

**CITY OF
GLEN ROSE, TEXAS**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2014**

CITY OF GLEN ROSE, TEXAS

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FINANCIAL SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Glen Rose, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the business-type activities and each major fund, of the City of Glen Rose, Texas (the "City"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 discretely presented component unit, the business-type activities and each major fund, of the City of Glen Rose, Texas, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 4 through 10 and the budgetary comparison information and the Schedule of Funding Progress – Texas Municipal Retirement System on pages 37 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2015, on our consideration of the City of Glen Rose, 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 the City of Glen Rose, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
May 29, 2015

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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Management's Discussion and Analysis

As management of the City of Glen Rose, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year September 30, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the City exceed its liabilities as of September 30, 2014, by \$19,354,296 (net position). Of this amount, \$7,753,489 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fiscal policies and \$92,800 has been restricted for promoting tourism, and convention and hotel industry.
- The City's total net position increased by \$456,450.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,462,038. Approximately 73% of this total amount \$2,542,162 is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2014, unassigned fund balance for the General Fund was \$2,542,162 or 105% percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements. The government-wide financial statements, which begin on page 11 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, and culture and recreation. The business-type activities of the City include water and sewer operations. The City has one component unit reported. The Glen Rose 4B Economic Development Corporation is a non-profit corporation formed in May 2007 for the purpose of increasing employment opportunities and for public improvement projects.

The government-wide financial statements can be found on pages 11 – 13 of this report.

Fund Financial Statements. 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.

Government 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 on governmental funds is narrower than that 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.

Beginning on page 14 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General and the Convention and Visitors' Bureau Funds, which are considered to be major funds. A budgetary comparison schedule has been provided for these Funds on pages 38 – 40 to demonstrate compliance with the annual appropriated budget.

Proprietary Funds. Proprietary fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the proprietary funds to account for its water and sewer operations.

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 of the Municipal Utility Fund which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 18 – 20 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 – 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$19,354,296 as of September 30, 2014.

The largest portion of the City's net position 30% reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GLEN ROSE, TEXAS

NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 3,728,539	\$ 4,063,351	\$ 5,334,481	\$ 5,003,023	\$ 9,063,020	\$ 9,066,374
Capital assets	<u>8,638,887</u>	<u>8,414,270</u>	<u>5,521,535</u>	<u>5,533,794</u>	<u>14,160,422</u>	<u>13,948,064</u>
Total assets	<u>12,367,426</u>	<u>12,477,621</u>	<u>10,856,016</u>	<u>10,536,817</u>	<u>23,223,442</u>	<u>23,014,438</u>
Current liabilities	236,872	446,386	528,200	485,258	765,072	931,644
Other liabilities	<u>2,834,624</u>	<u>2,891,294</u>	<u>269,450</u>	<u>293,654</u>	<u>3,104,074</u>	<u>3,184,948</u>
Total liabilities	<u>3,071,496</u>	<u>3,337,680</u>	<u>797,650</u>	<u>778,912</u>	<u>3,869,146</u>	<u>4,116,592</u>
Net position:						
Net investment in capital assets	5,883,887	5,594,270	5,624,120	5,632,532	11,508,007	11,226,802
Restricted	92,800	110,499	-	-	92,800	110,499
Unrestricted	<u>3,319,243</u>	<u>3,435,172</u>	<u>4,434,246</u>	<u>4,125,373</u>	<u>7,753,489</u>	<u>7,560,545</u>
Total net position	<u>\$ 9,295,930</u>	<u>\$ 9,139,941</u>	<u>\$ 10,058,366</u>	<u>\$ 9,757,905</u>	<u>\$ 19,354,296</u>	<u>\$ 18,897,846</u>

As of September 30, 2014, the City is able to report positive balances in three categories of net position, both for the government as a whole, as well as for its separate categories – governmental and business-type activities.

Analysis of the City's Operations – The following table provides a summary of the city's operations for the year ended September 30, 2014. Governmental activities increased the City's net position by \$155,989, accounting for 34% of the total growth in net position. Business-type activities increased the City's net position by \$300,461, accounting for 66% of the total growth in net position.

The City's net position increased by \$456,450 during the current fiscal year. A significant portion of this increase is the result of the City's business-type activities. The majority of this increase was the result of charges for services revenues exceeding expenses for the year. The level of revenues and expenses for the business-type activities is very comparable to the prior year which noted similar growth in net position. The largest increase in revenues for the governmental activities is sales tax which increased over \$80,000 for the current year and can be attributed to economic growth within the City. The expenses in the governmental activities increased most significantly under the general government function. This increase was a result of an increase in professional services charged to the function. Additional changes to net position resulted as a change in accounting principles and a prior period adjustment were included in the current year. The change in accounting principles was a result of the City implementing GASB Statement No. 65 which requires the City to no longer capitalize and amortize bond issuance costs. The prior period adjustment was the result of removing items from the City's capital asset ledgers which were less than the City's capitalization threshold.

CITY OF GLEN ROSE, TEXAS

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 533,793	\$ 497,809	\$ 1,380,431	\$ 1,442,708	\$ 1,914,224	\$ 1,940,517
Operating grants	174,350	190,150	-	-	174,350	-
Capital grants	57,094	56,891	102,575	53,035	159,669	109,926
General revenues:						
Property taxes	650,744	646,170	-	-	650,744	646,170
Sales taxes	735,830	655,319	-	-	650,744	655,319
Franchise taxes	148,008	137,774	-	-	148,008	137,774
Hotel/Motel taxes	298,059	266,118	-	-	298,059	266,118
Miscellaneous	14,416	20,130	-	-	14,416	20,130
Investment earnings	1,197	2,159	2,526	3,179	3,723	5,338
Total revenues	2,613,491	2,472,520	1,485,532	1,498,922	4,099,023	3,971,442
Expenses:						
General government	562,992	503,014	-	-	562,992	503,014
Public safety	340,579	336,907	-	-	340,579	336,907
Highways and streets	437,093	398,912	-	-	437,093	398,912
Community development	-	-	-	-	-	-
Culture and recreation	934,507	937,640	-	-	934,507	937,640
Interest and other	109,200	139,242	-	-	109,200	139,242
Municipal utilities	-	-	1,088,132	1,035,949	1,088,132	1,035,949
Total expenses	2,384,371	2,315,715	1,088,132	1,035,949	3,472,503	3,351,664
Increases in net position						
before transfers	229,120	156,805	397,400	462,973	626,520	619,778
Transfers	56,000	56,000	(56,000)	(56,000)	-	-
Change in net position	285,120	212,805	341,400	406,973	626,520	619,778
Net position, beginning	9,139,941	8,927,136	9,757,905	9,350,932	18,897,846	18,278,068
Change in accounting principle	(63,693)	-	-	-	(63,693)	-
Prior period adjustment	(65,438)	-	(40,939)	-	(106,377)	-
Net position, ending	\$ 9,295,930	\$ 9,139,941	\$ 10,058,366	\$ 9,757,905	\$ 19,354,296	\$ 18,897,846

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$3,462,038. Of this balance \$92,800 was restricted for promoting tourism, and convention and hotel industry, \$92,576 is considered non-spendable, and \$734,500 is reported as assigned fund balance because it is appropriated for capital improvements in the subsequent year’s budget. The remaining \$2,542,162 is unassigned and available for new spending.

In the General Fund, the City budgeted for a decrease in fund balance of \$652,631. Actual fund balance decreased by \$65,996.

In the Convention and Visitors’ Bureau, the City budgeted for a decrease in fund balance of \$4,925. Actual fund balance decreased by \$17,699.

Proprietary Funds. The City’s proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary fund (Municipal Utility Fund) is \$4,434,246. The Municipal Utility Fund had a net position increase in 2014 of \$300,461.

Budgetary Highlights – The City made minor revisions to the original budget. All the revisions were to individual line items within the same departments of the City.

Capital Assets. The City’s net investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$14,160,422 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total additions to the City’s investment in capital assets for the current fiscal year were approximately \$1,278,014.

Major capital asset events during the current fiscal year included the following:

- \$205,250 in sewer plant improvements.
- Stadium Drive repave \$299,980.
- Lakewood Street reconstruction \$85,703

Cost of capital assets, net of accumulated depreciation, as of September 30, 2014 was:

	Governmental Activities 2014	Business-Type Activities 2014	2014 Total	2013 Total
Land	\$ 1,421,697	\$ 67,337	\$ 1,489,034	\$ 1,504,312
Construction in progress	35,388	361,418	396,806	551,274
Building and improvements	964,535	40,369	1,004,904	1,039,690
Machinery and equipment	261,071	165,320	426,391	476,775
Improvements	<u>5,956,196</u>	<u>4,887,091</u>	<u>10,843,287</u>	<u>10,376,013</u>
Capital assets, net	<u>\$ 8,638,887</u>	<u>\$ 5,521,535</u>	<u>\$ 14,160,422</u>	<u>\$ 13,948,064</u>

Additional information on the City’s capital assets can be found on pages 28 – 29 of this report.

DEBT ADMINISTRATION

The City issued \$3,020,000 in General Obligation Refunding Bonds in August, 2010. Proceeds were used to refund the 2009 Combination Tax & Revenue Certificates of Obligation Bonds and pay issuance cost. During fiscal year 2013, the City issued \$370,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2013. Proceeds were used to provide funds for the planning, acquisition and design costs related to wastewater system improvements. As of year-end, the outstanding balance is \$3,000,000.

Additional information on the City's long-term debt can be found on pages 30 – 32.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2014-2015 budget, General Fund revenues and transfers in are budgeted to increase by 11% from the fiscal year 2013-2014 budget due to an increase in transfers from reserve funds. Expenditures are budgeted to increase 10%, the majority of which is for capital expenditures.

The property tax revenue rate will remain at \$.384074 per \$100 valuation for the 2014-2015 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City Secretary at P.O. Box 1949, Glen Rose, Texas, 76043, call (254) 897-2272.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF GLEN ROSE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corp.
ASSETS				
Pooled cash and cash equivalents	\$ 1,071,493	\$ 1,359,943	\$ 2,431,436	\$ -
Non-pooled cash and cash equivalents	1,478,994	4,051,212	5,530,206	249,807
Sales and use taxes receivable	128,975	-	128,975	42,070
Hotel occupancy taxes receivable	77,541	-	77,541	-
Property taxes receivable	56,683	-	56,683	-
Accounts receivable	997	173,929	174,926	-
Prepaid expense	2,576	-	2,576	-
Due from other governments	3,803	-	3,803	-
Due from primary government	-	-	-	81,996
Internal balances	812,578	(812,578)	-	-
Note receivable	90,000	-	90,000	-
Court fines receivable	4,899	-	4,899	-
Restricted assets:				
Pooled cash and cash equivalents	-	561,975	561,975	-
Land	1,421,697	67,337	1,489,034	-
Construction in progress	35,388	361,418	396,806	-
Buildings	1,314,511	57,943	1,372,454	-
Improvements other than buildings	7,064,076	8,687,576	15,751,652	-
Machinery and equipment	807,631	631,662	1,439,293	-
Accumulated depreciation	(2,004,416)	(4,284,401)	(6,288,817)	-
Total assets	<u>12,367,426</u>	<u>10,856,016</u>	<u>23,223,442</u>	<u>373,873</u>
LIABILITIES				
Accounts payable	68,814	174,397	243,211	-
Accrued payroll	21,413	-	21,413	-
Due to component unit	50,884	31,112	81,996	-
Customer deposits	68,873	107,044	175,917	-
Accrued interest	26,888	1,257	28,145	-
Unearned revenue	-	214,390	214,390	-
Noncurrent liabilities:				
Due within one year	89,906	31,113	121,019	-
Due in more than one year	<u>2,744,718</u>	<u>238,337</u>	<u>2,983,055</u>	<u>-</u>
Total liabilities	<u>3,071,496</u>	<u>797,650</u>	<u>3,869,146</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	5,883,887	5,624,120	11,508,007	-
Restricted for:				
Promoting tourism, and convention and hotel industry	92,800	-	92,800	-
Economic development	-	-	-	373,873
Unrestricted	<u>3,319,243</u>	<u>4,434,246</u>	<u>7,753,489</u>	<u>-</u>
Total net position	<u>\$ 9,295,930</u>	<u>\$ 10,058,366</u>	<u>\$ 19,354,296</u>	<u>\$ 373,873</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GLEN ROSE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 562,992	\$ 20,548	\$ 174,350	\$ -
Public safety	340,579	61,165	-	-
Highway and streets	437,093	-	-	57,094
Community development	-	452,080	-	-
Culture and recreation	934,507	-	-	-
Interest and other	109,200	-	-	-
Total governmental activities	<u>2,384,371</u>	<u>533,793</u>	<u>174,350</u>	<u>57,094</u>
Business-type activities:				
Municipal utility	<u>1,088,132</u>	<u>1,380,431</u>	<u>-</u>	<u>102,575</u>
Total business-type activities	<u>1,088,132</u>	<u>1,380,431</u>	<u>-</u>	<u>102,575</u>
Total primary government	<u>\$ 3,472,503</u>	<u>\$ 1,914,224</u>	<u>\$ 174,350</u>	<u>\$ 159,669</u>
Component unit:				
Economic Development Corporation	<u>188,778</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component unit	<u>\$ 188,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property, levied for general purposes

Franchise

Sales

Hotel/Motel

Investment earnings

Miscellaneous

Transfers

 Total general revenues and transfers

 Change in net position

Net position, beginning

Change in accounting principle

Prior period adjustment

Net position, ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

Primary Government		Component Unit	
Governmental Activities	Business-type Activities	Total	Economic Development Corp.
\$(368,094)	\$ -	\$(368,094)	\$ -
(279,414)	-	(279,414)	-
(379,999)	-	(379,999)	-
452,080	-	452,080	-
(934,507)	-	(934,507)	-
(109,200)	-	(109,200)	-
<u>(1,619,134)</u>	<u>-</u>	<u>(1,619,134)</u>	<u>-</u>
-	394,874	394,874	102,575
-	394,874	394,874	102,575
<u>(1,619,134)</u>	<u>394,874</u>	<u>(1,224,260)</u>	<u>102,575</u>
			<u>(188,778)</u>
			<u>(188,778)</u>
650,744	-	650,744	-
148,008	-	148,008	-
735,830	-	735,830	242,418
298,059	-	298,059	-
1,197	2,526	3,723	134
14,416	-	14,416	-
<u>56,000</u>	<u>(56,000)</u>	<u>-</u>	<u>-</u>
<u>1,904,254</u>	<u>(53,474)</u>	<u>1,850,780</u>	<u>242,552</u>
285,120	341,400	626,520	53,774
9,139,941	9,757,905	18,897,846	320,099
(63,693)	-	(63,693)	-
<u>(65,438)</u>	<u>(40,939)</u>	<u>(106,377)</u>	<u>-</u>
<u>\$ 9,295,930</u>	<u>\$ 10,058,366</u>	<u>\$ 19,354,296</u>	<u>\$ 373,873</u>

CITY OF GLEN ROSE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2014

	<u>General</u>	<u>Convention and Visitors' Bureau</u>	<u>Total Governmental Funds</u>
ASSETS			
Pooled cash and cash equivalents	\$ 1,068,579	\$ 2,914	\$ 1,071,493
Non-pooled cash and cash equivalents	1,423,162	55,832	1,478,994
Sales and use taxes receivable	128,975	-	128,975
Hotel occupancy taxes receivable	-	77,541	77,541
Property taxes receivable	56,683	-	56,683
Accounts receivable	997	-	997
Notes receivable	90,000	-	90,000
Court fines receivable	4,899	-	4,899
Prepaid items	2,576	-	2,576
Due from other governments	3,803	-	3,803
Due from other funds	<u>851,378</u>	<u>-</u>	<u>851,378</u>
Total assets	<u>\$ 3,631,052</u>	<u>\$ 136,287</u>	<u>\$ 3,767,339</u>
LIABILITIES			
Accounts payable	\$ 65,327	\$ 3,487	\$ 68,814
Accrued payroll	20,213	1,200	21,413
Due to other funds	-	38,800	38,800
Due to component unit	50,884	-	50,884
Customer deposits	68,873	-	68,873
Total liabilities	<u>205,297</u>	<u>43,487</u>	<u>248,784</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	51,618	-	51,618
Unavailable - court fines	<u>4,899</u>	<u>-</u>	<u>4,899</u>
Total deferred inflows of resources	<u>56,517</u>	<u>-</u>	<u>56,517</u>
FUND BALANCES			
Nonspendable:			
Note receivable	90,000	-	90,000
Prepaid items	2,576	-	2,576
Restricted for promoting tourism, and convention and hotel industry	-	92,800	92,800
Assigned for appropriation in subsequent year's budget	734,500	-	734,500
Unassigned	<u>2,542,162</u>	<u>-</u>	<u>2,542,162</u>
Total fund balances	<u>3,369,238</u>	<u>92,800</u>	<u>3,462,038</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,631,052</u>	<u>\$ 136,287</u>	<u>\$ 3,767,339</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GLEN ROSE, TEXAS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

SEPTEMBER 30, 2014

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

Total fund balances - total governmental funds	\$ 3,462,038
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,638,887
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.	56,517
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,861,512)</u>
Net position of governmental activities	<u>\$ 9,295,930</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GLEN ROSE, TEXAS

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>General</u>	<u>Convention and Visitors' Bureau</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 630,260	\$ -	\$ 630,260
Franchise	148,008	-	148,008
Sales	735,830	-	735,830
Occupancy	-	298,059	298,059
Licenses and permits	16,601	-	16,601
Fines and forfeitures	61,165	-	61,165
Charges for services	454,571	-	454,571
Intergovernmental	231,444	-	231,444
Investment income	1,111	86	1,197
Miscellaneous	<u>13,946</u>	<u>470</u>	<u>14,416</u>
Total revenues	<u>2,292,936</u>	<u>298,615</u>	<u>2,591,551</u>
EXPENDITURES			
Current:			
General government	547,278	-	547,278
Public safety	321,850	-	321,850
Highways and streets	287,729	-	287,729
Culture and recreation	575,953	316,314	892,267
Capital outlay	507,772	-	507,772
Debt service:			
Principal	65,000	-	65,000
Interest and fiscal charges	<u>109,350</u>	<u>-</u>	<u>109,350</u>
Total expenditures	<u>2,414,932</u>	<u>316,314</u>	<u>2,731,246</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(121,996)</u>	<u>(17,699)</u>	<u>(139,695)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>56,000</u>	<u>-</u>	<u>56,000</u>
Total other financing sources (uses)	<u>56,000</u>	<u>-</u>	<u>56,000</u>
NET CHANGE IN FUND BALANCE	<u>(65,996)</u>	<u>(17,699)</u>	<u>(83,695)</u>
FUND BALANCES, BEGINNING	<u>3,435,234</u>	<u>110,499</u>	<u>3,545,733</u>
FUND BALANCES, ENDING	<u>\$ 3,369,238</u>	<u>\$ 92,800</u>	<u>\$ 3,462,038</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GLEN ROSE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

Total net change in fund balances - total governmental funds	\$(83,695)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	290,055
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	21,940
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	65,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(8,180)</u>
Change in net position of governmental activities	<u>\$ 285,120</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF GLEN ROSE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2014

	Enterprise Fund
	Municipal
	Utility
ASSETS	
Current assets:	
Pooled cash and cash equivalents	\$ 1,359,943
Non-pooled cash and cash equivalents	4,051,212
Accounts receivable, net	173,929
Restricted assets:	
Pooled cash and cash equivalents	561,975
Non-current assets:	
Land	67,337
Buildings	57,943
Improvements and other buildings	8,687,576
Machinery and equipment	631,662
Construction in progress	361,418
Accumulated depreciation	(4,284,401)
Total assets	11,668,594
LIABILITIES	
Current liabilities:	
Accounts payable	174,397
Due to other funds	812,578
Due to component unit	31,112
Unearned revenue	214,390
Accrued interest	1,257
Customer deposits	107,044
Certificates of obligation	25,000
Compensated absences payable	6,113
Noncurrent liabilities:	
Certificates of obligation	220,000
Compensated absences payable	18,337
Total liabilities	1,610,228
NET POSITION	
Net investment in capital assets	5,624,120
Unrestricted	4,434,246
Total net position	\$ 10,058,366

The notes to the financial statements are an integral part of this statement.

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CITY OF GLEN ROSE, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Enterprise Fund</u> <u>Municipal</u> <u>Utility</u>
OPERATING REVENUES	
Charges for services	\$ 1,363,437
Miscellaneous	16,994
Total operating revenues	<u>1,380,431</u>
OPERATING EXPENSES	
Personnel services	302,081
Purchased water	222,439
Supplies and maintenance	167,539
Heat, light, and power	123,216
Miscellaneous	18,771
Depreciation	248,020
Total operating expenses	<u>1,082,066</u>
Operating income	<u>298,365</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	2,526
Interest expense and fiscal charges	(6,066)
Total nonoperating revenues (expenses)	<u>(3,540)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>294,825</u>
CAPITAL CONTRIBUTIONS	102,575
TRANSFERS OUT	<u>(56,000)</u>
CHANGE IN NET POSITION	341,400
TOTAL NET POSITION, BEGINNING	<u>9,757,905</u>
PRIOR PERIOD ADJUSTMENT	<u>(40,939)</u>
TOTAL NET POSITION, ENDING	<u>\$ 10,058,366</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF GLEN ROSE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Enterprise Fund Municipal Utility
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,289,790
Cash payments to employees for services	(301,285)
Cash payments to suppliers for goods and services	(424,113)
Net cash provided (used) by operating activities	564,392
CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES	
Cash paid to other funds	(360,107)
Transfers to other funds	(56,000)
Net cash provided (used) by noncapital related financing activities	(416,107)
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(276,700)
Interest paid on long-term debt	(6,066)
Principal paid on long-term debt	(25,000)
Capital contributions	102,575
Net cash provided (used) by financing activities	(205,191)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	2,526
Net cash provided (used) by financing activities	2,526
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,380)
CASH AND CASH EQUIVALENTS, BEGINNING	6,027,510
CASH AND CASH EQUIVALENTS, ENDING	\$ 5,973,130
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 298,365
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	248,020
Increase (decrease) in accounts receivable	5,381
Increase (decrease) in unearned revenue	(102,575)
Increase (decrease) in compensated absences	796
Increase (decrease) in payables and accrued liabilities	107,852
Increase (decrease) in customer deposits	6,553
Net cash provided (used) by operating activities	\$ 564,392

The notes to the financial statements are an integral part of this statement.

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CITY OF GLEN ROSE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from its legally separate *component unit* for which the primary government is financially accountable.

B. Financial Reporting Entity

The City operates as a Type A General Law Municipality under the laws of the State of Texas. The entity is governed by an elected mayor and five-member governing council. The Mayor and Councilmembers are elected for staggered three-year terms. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

The Glen Rose 4B Economic Development Corporation is a non-profit corporation formed in May 2007 for the purpose of increasing employment opportunities and or public improvement projects. The corporation operates under the authority of Vernon's Civil Statutes, Article 5190.6, Section 4B. Since the City Council appoints its Board of Directors, approves its budgets, and exercises final authority over its operations, the Glen Rose 4B Economic Development Corporation is considered to be a part of the City's reporting entity and presented in the accompanying basic financials statements as a discretely presented component unit.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (i.e., 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 and intergovernmental revenue, 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 function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary financial statements also report using this same focus and basis of accounting although internal activity is not eliminated. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the funds. Principal operating revenues for proprietary funds are charged to customers for sales or services. Principal operating expenses are the costs of providing goods or services and included administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

D. Fund Financial Statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported in separate columns.

The City reports the following major funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Convention and Visitors' Bureau Fund** is used to account for the revenues of the hotel/motel taxes received by the City. These funds are restricted for expenditures related to promoting tourism and convention and visitors bureau.

The **Municipal Utility Fund** is used to account for the activity of the City's water and wastewater services.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and wastewater function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

D. Assets, Deferred Inflows/Outflows of Resources, Liabilities and Net Position or Fund Balance

Deposits and Investments

Cash includes not only currency on hand, but also demand deposits with banks or other financial institutions. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

Receivables and Payables

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

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

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. City property tax revenue is recognized when levied. An allowance is established for delinquent taxes to the extent that their collectability is improbable.

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessment ratio of the City is 100 percent of market value.

Since 1980, the appraisal of property within the City has been the responsibility of the countywide appraisal district. The appraisal district is required under the property tax code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least every five years. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Assets	Years
Buildings	20
Vehicles	7
Improvements	10 - 20
Equipment	5 - 7
Infrastructure	20

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement elements, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no deferred outflows of resources to report at this time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and municipal court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned, but unused, vacation, comp time and sick leave. Upon separation from City employment, a regular employee who has completed at least one year of continuous employment will be paid for accrued and unused vacation leave and comp time up to the limit of his or her maximum allowable accumulation. No more than 192 hours for employees with less than 15 years' employment with the City, and 240 hours for employees with more than 15 years can be carried over to the next year. Comp time is limited to 240 hours. On the employee's anniversary date, any vacation leave balance in excess of the appropriate maximum is reduced to the maximum without compensation. Accumulated unpaid vacation and comp time amounts are accrued as a current liability in the period they are earned in proprietary funds (using the accrual basis of accounting) and the government-wide financial statements. In governmental funds, the cost of vacation and comp pay is recognized when payments are due. In the event of termination or retirement, sick pay is not paid. Therefore, no accrued liabilities for sick pay are recorded.

Long-term Obligations

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

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

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes to specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Use of Fund Balance and Net Position

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance and net assets are available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

Net position represents the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources. Net position invested in capital assets 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 their 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.

Statement of Cash Flows

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

Change in Accounting Principles

As the result of implementing GASB Statement 65, the City has decreased beginning net position as of October 1, 2013 by \$63,693 for the governmental activities. This decrease results from no longer deferring and amortizing bond issuance costs.

2. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
External investment pools:			
TexPool	\$ <u>2,431,437</u>	48	AAAm
Total fair value	\$ <u><u>2,431,437</u></u>		

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maximum allowable stated maturity of any individual investment not to exceed two years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act, and investing operating funds primarily in short-term securities or similar government investment pools.

Credit Risk. The City's investment policy limits investments in external investment pools rated as to investment quality not less than AAA by a nationally recognized investment rating firm.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized to 102 percent by collateral securities. At year-end, market values of the City's pledged securities and FDIC insurance exceeded bank balances.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safe keep securities at financial institutions, avoiding physical possession. TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the Office of the Comptroller of Public Accounts for review.

Each of the external investment pools (the “Pools”) operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. The Pools use amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in the Pools is the same as the value of Pool shares.

B. Receivables

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

	<u>General</u>	<u>Convention Visitors' Bureau</u>	<u>Municipal Utility</u>	<u>Total</u>
Receivables:				
Taxes	\$ 220,873	\$ 77,541	\$ -	\$ 298,414
Accounts	997	-	218,116	219,113
Municipal court	48,989	-	-	48,989
Intergovernmental	<u>3,803</u>	<u>-</u>	<u>-</u>	<u>3,803</u>
Gross receivables	274,662	77,541	218,116	570,319
Less: allowance for uncollectibles	<u>(79,305)</u>	<u>-</u>	<u>(44,187)</u>	<u>(123,492)</u>
Net total receivables	<u>\$ 195,357</u>	<u>\$ 77,541</u>	<u>\$ 173,929</u>	<u>\$ 446,827</u>

C. Capital Assets

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

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,434,775	\$ -	\$(13,078)	\$ 1,421,697
Construction in progress	<u>410,410</u>	<u>121,092</u>	<u>(496,114)</u>	<u>35,388</u>
Total capital assets not being depreciated	<u>1,845,185</u>	<u>121,092</u>	<u>(509,192)</u>	<u>1,457,085</u>
Capital assets, being depreciated:				
Buildings and improvements	1,313,349	12,062	(10,900)	1,314,511
Improvements other than buildings	6,261,285	817,081	(14,290)	7,064,076
Machinery and equipment	<u>978,950</u>	<u>51,078</u>	<u>(222,397)</u>	<u>807,631</u>
Total capital assets being depreciated	<u>8,553,584</u>	<u>880,221</u>	<u>(247,587)</u>	<u>9,186,218</u>
Less accumulated depreciation:				
Buildings and improvements	322,683	33,413	(6,120)	349,976
Improvements other than buildings	984,744	132,311	(9,176)	1,107,879
Machinery and equipment	<u>677,072</u>	<u>49,420</u>	<u>(179,931)</u>	<u>546,561</u>
Total accumulated depreciation	<u>1,984,499</u>	<u>215,144</u>	<u>(195,227)</u>	<u>2,004,416</u>
Total capital assets, being depreciated, net	<u>6,569,085</u>	<u>665,077</u>	<u>(52,360)</u>	<u>7,181,802</u>
Governmental activities capital assets, net	<u>\$ 8,414,270</u>	<u>\$ 786,169</u>	<u>\$(561,552)</u>	<u>\$ 8,638,887</u>

Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 69,537	\$ -	\$(2,200)	\$ 67,337
Construction in progress	140,864	220,554	-	361,418
Total capital assets not being depreciated	<u>210,401</u>	<u>220,554</u>	<u>(2,200)</u>	<u>428,755</u>
Capital assets, being depreciated:				
Buildings and improvements	66,299	-	(8,356)	57,943
Improvements other than buildings	8,755,898	24,433	(92,755)	8,687,576
Machinery and equipment	663,735	31,712	(63,785)	631,662
Total capital assets being depreciated	<u>9,485,932</u>	<u>56,145</u>	<u>(164,896)</u>	<u>9,377,181</u>
Less accumulated depreciation:				
Buildings and improvements	17,275	1,448	(1,149)	17,574
Improvements other than buildings	3,656,426	212,779	(68,721)	3,800,484
Machinery and equipment	488,838	33,791	(56,286)	466,343
Total accumulated depreciation	<u>4,162,539</u>	<u>248,018</u>	<u>(126,156)</u>	<u>4,284,401</u>
Total capital assets, being depreciated, net	<u>5,323,393</u>	<u>(191,873)</u>	<u>(38,740)</u>	<u>5,092,780</u>
Business-type activities capital assets, net	<u>\$ 5,533,794</u>	<u>\$ 28,681</u>	<u>\$(40,940)</u>	<u>\$ 5,521,535</u>

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

Governmental activities:	
General government	\$ 13,317
Public safety	10,491
Highways and streets	149,260
Culture and recreation	<u>42,076</u>
Total depreciation expense - governmental activities	<u>\$ 215,144</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2014, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Municipal Utility	\$ 812,578
General	Convention & Visitors' Bureau	<u>38,800</u>
		<u>\$ 851,378</u>

The outstanding balances between funds result mainly from the lag time between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Balances due to and from component unit and primary government at September 30, 2014 consisted of the following:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
Economic Development Corp.	General	\$ 50,884
Economic Development Corp.	Municipal Utility	<u>31,112</u>
		<u>\$ 81,996</u>

Interfund activity for the year ended September 30, 2014, is as follows:

Interfund transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Municipal Utility Fund	<u>\$ 56,000</u>

Transfers are used to use unrestricted revenues collected in the Municipal Utility fund to pay for a portion of administrative cost reported in the General Fund.

E. Long-term Debt

Combination Tax and Surplus Revenue Certificates of Obligation

The City issued \$370,000 of Combination Tax and Surplus Revenue Certificates of Obligation, Series 2012 to provide funds for the planning, acquisition and design costs related to wastewater system improvements. Additionally, the Texas Water Development Board (TWDB) provided financial assistance of \$370,000 and purchased the Certificates of Obligation, Series 2012 with an Economically Distressed Areas Program (EDAP) loan. These certificates of obligation are reported in the proprietary funds since these COs are expected to be repaid from proprietary fund revenue.

These certificates of obligation are direct obligations and pledge the full faith and credit of the City. These certificates of obligation generally are issued as 10-year certificates of obligation with equal amounts of principal maturing each year. The interest rates range from 0.27% to 2.82%

Annual debt service requirements to maturity for the revenue certificates of obligation are as follows:

Year Ending September 30,	Business-type Activities	
	Principal	Interest
2015	\$ 25,000	\$ 5,030
2016	30,000	4,772
2017	30,000	4,382
2018	30,000	3,914
2019	30,000	3,335
2020-2023	100,000	5,578
Total	<u>\$ 245,000</u>	<u>\$ 27,011</u>

General Obligation Bonds

The City issued \$3,020,000 of General Obligation Refunding Bonds, Series 2010 to refund previously issued Certificates of Obligation. As of year-end there are no bonds or certificates of obligation considered defeased and outstanding. These bonds are reported as a governmental activity since these bonds are expected to be repaid from tax revenue.

These bonds are direct obligations and pledge the full faith and credit of the City. The interest rates range from 2.00% to 4.25%.

Annual debt service requirements to maturity for the bonds are as follows:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2015	\$ 70,000	\$ 107,550
2016	100,000	106,150
2017	105,000	103,150
2018	105,000	100,000
2019	110,000	96,850
2020-2024	615,000	414,450
2025-2029	745,000	282,050
2030-2034	905,000	118,163
Total	<u>\$ 2,755,000</u>	<u>\$ 1,328,363</u>

Changes in Long-term Liabilities

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Government activities					
General obligation bonds	\$ 2,820,000	\$ -	\$ 65,000	\$ 2,755,000	\$ 70,000
Compensated absences	71,294	56,961	48,631	79,624	19,906
Governmental activity					
Long-term liabilities	<u>\$ 2,891,294</u>	<u>\$ 56,961</u>	<u>\$ 113,631</u>	<u>\$ 2,834,624</u>	<u>\$ 89,906</u>
Business-type activities					
Revenue COs	\$ 270,000	\$ -	\$ 25,000	\$ 245,000	\$ 25,000
Compensated absences	23,654	19,210	18,414	24,450	6,113
Business-type activity					
Long-term liabilities	<u>\$ 293,654</u>	<u>\$ 19,210</u>	<u>\$ 43,414</u>	<u>\$ 269,450</u>	<u>\$ 31,113</u>

Compensated absences are generally liquidated by the General Fund and Municipal Utility Fund.

F. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses. Settled claims did not exceed the commercial coverage during the last three fiscal years.

G. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

H. Pension Plan and Supplemental Death Benefits

Plan Description. The City of Glen Rose provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined contribution plan in the statewide 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 by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on 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>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity Increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

The annual pension cost and net pension obligation/(asset) are as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Annual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2012	\$ 184,409	\$ 184,409	100%	\$ -
2013	143,110	143,110	100%	-
2014	120,026	120,026	100%	-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012, actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	25.9 years; closed period	24.8 years; closed period	30.0 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:			
Investment rate of return*	7.0%	7.0%	7.0%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2013	\$ 2,431,958	\$ 3,006,599	80.9%	\$ 574,641	\$ 849,931	67.6%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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 years ended 2014, 2013, and 2012, were \$947, \$977, and \$823, respectively, which equaled the required contributions each year.

I. Water Contract

The City entered into a contract with the Somervell County Water District (District) on March 30, 2009 for the purchase of all its treated water used by the city for both its own use within the City's service area and for the retail distribution to all of its customers within such area as served by the City's water distribution system up to, but not to exceed 225 million gallons in any calendar year. As part of the agreement, the City will terminate the use of its groundwater supply, accepting only such supplies required by the city which exceed the maximum deliveries or during emergency conditions when the District is unable to deliver the water to the City in the quantity or of the quality required by the agreement. The City began receiving treated water on October 20, 2011 which is the effective date of the contract.

Terms of the contract call for the City to pay the District \$1.75 per 1,000 gallons of treated water delivered to the city. During the initial period of the contract, two years, the City shall be deemed to have taken and used a minimum annual average daily amount of 300,000 gallons, for which they will be charged \$191,625 annually or \$15,968.75 prorated per month. Such charge shall be considered the City's minimum annual payment. Monthly volumes delivered in excess of such minimum shall be additionally billed to the City at the \$1.75 rate.

After two years, the rate charged to the City shall be adjusted by the District to reflect any changes in their projected cost. However, the rate shall not be increased or decreased by more than 15% of the preceding year's rate. As of September 30, 2014, this rate remained unchanged.

I. Prior Period Adjustment

In prior years, certain items below the capitalization threshold were being included in the City's governmental and business-type capital assets. The net effect to remove these assets is a decrease of \$65,438 and \$40,939 to beginning net position from the governmental and business-type activities, respectively.

I. Investment in Land of the Dinosaurs

On February 8, 2010, the City Council of the City of Glen Rose approved the request of the Glen Rose 4B Economic Development Corporation to invest \$80,000 in the Land of the Dinosaurs, L.L.C. production. In exchange for this investment, Land of the Dinosaurs, L.L.C. agreed to give ownership of 8.74% to the City. The fair value of this investment is considered to be nominal and has not been recorded in the financial statements.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF GLEN ROSE, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM**

FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Percentage Funded</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/11	\$ 2,068,694	\$ 2,698,547	76.7%	\$ 629,853	\$ 803,237	78.4%
12/31/12	2,212,545	2,653,865	83.4%	441,320	874,908	50.4%
12/31/13	2,431,958	3,006,599	80.9%	574,641	849,931	67.6%

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 663,000	\$ 663,000	\$ 630,260	\$(32,740)
Franchise taxes	130,000	130,000	148,008	18,008
Sales and use taxes	557,000	557,000	735,830	178,830
Licenses and permits	20,000	20,000	16,601	(3,399)
Fines and forfeitures	101,000	101,000	61,165	(39,835)
Charges for services	416,900	416,900	454,571	37,671
Intergovernmental	57,000	57,000	231,444	174,444
Investment earnings	3,500	3,500	1,111	(2,389)
Miscellaneous	<u>4,500</u>	<u>4,500</u>	<u>13,946</u>	<u>9,446</u>
Total revenue	<u>1,952,900</u>	<u>1,952,900</u>	<u>2,292,936</u>	<u>340,036</u>
EXPENDITURES				
General government:				
Administrative department	<u>557,624</u>	<u>557,624</u>	<u>547,278</u>	<u>10,346</u>
Total general government	<u>557,624</u>	<u>557,624</u>	<u>547,278</u>	<u>10,346</u>
Public safety:				
Inspection/ordinance department	95,759	95,759	82,551	13,208
Animal control department	140,692	140,692	122,359	18,333
Judicial department	21,443	21,443	16,269	5,174
Police department	<u>131,377</u>	<u>131,377</u>	<u>100,671</u>	<u>30,706</u>
Total public safety	<u>389,271</u>	<u>389,271</u>	<u>321,850</u>	<u>67,421</u>
Highways and streets:				
Street and park department	<u>277,625</u>	<u>277,625</u>	<u>287,729</u>	<u>(10,104)</u>
Total highways and streets	<u>277,625</u>	<u>277,625</u>	<u>287,729</u>	<u>(10,104)</u>

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Culture and recreation:				
Preservation department	\$ 16,545	\$ 16,545	\$ 1,901	\$ 14,644
Oakdale Park	<u>613,966</u>	<u>613,966</u>	<u>574,052</u>	<u>39,914</u>
Total culture and recreation	<u>630,511</u>	<u>630,511</u>	<u>575,953</u>	<u>54,558</u>
Debt service:				
Principal retirement	-	-	65,000	(65,000)
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>109,350</u>	<u>(109,350)</u>
Total debt service	<u>-</u>	<u>-</u>	<u>174,350</u>	<u>(174,350)</u>
Capital outlay	<u>750,500</u>	<u>750,500</u>	<u>507,772</u>	<u>242,728</u>
Total expenditures	<u>2,605,531</u>	<u>2,605,531</u>	<u>2,414,932</u>	<u>190,599</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	<u>(652,631)</u>	<u>(652,631)</u>	<u>(121,996)</u>	<u>530,635</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>-</u>	<u>-</u>	<u>56,000</u>	<u>56,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>56,000</u>	<u>56,000</u>
NET CHANGE IN FUND BALANCE	<u>(652,631)</u>	<u>(652,631)</u>	<u>(65,996)</u>	<u>586,635</u>
FUND BALANCE, BEGINNING	<u>3,435,234</u>	<u>3,435,234</u>	<u>3,435,234</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,782,603</u>	<u>\$ 2,782,603</u>	<u>\$ 3,369,238</u>	<u>\$ 586,635</u>

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CONVENTION AND VISITORS' BUREAU
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Occupancy taxes	\$ 350,000	\$ 350,000	\$ 298,059	\$(51,941)
Investment earnings	350	350	86	(264)
Miscellaneous	-	-	470	470
Total revenue	<u>350,350</u>	<u>350,350</u>	<u>298,615</u>	<u>(51,735)</u>
EXPENDITURES				
Culture and recreation:				
Convention and visitors bureau	<u>355,275</u>	<u>355,275</u>	<u>316,314</u>	<u>38,961</u>
Total expenditures	<u>355,275</u>	<u>355,275</u>	<u>316,314</u>	<u>38,961</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4,925)</u>	<u>(4,925)</u>	<u>(17,699)</u>	<u>(12,774)</u>
FUND BALANCE, BEGINNING	<u>110,499</u>	<u>110,499</u>	<u>110,499</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 105,574</u>	<u>\$ 105,574</u>	<u>\$ 92,800</u>	<u>\$(12,774)</u>

CITY OF GLEN ROSE, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2014

BUDGETS AND BUDGETARY ACCOUNTING

Annual appropriated budgets are adopted for the General Fund and the Convention and Visitors' Bureau Fund on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the authority to transfer available funds allocated by the budget within the same department.

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COMPLIANCE SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the Honorable Mayor and
Members of the City Council
City of Glen Rose, 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 discretely presented component unit, the business-type activities and each major fund of the City of Glen Rose, Texas (the "City"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Glen Rose, Texas' basic financial statements, and have issued our report thereon dated May 29, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. This deficiency is identified as items 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Glen Rose, Texas' Response to Findings

City of Glen Rose, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Glen Rose, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
May 29, 2015

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Item 2014-001:

Condition: All employees in the finance office use the same cash register and can take payments and process receipts. One employee performs all HR and payroll functions.

Criteria: An essential element of any preventative control system is to segregate duties in such a manner that no single individual could commit fraud and conceal it without being discovered in a timely manner.

Cause: In a small office, segregation of duties often presents difficulties due to the limited number of employees. However, even those with few employees may be able to assign responsibilities to achieve adequate segregation. Duties are not assign in a way to achieve adequate segregation.

Effect: It is impossible to determine who is at fault if the cash register is short at the end of the day. Employees could be paid more or less than authorized or ghost employees could be created and paid.

Recommendation: PBH suggests that all employees operate out of a separate cash drawer and that a separate employee reconcile the drawers and end of day reports. Separate employees should be in charge of HR and payroll.

Management's Response: All employees that handle receipts in the City Hall do use the same single-drawer cash register as that is the only cash register that the City uses. The current segregation of duties does not allow one employee to perform all HR and payroll functions. The City Secretary oversees the HR/Court Clerk operations in HR. Both of the Administrative staff that use the cash register fill in for the other when the primary person for each function is unavailable. The City Secretary has the capability to fill in to take payments if both are unavailable.

Contact Person Responsible for Corrective Action: The City Secretary is the person responsible for the management of these employees who handle cash transactions, and the segregation of duties and oversight of these functions.

CITY OF GLEN ROSE, TEXAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Item 2013-001:

<u>Condition:</u>	All employees in the business office have the same username and password for the Court system. All employees have administrative access to make any changes to the system (void, delete, change fines, etc.).
<u>Criteria:</u>	Different levels of employees should have different levels of access to make changes within the financial system.
<u>Cause:</u>	The software company failed to restrict access to all Finance employees and the City has not changed each employee's access.
<u>Effect:</u>	The employees have the ability to bypass all of the City's internal controls over cash disbursements and financial reporting.
<u>Recommendation:</u>	The City needs to work with the software company to restrict employee access to only those areas the employee works with to strengthen internal controls.
<u>Current Status:</u>	Employees no longer have the same username and password for the court system and only key employees have administrative access to make changes within the system.

Item 2013-002:

<u>Condition:</u>	All employees know the combination to the safe, numbered check stock is kept on shelves and drawers and not locked up, keys to filing cabinets and drop boxes are not secured, and the safe is left open at Oakdale Park.
<u>Criteria:</u>	Sensitive information and assets are being left unlocked.
<u>Cause:</u>	The City has not made it a priority to secure these items.
<u>Effect:</u>	Assets and information that is not locked up is vulnerable to theft.
<u>Current Status:</u>	Sensitive items are kept secure and locked up. The combination to the safe is known only by the administrative staff.

CITY OF GLEN ROSE, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Item 2013-003:

Condition: All employees in the finance office use the same cash register and can take payments and process receipts. One employee performs all HR and payroll functions as well as signs the payroll checks.

Criteria: An essential element of any preventative control system is to segregate duties in such a manner that no single individual could commit fraud and conceal it without being discovered in a timely manner.

Cause: In a small office, segregation of duties often presents difficulties due to the limited number of employees. However, even those with few employees may be able to assign responsibilities to achieve adequate segregation. Duties are not assign in a way to achieve adequate segregation.

Effect: It is impossible to determine who is at fault if the cash register is short at the end of the day. Employees could be paid more or less than authorized or ghost employees could be created and paid.

Recommendation: PBH suggests that all employees operate out of a separate cash drawer and that a separate employee reconcile the drawers and end of day reports. Separate employees should be in charge of HR and payroll and all checks should have two signatures. The payroll clerk should not be an authorized signor.

Current Status: All employees that handle receipts in the City Hall still use the same single-drawer cash register and the City has no plan to purchase a two-drawer cash register or a second cash register, see current year finding at 2014-001. The payroll clerk no longer has check signing authority.

Item 2013-004:

Condition: The City does not require authorization or approvals for voids in the court system, there are no end of day reports created or reviewed to verify revenue or cash receipts in the court system, and no one reviews the vendor list for accuracy or duplicates.

Criteria: Non-routine transactions should be approved by management and all cash drawers should be reconciled at the end of each day.

CITY OF GLEN ROSE, TEXAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Cause: Voids have not been considered a concern in the past and the City does not consider the court to conduct a lot of business and therefore only prints end of the week reports. The system does not notify anyone if a duplicate vendor is created.

Effect: Unapproved transactions could lead to mistakes and/or fraud. Without end of the day reports, the City has no way of detecting fraud or inconsistencies in a timely basis. Vendors could be entered incorrectly and left in the system.

Recommendation: PBH suggests that all voids be reviewed by a second employee and that the court create end of the day reports on a daily basis. Management should review the City's vendor list and make revisions as necessary (i.e. remove any duplicates, etc.)

Current Status: The Court is now being required to produce a daily report to be given to the City Secretary or City Administrator for review.

Item 2013-005:

Condition: The City has never recorded municipal court fines receivable in the financial statements. The City bypasses the A/P system and writes all checks manually.

Criteria: All receivables must be recorded and A/P procedures must be established and followed to ensure the financial statements are free of material misstatement.

Cause: The City was unaware that court receivables needed to be recorded and that bypassing the A/P system could lead to misstatements.

Effect: Receivables were understated on the financial statements and there was inadequate documentation for payables.

Recommendation: PBH recommends that the City review and reconcile the fines receivable reports and require employees to use the A/P system for processing payables.

Current Status: The City now records municipal court fines receivable in the financial statements and the City no longer bypasses the A/P system.

CITY OF GLEN ROSE, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Item 2013-006:

Condition: There are no employee pay rate authorizations or hiring salary documentation kept on file.

Criteria: There is no supporting documentation for employee's pay rates.

Cause: Pay rates are communicated verbally.

Effect: No records of authorized pay rates leave the City susceptible to employees being paid an improper amount.

Recommendation: PBH suggests the City review the pay rates in the system and begin documenting what each employee is paid.

Current Status: Employee files now contain the required pay rate authorization documents.

Item 2013-007:

Condition: Bank reconciliations are not performed on all bank accounts.

Criteria: Bank accounts should be reconciled monthly as a safeguard against fraud and to prevent overspending.

Cause: Some accounts have little activity.

Effect: Accounts are not being reconciled which makes it hard for the City to detect mistakes made intentionally or unintentionally.

Recommendation: PBH suggests that all bank accounts be reconciled on a monthly basis. Additionally, all bank reconciliation should be documented and approved.

Current Status: The City now completes a bank reconciliation for every single bank account on a monthly basis.

CITY OF GLEN ROSE, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Item 2013-008:

Condition: Multiple former employees were still listed as active in the payroll system.

Criteria: Employees should be marked as inactive or removed from the system immediately following their employment with the City.

Cause: Management failed to change the status of the employees.

Effect: The former employees could continue to be paid.

Recommendation: PBH suggests that all employees be removed from the system immediately following the end of their employment. The employee list should be periodically reviewed for accuracy and management should determine a system to ensure all employee's status is accurate in the payroll system.

Current Status: All former employees have now been designated as "Inactive."