance Outstanding, September 30, 2014	1,555,500
Less: Amount Classified Current Portion	<u>(161,650)</u>
Bonds Payable - Net of Current Portion	<u>1,393,850</u>

The schedule of annual requirements to retire City of Hallsville, Texas General Obligation Refunding Bonds, Series 2014, as of September 30, 2014, is as follows:

<u>FISCAL YEAR</u>	<u>RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2015	1.250%	161,650	31,034	192,684
2016	1.250%	97,600	29,013	126,613
2017	1.250%	97,600	27,793	125,393
2018	1.250%	100,650	26,573	127,223
2019	1.250%	100,650	25,315	125,965
2020-2024	1.750% - 2.500%	527,650	100,345	627,995
2025-2028	2.500% - 3.000%	<u>469,700</u>	<u>33,649</u>	<u>503,349</u>
Totals		<u>1,555,500</u>	<u>273,722</u>	<u>1,829,222</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 6 - BONDS AND NOTES PAYABLE - GOVERNMENTAL ACTIVITIES: (Continued)

Loan Payable:

On August 7, 2013, the City entered into a loan agreement with Texas Bank and Trust for the purchase of police vehicles for \$183,197 at 1.995%. The loan is secured by the vehicles and is payable in 62 installments of which the first two payments are interest only; and then there are 58 payments including principal and interest in the amount of \$3,210.56; and one final payment of principal balance and accrued interest that will be due at maturity.

This loan is reflected in the Statement of Net Position in governmental activities, and current requirements for principal and interest expenditures are accounted for in the General Fund.

The following is a summary of the City's loan transactions for the year ended September 30, 2014:

	<u>2014</u>
Balance - Beginning of Year	183,197
Current Year Addition	-
Current Year Principal Payments	<u>(32,233)</u>
 BALANCE, END OF YEAR	 <u>150,964</u>

Debt service requirements are as follows:

Long-Term Debt Loan Payable:

<u>Year Ended</u> <u>September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2015	35,213	2,698	37,911
2016	36,550	1,976	38,526
2017	37,286	1,240	38,526
2018	38,037	490	38,527
2019	<u>3,878</u>	<u>3</u>	<u>3,881</u>
 TOTAL	 <u>150,964</u>	 <u>6,407</u>	 <u>157,371</u>

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 7 - COMMITMENTS UNDER OPERATING LEASE:

The City has entered into a non-cancelable operating lease. Commitments under this operating (noncapitalized) lease agreement for a copier provide for minimum future rental payments. The future rental payments as of September 30, 2014 are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2015	5,868
2016	<u>1,467</u>
Total Minimum Payments Required	<u>7,335</u>
Rental Expenditures in Fiscal Year 2014	<u>5,868</u>

NOTE 8 - CHANGES IN LONG-TERM LIABILITIES:

Long-term activity for the year ended September 30, 2014, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Interest</u> <u>Current</u> <u>Year</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:						
Certificate of Obligation	1,800,000	-	(1,800,000)	-	41,157	-
General Obligation Refunding Bonds	-	1,747,650	(192,150)	1,555,500	16,253	161,650
Loan Payable	<u>183,197</u>	-	<u>(32,233)</u>	<u>150,964</u>	<u>3,700</u>	<u>35,213</u>
Total Governmental Activities	<u>1,983,197</u>	<u>1,747,650</u>	<u>(2,024,383)</u>	<u>1,706,464</u>	<u>61,110</u>	<u>196,863</u>
Business-Type Activities:						
Revenue Bonds Payable	1,140,000	-	(1,140,000)	-	4,150	-
General Obligation Refunding Bonds	-	1,117,350	(122,850)	994,500	13,499	103,350
Combination Tax and Revenue						
Certificates of Obligation Bonds	-	<u>5,050,000</u>	-	<u>5,050,000</u>	<u>108,202</u>	-
Total Business-Type Activities	<u>1,140,000</u>	<u>6,167,350</u>	<u>(1,262,850)</u>	<u>6,044,500</u>	<u>125,851</u>	<u>103,350</u>
Total Government	<u>3,123,197</u>	<u>7,915,000</u>	<u>(3,287,233)</u>	<u>7,750,964</u>	<u>186,961</u>	<u>300,213</u>

CITY OF HALLSVILLE, TEXAS

***NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014***

NOTE 9 - INSURANCE IN FORCE AND BOND COVERAGE:

Insurance in force and bond coverage as of September 30, 2014, is detailed as follows:

<u>TYPE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>CURRENT POLICY PERIOD</u>
Fire, Lightning & Extended Coverage -		
Sewer Plants	149,300 - Building	
500 E. Main St.	205,000 - Contents	
City Hall	576,000 - Building	
	75,000 - Contents	10/01/13-14
Pump House Water & Shawnee Pump Station		
202 Chestnut	54,000 - Building	10/01/13-14
	140,000 - Contents	
Police Station	262,800 - Building	
	100,000 - Contents	10/01/13-14
Surety - Fidelity Coverage Blanket Bond		
- City Secretary, Police Secretary, Clerks	100,000	05/01/14-15
Standard Workmen's Compensation	Unlimited/Based Upon	10/01/13-14
& Employer's Liability Policy	WC Laws of State of Texas	
Automobile Policy	500,000	10/01/13-14
	1,000 Deductible	
Mobile Equipment	51,293	10/01/13-14
	1,000 Deductible	
Waterworks Pumphouse	5,000 - Building	10/01/13-14
210 Walnut Street	70,000 - Contents	
General Liability	500,000/1 MM	
	-0- Deductible	10/01/13-14
Errors and Omissions	500,000/1 MM	
	2,500 Deductible	10/01/13-14
Law Enforcement Liability	500,000/1 MM	
	2,500 Deductible	10/01/13-14
Boiler & Machinery	100,000 Per Accident Limit	
	1,000 Deductible	10/01/13-14

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS **SEPTEMBER 30, 2014**

NOTE 10 - PENSION PLAN:

Texas Municipal Retirement System –

Plan Description:

The City provides pension benefits for all of its full-time employees through a nontraditional, 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:

	<u>2013 Plan Year</u>
Employee Deposit Rate	5.0%
Matching Ratio (City to Employee)	1 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	20 years at any age, 5 years at age 60 and above
Updated Service Credit	0%
Annuity Increase (to Retirees)	0% of CPI

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

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 10 - PENSION PLAN: *(Continued)*

The City contributes to the TMRS Plan at an actuarially determined rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation as of September 30, 2014, are as follows:

	<u>9/30/14</u>
Annual Required Contribution (ARC)	22,120
Interest on Net Pension Obligation	-
Adjustment to the ARC	_____ -
Annual Pension Cost (APC)	22,120
Contributions Made	(22,120)
Increase (Decrease) in Net Pension Obligation	_____ -
Net Pension Obligation/(Asset), Beginning of Year	_____ -
Net Pension Obligation/(Asset), End of Year	===== -

The City's contributions were based on an annual covered payroll of \$615,316. There were no related-party transactions.

Trend Information for Annual Pension Cost:

Information for the last three years is as follows based on a 12-month basis:

Fiscal Year <u>Funding</u>	Annual Pension Cost (APC)	Annual Contribution Made	Percentage of APC <u>Contributed</u>	Net Pension Obligation
09/30/12	23,194	23,194	100%	-
09/30/13	23,946	23,946	100%	-
09/30/14	22,120	22,120	100%	-

CITY OF HALLSVILLE, TEXAS

***NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014***

NOTE 10 - PENSION PLAN: *(Continued)*

Actuarial Method and Assumptions:

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

<u>Valuation Date</u>	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>
Actuarial Cost Method	Projected Unit of Credit	Projected Unit of Credit	Projected Unit of Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.4 Years; Closed Period	25.4 Years; Closed Period	24.3 Years; Closed Period
Amortization Period for New Gains/Losses	23 Years	23 Years	25 Years
Asset Valuation Method	10-Year Smoothed Market	10-Year Smoothed Market	10-Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return #	7.00%	7.00%	7.00%
Projected Salary Increases #	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
# Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustment	0%	0%	0%

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 10 - PENSION PLAN: *(Continued)*

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

Report Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3) (1)/(2)	(4)	(5)	(6) (4)/(5)
12/31/2013	373,429	566,676	65.9%	193,247	588,732	32.8%

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

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

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3) (1)/(2)	(4)	(5)	(6) (4)/(5)
12/31/2009	214,486	511,726	41.9%	297,240	488,345	60.9%
12/31/2010	297,387	545,397	54.5%	248,010	474,379	52.3%
12/31/2011	332,634	563,379	59.0%	230,745	435,297	53.0%
12/31/2012	333,093	521,404	63.9%	188,311	471,933	39.9%
12/31/2013	373,429	566,676	65.9%	193,247	588,732	32.8%

CITY OF HALLSVILLE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 11 - SUPPLEMENTAL DEATH BENEFITS:

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.

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

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

The City's contributions to the TMRS SDBF for the periods ended September 30, 2012 - 2014, are shown below:

Schedule of Contribution Rates			
(Retiree-only portion of the rate)			
Plan/ Calendar <u>Year</u>	Annual Required Contribution <u>Rate</u>	Actual Contribution Made <u>Rate</u>	Percent of ARC <u>Contributed</u>
2012	0.01%	0.01%	100.0%
2013	0.02%	0.02%	100.0%
2014	0.02%	0.02%	100.0%

NOTE 12 - CONTINGENT LIABILITIES:

The City participates in Federally assisted grant programs. These programs are subject to audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although such amounts, if any, are expected to be immaterial.

NOTE 13 - LITIGATION:

The City is party to various legal proceedings which normally occur in governmental operations. In the opinion of City Management, none of these would have a material or adverse impact on the Financial Statements.

CITY OF HALLSVILLE, TEXAS

***NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014***

NOTE 14 - COMMITMENTS:

The City has entered into various contracts for improvements and extensions to the sewer system, water supply and treatment facilities. Funds for these contracts will be provided by the bond issue.

NOTE 15 - SUBSEQUENT EVENTS:

The City has evaluated subsequent events through February 12, 2015, the date which the financial statements were available for issue.

CITY OF HALLSVILLE, TEXAS**WATER AND SEWER FUND****SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Budgeted Amounts		Actual GAAP	Positive (Negative) Variance with
	Original	Final	Basis	Final Budget
<u>BUDGETED OPERATING REVENUES:</u>				
Water and Sewer Revenues, Including Penalties	1,183,500	1,183,500	1,335,795	152,295
Meter and Tap Fees	5,700	5,700	6,100	400
Connection Fees	3,000	3,000	17,296	14,296
Other Revenues	1,000	1,000	3,550	2,550
Total Budgeted Operating Revenues	1,193,200	1,193,200	1,362,741	169,541
<u>BUDGETED OPERATING EXPENSES:</u>				
Salaries	275,000	275,000	272,769	2,231
Payroll Taxes	22,500	22,700	22,117	583
TMRs Retirement	11,500	11,500	9,401	2,099
Truck and Auto Allowance	17,000	18,300	29,647	(11,347)
Repairs and Maintenance	112,500	163,400	137,323	26,077
Insurance	47,500	48,200	46,636	1,564
Legal and Audit Fees	6,000	-	4,906	(4,906)
Office Expense	23,700	18,750	18,446	304
Miscellaneous Expense	73,000	15,200	13,042	2,158
Materials and Supplies	76,600	54,800	36,471	18,329
Water Purchased - City of Longview	307,000	307,000	427,097	(120,097)
Engineering and Contract Services	6,000	-	19,221	(19,221)
Permits and Fees	17,000	12,000	12,139	(139)
Utilities and Telephone	77,800	81,300	79,395	1,905
Depreciation	-	-	254,384	(254,384)
Total Budgeted Operating Expenses	1,073,100	1,028,150	1,382,994	(354,844)
Budgeted Operating Income (Loss)	120,100	165,050	(20,253)	(185,303)
<u>BUDGETED NON-OPERATING REVENUES (EXPENSES):</u>				
Interest Income	50	50	1,591	1,541
Interest Expense	-	-	(125,851)	(125,851)
Bond Issuance Costs and Fees	-	-	(36,954)	(36,954)
Transfers Out	-	-	(156,035)	(156,035)
Total Budgeted Non-Operating Revenues (Expenses)	50	50	(317,249)	(317,299)
Budgeted Excess of Revenues Over (Under) Expenses	120,150	165,100	(337,502)	(502,602)
<u>ADDITIONAL BUDGETED INCOME (EXPENSE) AMOUNTS:</u>				
Capital Outlay	(50,000)	(82,000)	(272,631)	(190,631)
Debt Principal	-	(25,000)	(122,850)	(97,850)
Additional Budgeted Income (Expense) Amounts	(50,000)	(107,000)	(395,481)	(288,481)
GRAND TOTAL BUDGETED NET INCOME (LOSS)	70,150	58,100	(732,983)	(791,083)