

**CITY OF
GLEN ROSE, TEXAS**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2013**

CITY OF GLEN ROSE, TEXAS

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FINANCIAL SECTION

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PATILLO, BROWN & HILL, 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 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund, of the City of Glen Rose, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 36 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 November 6, 2014, 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
November 6, 2014

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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, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City exceed its liabilities as of September 30, 2013, by \$18,897,846 (net position). Of this amount, \$7,560,545 (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 \$110,499 has been restricted for promoting tourism, and convention and hotel industry.
- The City's total net position increased by \$619,778.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,545,733. Approximately 94% of this total amount \$3,332,991 is unassigned fund balance available for use within the City's fund designation and fiscal policies.
- As of September 30, 2013, unassigned fund balance for the General Fund was \$3,435,234 or 149% 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 37 – 39 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 – 35 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 \$18,897,846 as of September 30, 2013.

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	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 4,063,351	\$ 4,079,880	\$ 5,003,023	\$ 4,295,136	\$ 9,066,374	\$ 8,375,016
Capital assets	<u>8,414,270</u>	<u>8,151,036</u>	<u>5,533,794</u>	<u>5,583,542</u>	<u>13,948,064</u>	<u>13,734,578</u>
Total assets	<u>12,477,621</u>	<u>12,230,916</u>	<u>10,536,817</u>	<u>9,878,678</u>	<u>23,014,438</u>	<u>22,109,594</u>
Current liabilities	446,386	244,609	485,258	23,194	931,644	267,803
Other liabilities	<u>2,891,294</u>	<u>3,059,171</u>	<u>293,654</u>	<u>504,552</u>	<u>3,184,948</u>	<u>3,563,723</u>
Total liabilities	<u>3,337,680</u>	<u>3,303,780</u>	<u>778,912</u>	<u>527,746</u>	<u>4,116,592</u>	<u>3,831,526</u>
Net position:						
Net investment in						
capital assets	5,594,270	5,266,036	5,632,532	5,583,542	11,226,802	10,849,578
Restricted	110,499	1,751,462	-	-	110,499	1,751,462
Unrestricted	<u>3,435,172</u>	<u>1,909,638</u>	<u>4,125,373</u>	<u>3,767,390</u>	<u>7,560,545</u>	<u>5,677,028</u>
Total net position	<u>\$ 9,139,941</u>	<u>\$ 8,927,136</u>	<u>\$ 9,757,905</u>	<u>\$ 9,350,932</u>	<u>\$ 18,897,846</u>	<u>\$ 18,278,068</u>

As of September 30, 2013, 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, 2013. Governmental activities increased the City's net position by \$212,805, accounting for 34% of the total growth in net position. Business-type activities increased the City's net position by \$406,973, accounting for 66% of the total growth in net position.

The City's net position increased by \$619,778 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 a decrease in utility expenses for tank repair and maintenance in the prior year and a decrease in salaries. The expenses in the governmental activities increased as a result of an increase in salaries for the inspection/ordinance, police, and street and parks departments.

CITY OF GLEN ROSE, TEXAS

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 497,809	\$ 523,593	\$ 1,442,708	\$ 1,475,200	\$ 1,940,517	\$ 1,998,793
Operating grants	190,150	-	-	-	190,150	-
Capital grants	56,891	-	53,035	-	109,926	-
General revenues:						
Property taxes	646,170	671,081	-	-	646,170	671,081
Sales taxes	655,319	662,908	-	-	646,170	662,908
Franchise taxes	137,774	143,793	-	-	137,774	143,793
Hotel/Motel taxes	266,118	261,047	-	-	266,118	261,047
Miscellaneous	20,130	7,743	-	-	20,130	7,743
Investment earnings	2,159	3,502	3,179	3,788	5,338	7,290
Total revenues	<u>2,472,520</u>	<u>2,273,667</u>	<u>1,498,922</u>	<u>1,478,988</u>	<u>3,971,442</u>	<u>3,752,655</u>
Expenses:						
General government	503,014	492,544	-	-	503,014	492,544
Public safety	336,907	307,441	-	-	336,907	307,441
Highways and streets	398,912	340,639	-	-	398,912	340,639
Community development	-	-	-	-	-	-
Culture and recreation	937,640	947,322	-	-	937,640	947,322
Interest and other	139,242	111,450	-	-	139,242	111,450
Municipal utilities	-	-	1,035,949	1,125,896	1,035,949	1,125,896
Total expenses	<u>2,315,715</u>	<u>2,199,396</u>	<u>1,035,949</u>	<u>1,125,896</u>	<u>3,351,664</u>	<u>3,325,292</u>
Increases in net position						
before transfers	156,805	74,271	462,973	353,092	619,778	427,363
Transfers	<u>56,000</u>	<u>338,450</u>	<u>(56,000)</u>	<u>(56,000)</u>	<u>-</u>	<u>282,450</u>
Change in net position	212,805	412,721	406,973	297,092	619,778	709,813
Net position, beginning	<u>8,927,136</u>	<u>8,514,415</u>	<u>9,350,932</u>	<u>9,053,840</u>	<u>18,278,068</u>	<u>17,568,255</u>
Net position, ending	<u>\$ 9,139,941</u>	<u>\$ 8,927,136</u>	<u>\$ 9,757,905</u>	<u>\$ 9,350,932</u>	<u>\$ 18,897,846</u>	<u>\$ 18,278,068</u>

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 \$3,545,733. Of this balance \$110,499 was restricted for promoting tourism, and convention and hotel industry, and \$102,243 is considered non-spendable. The remaining \$3,332,991 is unassigned and available for new spending.

In the General Fund, the City budgeted for a decrease in fund balance of \$129,587. Actual fund balance increased by \$10,744.

In the Convention and Visitors' Bureau, the City budgeted for a decrease in fund balance of \$13,194. Actual fund balance decreased by \$89,638.

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 \$4,125,373. The Municipal Utility Fund had a net position increase in 2013 of \$406,973.

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, 2013, amounts to \$13,948,064 (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 \$675,963.

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

- \$140,863 sewer plant improvements.
- Lakewood Street reconstruction \$410,410.

Cost of capital assets, net of accumulated depreciation, as of September 30, 2013 was:

	Governmental Activities 2013	Business-Type Activities 2013	2013 Total	2012 Total
Land	\$ 1,434,775	\$ 69,537	\$ 1,504,312	\$ 1,504,312
Construction in progress	410,410	140,864	551,274	-
Building and improvements	990,666	49,024	1,039,690	1,072,917
Machinery and equipment	301,878	174,897	476,775	495,745
Improvements	<u>5,276,541</u>	<u>5,099,472</u>	<u>10,376,013</u>	<u>10,661,604</u>
Capital assets, net	<u>\$ 8,414,270</u>	<u>\$ 5,533,794</u>	<u>\$ 13,948,064</u>	<u>\$ 13,734,578</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 will be used to provide funds for the planning, acquisition and design costs related to wastewater system improvements. As of year-end, the outstanding balance is \$3,090,000.

Additional information on the City's long-term debt can be found on pages 30 – 31.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2013-2014 budget, General Fund revenues and transfers in are budgeted to increase by 3.5% from the fiscal year 2012-2013 budget due to an increase in transfers from reserve funds. Expenditures are budgeted to increase 14%, the majority of which is for capital expenditures.

The property tax revenue rate will decrease to \$.384074 per \$100 valuation for the 2013-2014 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, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corp.
ASSETS				
Pooled cash and cash equivalents	\$ 1,071,133	\$ 1,359,487	\$ 2,430,620	\$ -
Non-pooled cash and cash equivalents	1,360,331	3,982,320	5,342,651	226,028
Sales and use taxes receivable	118,349	-	118,349	38,687
Hotel occupancy taxes receivable	53,025	-	53,025	-
Property taxes receivable	33,736	-	33,736	-
Accounts receivable	765	179,310	180,075	-
Prepaid expense	2,243	-	2,243	-
Due from other governments	52,836	-	52,836	55,384
Internal balances	1,203,797	(1,203,797)	-	-
Note receivable	100,000	-	100,000	-
Court fines receivable	3,443	-	3,443	-
Deferred charges	63,693	-	63,693	-
Restricted assets:				
Pooled cash and cash equivalents	-	685,703	685,703	-
Land	1,434,775	69,537	1,504,312	-
Construction in progress	410,410	140,864	551,274	-
Buildings	1,313,349	66,299	1,379,648	-
Improvements other than buildings	6,261,285	8,755,898	15,017,183	-
Machinery and equipment	978,950	663,735	1,642,685	-
Accumulated depreciation	(1,984,499)	(4,162,539)	(6,147,038)	-
Total assets	<u>12,477,621</u>	<u>10,536,817</u>	<u>23,014,438</u>	<u>320,099</u>
LIABILITIES				
Accounts payable	283,754	66,499	350,253	-
Accrued payroll	16,139	-	16,139	-
Due to other governments	55,384	-	55,384	-
Customer deposits	64,071	100,491	164,562	-
Accrued interest	27,038	1,303	28,341	-
Unearned revenue	-	316,965	316,965	-
Noncurrent liabilities:				
Due within one year	82,824	30,914	113,738	-
Due in more than one year	<u>2,808,470</u>	<u>262,740</u>	<u>3,071,210</u>	<u>-</u>
Total liabilities	<u>3,337,680</u>	<u>778,912</u>	<u>4,116,592</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	5,594,270	5,632,532	11,226,802	-
Restricted for:				
Promoting tourism, and convention and hotel industry	110,499	-	110,499	-
Economic development	-	-	-	320,099
Unrestricted	<u>3,435,172</u>	<u>4,125,373</u>	<u>7,560,545</u>	<u>-</u>
Total net position	<u>\$ 9,139,941</u>	<u>\$ 9,757,905</u>	<u>\$ 18,897,846</u>	<u>\$ 320,099</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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 503,014	\$ 14,474	\$ 175,150	\$ -
Public safety	336,907	82,363	-	-
Highway and streets	398,912	-	-	56,891
Community development	-	400,972	15,000	-
Culture and recreation	937,640	-	-	-
Interest and other	139,242	-	-	-
Total governmental activities	<u>2,315,715</u>	<u>497,809</u>	<u>190,150</u>	<u>56,891</u>
Business-type activities:				
Municipal utility	<u>1,035,949</u>	<u>1,442,708</u>	<u>-</u>	<u>53,035</u>
Total business-type activities	<u>1,035,949</u>	<u>1,442,708</u>	<u>-</u>	<u>53,035</u>
Total primary government	<u>\$ 3,351,664</u>	<u>\$ 1,940,517</u>	<u>\$ 190,150</u>	<u>\$ 109,926</u>
Component unit:				
Economic Development Corporation	<u>276,210</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total component unit	<u>276,210</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				
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.
\$ (313,390)	\$ -	\$ (313,390)	\$ -
(254,544)	-	(254,544)	-
(342,021)	-	(342,021)	-
415,972	-	415,972	-
(937,640)	-	(937,640)	-
(139,242)	-	(139,242)	-
(1,570,865)	-	(1,570,865)	-
-	459,794	459,794	53,035
-	459,794	459,794	53,035
\$ (1,570,865)	\$ 459,794	\$ (1,111,071)	\$ 53,035
-	-	-	(276,210)
-	-	-	(276,210)
\$ 646,170	\$ -	\$ 646,170	\$ -
137,774	-	137,774	-
655,319	-	655,319	216,047
266,118	-	266,118	-
2,159	3,179	5,338	120
20,130	-	20,130	1,000
56,000	(56,000)	-	-
1,783,670	(52,821)	1,730,849	217,167
212,805	406,973	619,778	(59,043)
8,927,136	9,350,932	18,278,068	379,142
\$ 9,139,941	\$ 9,757,905	\$ 18,897,846	\$ 320,099

CITY OF GLEN ROSE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS SEPTEMBER 30, 2013

	General	Convention and Visitors' Bureau	Total Governmental Funds
ASSETS			
Pooled cash and cash equivalents	\$ 1,068,219	\$ 2,914	\$ 1,071,133
Non-pooled cash and cash equivalents	1,226,454	133,877	1,360,331
Sales and use taxes receivable	118,349	-	118,349
Hotel occupancy taxes receivable	-	53,025	53,025
Property taxes receivable	33,736	-	33,736
Accounts receivable	765	-	765
Notes receivable	100,000	-	100,000
Court fines receivable	3,443	-	3,443
Prepaid items	2,243	-	2,243
Due from other governments	52,836	-	52,836
Due from other funds	1,274,647	-	1,274,647
Total assets	<u>\$ 3,880,692</u>	<u>\$ 189,816</u>	<u>\$ 4,070,508</u>
LIABILITIES			
Accounts payable	\$ 275,976	\$ 7,778	\$ 283,754
Accrued payroll	14,939	1,200	16,139
Due to other governments	55,384	-	55,384
Due to other funds	511	70,339	70,850
Customer deposits	64,071	-	64,071
Deferred revenue	34,577	-	34,577
Total liabilities	<u>445,458</u>	<u>79,317</u>	<u>524,775</u>
FUND BALANCES			
Nonspendable:			
Note receivable	100,000	-	100,000
Prepaid items	2,243	-	2,243
Restricted for promoting tourism, and convention and hotel industry	-	110,499	110,499
Unassigned	3,332,991	-	3,332,991
Total fund balances	<u>3,435,234</u>	<u>110,499</u>	<u>3,545,733</u>
Total liabilities and fund balances	<u>\$ 3,880,692</u>	<u>\$ 189,816</u>	<u>\$ 4,070,508</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, 2013

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

Total fund balances - total governmental funds	\$ 3,545,733
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,414,270
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenues in the funds.	34,577
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>2,854,639</u>)
Net position of governmental activities	\$ <u><u>9,139,941</u></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, 2013

	General	Convention and Visitors' Bureau	Total Governmental Funds
REVENUES			
Taxes:			
Property	\$ 658,915	\$ -	\$ 658,915
Franchise	137,774	-	137,774
Sales	655,319	-	655,319
Occupancy	-	266,118	266,118
Licenses and permits	8,228	-	8,228
Fines and forfeitures	82,363	-	82,363
Charges for services	403,775	-	403,775
Intergovernmental	232,041	15,000	247,041
Investment income	2,037	122	2,159
Miscellaneous	11,753	8,377	20,130
Total revenues	<u>2,192,205</u>	<u>289,617</u>	<u>2,481,822</u>
EXPENDITURES			
Current:			
General government	491,557	-	491,557
Public safety	326,009	-	326,009
Highways and streets	256,779	-	256,779
Culture and recreation	514,563	379,255	893,818
Capital outlay	473,403	-	473,403
Debt service:			
Principal	65,000	-	65,000
Interest and fiscal charges	110,150	-	110,150
Total expenditures	<u>2,237,461</u>	<u>379,255</u>	<u>2,616,716</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(45,256)</u>	<u>(89,638)</u>	<u>(134,894)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	56,000	-	56,000
Total other financing sources (uses)	<u>56,000</u>	<u>-</u>	<u>56,000</u>
NET CHANGE IN FUND BALANCE	<u>10,744</u>	<u>(89,638)</u>	<u>(78,894)</u>
FUND BALANCES, BEGINNING	<u>3,424,490</u>	<u>200,137</u>	<u>3,624,627</u>
FUND BALANCES, ENDING	<u>\$ 3,435,234</u>	<u>\$ 110,499</u>	<u>\$ 3,545,733</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, 2013

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

Total net change in fund balances - total governmental funds	\$(78,894)
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.	263,234
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(9,302)
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 issuance costs, 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>(27,233)</u>
Change in net position of governmental activities	<u>\$ 212,805</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, 2013

	<u>Enterprise Fund</u> <u>Municipal</u> <u>Utility</u>
ASSETS	
Current assets:	
Pooled cash and cash equivalents	\$ 1,359,487
Non-pooled cash and cash equivalents	3,982,320
Accounts receivable, net	179,310
Due from other funds	511
Restricted assets:	
Pooled cash and cash equivalents	685,703
Non-current assets:	
Land	69,537
Buildings	66,299
Improvements and other buildings	8,755,898
Machinery and equipment	663,735
Construction in progress	140,864
Accumulated depreciation	<u>(4,162,539)</u>
Total assets	<u>11,741,125</u>
LIABILITIES	
Current liabilities:	
Accounts payable	66,499
Due to other funds	1,204,308
Unearned revenue	316,965
Accrued interest	1,303
Customer deposits	100,491
Certificate of obligation	25,000
Compensated absences payable	5,914
Noncurrent liabilities:	
Certificate of obligation	245,000
Compensated absences payable	<u>17,740</u>
Total liabilities	<u>1,983,220</u>
NET POSITION	
Net investment in capital assets	5,632,532
Unrestricted	<u>4,125,373</u>
Total net position	<u>\$ 9,757,905</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 REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Enterprise Fund</u> <u>Municipal</u> <u>Utility</u>
OPERATING REVENUES	
Charges for services	\$ 1,428,778
Miscellaneous	13,930
Total operating revenues	<u>1,442,708</u>
OPERATING EXPENSES	
Personnel services	269,505
Purchased water	256,564
Supplies and maintenance	137,043
Heat, light, and power	98,475
Miscellaneous	20,751
Depreciation	252,308
Total operating expenses	<u>1,034,646</u>
Income from operations	<u>408,062</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	3,179
Interest expense and fiscal charges	(1,303)
Total nonoperating revenues (expenses)	<u>1,876</u>
INCOME BEFORE TRANSFERS	<u>409,938</u>
TRANSFERS	
Capital contributions	53,035
Transfers out	(56,000)
Total transfers	<u>(2,965)</u>
CHANGE IN NET POSITION	406,973
TOTAL NET POSITION, BEGINNING	<u>9,350,932</u>
TOTAL NET POSITION, ENDING	<u>\$ 9,757,905</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, 2013

Enterprise Fund
Municipal
Utility

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 1,763,995
Cash payments to employees for services	(269,715)
Cash payments to suppliers for goods and services	(468,225)
Net cash provided (used) by operating activities	<u>1,026,055</u>

CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES

Cash paid to other funds	813,601
Transfers to other funds	(56,000)
Net cash provided (used) by noncapital related financing activities	<u>757,601</u>

CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES

Purchase of capital assets	(202,560)
Interest paid on long-term debt	(1,303)
Principal paid on long-term debt	(100,000)
Proceeds from long-term debt	370,000
Capital contributions	<u>53,035</u>
Net cash provided (used) by financing activities	<u>119,172</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>3,179</u>
Net cash provided (used) by financing activities	<u>3,179</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 1,906,007

CASH AND CASH EQUIVALENTS, BEGINNING 4,121,503

CASH AND CASH EQUIVALENTS, ENDING \$ 6,027,510

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating income	\$ 408,062
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	252,308
Increase (decrease) in accounts receivable	(5,677)
Increase (decrease) in deferred revenue	316,965
Increase (decrease) in compensated absences	(210)
Increase (decrease) in payables and accrued liabilities	44,608
Increase (decrease) in customer deposits	<u>9,999</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,026,055</u></u>

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, 2013

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, Liabilities and Net Assets or Equity

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:

<u>Assets</u>	<u>Years</u>
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 element, 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.

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 does not have any items that qualify for reporting in either of the above categories in the current fiscal year.

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, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 and liabilities. 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.

2. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk. 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. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2013, the entire deposit balance of the City was fully collateralized with securities held by the pledging financial institution in the City's name or covered by FDIC insurance.

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	\$ 204,224	\$ 53,025	\$ -	\$ 257,249
Accounts	765	-	222,296	223,061
Municipal court	34,428	-	-	34,428
Intergovernmental	<u>52,836</u>	<u>-</u>	<u>-</u>	<u>52,836</u>
Gross receivables	292,253	53,025	222,296	567,574
Less: allowance for uncollectibles	<u>(83,124)</u>	<u>-</u>	<u>(42,986)</u>	<u>(126,110)</u>
Net total receivables	\$ <u>209,129</u>	\$ <u>53,025</u>	\$ <u>179,310</u>	\$ <u>441,464</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>
General fund:	
Delinquent property taxes receivable	\$ 31,134
Municipal court fines receivable	<u>3,443</u>
Governmental funds	\$ <u>34,577</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

Primary Government

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,434,775	\$ -	\$ -	\$ 1,434,775
Construction in progress	-	410,410	-	410,410
Total capital assets not being depreciated	<u>1,434,775</u>	<u>410,410</u>	<u>-</u>	<u>1,845,185</u>
Capital assets, being depreciated:				
Buildings and improvements	1,311,359	1,990	-	1,313,349
Improvements other than buildings	6,261,285	-	-	6,261,285
Machinery and equipment	<u>917,947</u>	<u>61,003</u>	<u>-</u>	<u>978,950</u>
Total capital assets being depreciated	<u>8,490,591</u>	<u>62,993</u>	<u>-</u>	<u>8,553,584</u>
Less accumulated depreciation:				
Buildings and improvements	289,123	33,560	-	322,683
Improvements other than buildings	860,349	124,395	-	984,744
Machinery and equipment	<u>624,858</u>	<u>52,214</u>	<u>-</u>	<u>677,072</u>
Total accumulated depreciation	<u>1,774,330</u>	<u>210,169</u>	<u>-</u>	<u>1,984,499</u>
Total capital assets, being depreciated, net	<u>6,716,261</u>	<u>(147,176)</u>	<u>-</u>	<u>6,569,085</u>
Governmental activities capital assets, net	<u>\$ 8,151,036</u>	<u>\$ 263,234</u>	<u>\$ -</u>	<u>\$ 8,414,270</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 69,537	\$ -	\$ -	\$ 69,537
Construction in progress	-	140,864	-	140,864
Total capital assets not being depreciated	<u>69,537</u>	<u>140,864</u>	<u>-</u>	<u>210,401</u>
Capital assets, being depreciated:				
Buildings and improvements	66,299	-	-	66,299
Improvements other than buildings	8,703,828	52,070	-	8,755,898
Machinery and equipment	<u>654,109</u>	<u>9,626</u>	<u>-</u>	<u>663,735</u>
Total capital assets being depreciated	<u>9,424,236</u>	<u>61,696</u>	<u>-</u>	<u>9,485,932</u>
Less accumulated depreciation:				
Buildings and improvements	15,618	1,657	-	17,275
Improvements other than buildings	3,443,160	213,266	-	3,656,426
Machinery and equipment	<u>451,453</u>	<u>37,385</u>	<u>-</u>	<u>488,838</u>
Total accumulated depreciation	<u>3,910,231</u>	<u>252,308</u>	<u>-</u>	<u>4,162,539</u>
Total capital assets, being depreciated, net	<u>5,514,005</u>	<u>(190,612)</u>	<u>-</u>	<u>5,323,393</u>
Business-type activities capital assets, net	<u>\$ 5,583,542</u>	<u>\$(49,748)</u>	<u>\$ -</u>	<u>\$ 5,533,794</u>

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

Governmental activities:	
General government	\$ 11,952
Public safety	11,202
Highways and streets	142,372
Culture and recreation	<u>44,643</u>
 Total depreciation expense - governmental activities	 \$ <u><u>210,169</u></u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2013, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Municipal Utility Fund	\$ 1,204,308
	Convention & Visitors' Bureau	<u>70,339</u>
		<u>1,274,647</u>
Municipal Utility Fund	General Fund	<u>511</u>
		<u>\$ 1,275,158</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.

Interfund activity for the year ended September 30, 2013, is as follows:

Interfund transfers:

	<u>Transfers In</u>
	<u>General</u>
Transfers Out:	
Municipal Utility	\$ <u>56,000</u>
 Total Transfers	 \$ <u><u>56,000</u></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
2014	\$ 25,000	\$ 5,212
2015	25,000	5,030
2016	30,000	4,772
2017	30,000	4,382
2018	30,000	3,914
2019-2023	<u>130,000</u>	<u>8,913</u>
Total	<u>\$ 270,000</u>	<u>\$ 32,223</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,	Business-type Activities	
	Principal	Interest
2014	\$ 65,000	\$ 108,150
2015	70,000	107,550
2016	100,000	106,150
2017	105,000	103,150
2018	105,000	100,000
2019-2023	595,000	438,250
2024-2028	715,000	310,650
2029-2033	870,000	154,325
2034	<u>195,000</u>	<u>8,288</u>
Total	\$ <u>2,820,000</u>	\$ <u>1,436,513</u>

Changes in Long-term Liabilities

The following is a summary of transactions affecting long-term liabilities for the year ended September 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Government activities					
General obligation bonds	\$ 2,885,000	\$ -	\$ 65,000	\$ 2,820,000	\$ 65,000
Compensated absences	<u>73,153</u>	<u>41,764</u>	<u>43,623</u>	<u>71,294</u>	<u>17,824</u>
Governmental activity					
Long-term liabilities	<u>\$ 2,958,153</u>	<u>\$ 41,764</u>	<u>\$ 108,623</u>	<u>\$ 2,891,294</u>	<u>\$ 82,824</u>
Business-type activities					
Revenue COs	\$ -	\$ 370,000	\$ 100,000	\$ 270,000	\$ 25,000
Compensated absences	<u>23,864</u>	<u>13,811</u>	<u>14,021</u>	<u>23,654</u>	<u>5,914</u>
Business-type activity					
Long-term liabilities	<u>\$ 23,864</u>	<u>\$ 383,811</u>	<u>\$ 114,021</u>	<u>\$ 293,654</u>	<u>\$ 30,914</u>

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

F. Other Information

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 Plans – Primary Government

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 2012</u>	<u>Plan Year 2013</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 Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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.

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

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Annual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation/ (Asset)</u>
2012	\$ 207,970	\$ 207,970	100%	\$ -
2013	184,409	184,409	100%	-
2014	143,110	143,110	100%	-

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

<u>Valuation Date</u>	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	26.9 years; closed period	25.9 years; closed period	24.8 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

The funded status as of December 31, 2012, 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
12/31/12	\$ 2,212,545	\$ 2,653,865	83.4%	\$ 441,320	\$ 874,908	50.4%

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 TMRSSDBF for the years ended 2013, 2012, and 2011 were \$2,775, \$2,733, and \$3,266, respectively, which equaled the required contributions each year.

3. 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.

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**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, 2013

<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>
12/31/10	\$ 1,898,608	\$ 2,545,238	74.6%	\$ 646,630	\$ 819,166	78.9%
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%

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 680,000	\$ 680,000	\$ 658,915	\$ (21,085)
Franchise taxes	130,000	130,000	137,774	7,774
Sales and use taxes	607,000	607,000	655,319	48,319
Licenses and permits	12,000	12,000	8,228	(3,772)
Fines and forfeitures	100,500	100,500	82,363	(18,137)
Charges for services	436,900	436,900	403,775	(33,125)
Intergovernmental	58,800	58,800	232,041	173,241
Investment earnings	2,000	2,000	2,037	37
Miscellaneous	<u>59,000</u>	<u>59,000</u>	<u>11,753</u>	<u>(47,247)</u>
Total revenue	<u>2,086,200</u>	<u>2,086,200</u>	<u>2,192,205</u>	<u>106,005</u>
EXPENDITURES				
General government:				
Administrative department	<u>558,380</u>	<u>558,380</u>	<u>491,557</u>	<u>66,823</u>
Total general government	<u>558,380</u>	<u>558,380</u>	<u>491,557</u>	<u>66,823</u>
Public safety:				
Inspection/ordinance department	88,574	88,574	71,831	16,743
Animal control department	137,392	137,392	131,806	5,586
Judicial department	16,163	16,163	11,994	4,169
Police department	<u>120,305</u>	<u>120,305</u>	<u>110,378</u>	<u>9,927</u>
Total public safety	<u>362,434</u>	<u>362,434</u>	<u>326,009</u>	<u>36,425</u>
Highways and streets:				
Street and park department	<u>302,025</u>	<u>302,025</u>	<u>256,779</u>	<u>45,246</u>
Total highways and streets	<u>302,025</u>	<u>302,025</u>	<u>256,779</u>	<u>45,246</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES				
Culture and recreation:				
Preservation department	\$ 10,000	\$ 10,000	\$ 356	\$ 9,644
Oakdale Park	561,948	561,948	514,207	47,741
Total culture and recreation	<u>571,948</u>	<u>571,948</u>	<u>514,563</u>	<u>57,385</u>
Debt service:				
Principal retirement	-	-	65,000	(65,000)
Interest and fiscal charges	-	-	110,150	(110,150)
Total culture and recreation	<u>-</u>	<u>-</u>	<u>175,150</u>	<u>(175,150)</u>
Capital outlay	<u>421,000</u>	<u>421,000</u>	<u>473,403</u>	<u>(52,403)</u>
Total expenditures	<u>2,215,787</u>	<u>2,215,787</u>	<u>2,237,461</u>	<u>(21,674)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(129,587)</u>	<u>(129,587)</u>	<u>(45,256)</u>	<u>84,331</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	56,000	56,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>56,000</u>	<u>56,000</u>
NET CHANGE IN FUND BALANCE	<u>(129,587)</u>	<u>(129,587)</u>	<u>10,744</u>	<u>140,331</u>
FUND BALANCE, BEGINNING	<u>3,424,490</u>	<u>3,424,490</u>	<u>3,424,490</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 3,294,903</u>	<u>\$ 3,294,903</u>	<u>\$ 3,435,234</u>	<u>\$ 140,331</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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Occupancy taxes	\$ 365,000	\$ 365,000	\$ 266,118	\$ (98,882)
Intergovernmental	-	-	15,000	15,000
Investment earnings	350	350	122	(228)
Miscellaneous	-	-	8,377	8,377
Total revenue	<u>365,350</u>	<u>365,350</u>	<u>289,617</u>	<u>(75,733)</u>
EXPENDITURES				
Culture and recreation:				
Convention and visitors bureau	<u>378,544</u>	<u>378,544</u>	<u>379,255</u>	<u>(711)</u>
Total expenditures	<u>378,544</u>	<u>378,544</u>	<u>379,255</u>	<u>(711)</u>
NET CHANGE IN FUND BALANCE	(13,194)	(13,194)	(89,638)	(76,444)
FUND BALANCE, BEGINNING	<u>200,137</u>	<u>200,137</u>	<u>200,137</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 186,943</u>	<u>\$ 186,943</u>	<u>\$ 110,499</u>	<u>\$ (76,444)</u>

CITY OF GLEN ROSE, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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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PATILLO, BROWN & HILL, 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 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, 2013, 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 November 6, 2014.

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 first paragraph of this section 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. These deficiencies are identified as items 2013-1 through 2013-8.

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
November 6, 2014

CITY OF GLEN ROSE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2013-1:

<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.). The Sage system does not give error notifications (such as duplicate vendors or expenditures over budget).
<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. The software purchased by the City does not give these errors.
<u>Effect:</u>	The employees have the ability to bypass all of the City's internal controls over cash disbursements and financial reporting. The employees could potentially enter vendors multiple times and could go over budget intentionally or unintentionally.
<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. Additionally, City needs to work with the software company to set up all necessary alerts within the financial system.
<u>Management's Response:</u>	The City Secretary has instructed each of the Administrative Staff to confirm separate personal usernames and passwords for the Court and Financial software programs. Also, the City has purchased new financial software, Incode, that will establish varying levels of authorities for every employee who has access to the software.
<u>Contact Person Responsible for Corrective Action:</u>	The City Secretary is responsible for the oversight of the financial software and the Administrative staff.
<u>Anticipated Completion Date:</u>	The conversion to the new software will commence after the beginning of the new calendar year.

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2013-2:

Condition: 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.

Criteria: Sensitive information and assets are being left unlocked.

Cause: The City has not made it a priority to secure these items.

Effect: Assets and information that is not locked up is vulnerable to theft.

Recommendation: We suggests that the City change the combination to the safe and only give the combination to those that have to have it. Check stock and keys should be secured at all time and all safes should be locked whenever possible.

Management's Response: The combination to the safe at City Hall is only given to staff Administrative staff which uses the safe. No other City employees are given that information. The numbered check stock has been moved to a secure location where it can be kept under a lock. The keys to cabinets and drop boxes have been moved to separate secure locations under the control of each of the Administrative staff that is responsible for those items. Also, the management at Oakdale Park have been directed to move the safe to a more secure location and insure that it remains locked.

Contact Person Responsible for Corrective Action: The City Secretary is the person responsible for the security of these items.

Anticipated Completion Date: These corrective actions have already taken place.

CITY OF GLEN ROSE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2013-3:

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.

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 Manager and Mayor both approve all payroll checks, as well as both, or their designee, sign each check. The payroll clerk no longer has check signing authority, and the City Secretary and Mayor Pro-tem only sign in the absence of the Mayor or City Administrator. 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. The daily court transactions are now being reconciled at the end of each day.

CITY OF GLEN ROSE, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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. The City Administrator is responsible for the designation of signatories to be approved by the City Council.

Anticipated Completion Date: These corrective actions have been taken, although there is no current plan to purchase a two-drawer cash register or a second cash register.

Item 2013-4:

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.

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.)

Management's Response:

The Court is now being required to produce a daily report to be given to the City Secretary or City Administrator.

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Contact Person Responsible
for Corrective Action:

City Secretary and City Administrator

Anticipated Completion Date: This necessary change has already been instituted.

Item 2013-5:

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.

Management's Response:

The Court software does not include Accounts Payable (A/P). The City Secretary is responsible for writing all checks processed by the City for A/P, with the Court Clerk as a backup if the City Secretary is unavailable. Current A/P procedures have been improved to require "check requests" approved by Department Directors before A/P checks are written. The City Administrator reviews the check requests as a part of approving the checks for his signature. As an additional level of financial security, the City has purchased new financial software that is designed for municipalities and has functions included to enhance the level of security in A/P. The new software, Incode, will include the capability of a Purchase Order system.

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Contact Person Responsible
for Corrective Action:

The City Secretary is the person responsible for these functions and the processes used by the Administrative Staff.

Anticipated Completion Date: These additional requirements required for payments through the current A/P system have been instituted by the City Secretary. The transition to the new software, Incode, with its enhanced features for financial security and functions will take place after the first of the new calendar year.

Item 2013-6:

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.

Management's Response:

This particular condition was highlighted when the new City Administrator and City Secretary began attempting to determine current authorized salaries and past salary and wage changes. With the new budget year, all salary changes, whether annual increases or terminations, have been preceded by forms signed by both the Department Director and the City Administrator. Those forms are then given to the City Secretary who verifies the information and passes the form on to the HR Clerk for entering into the system.

Contact Person Responsible
for Corrective Action:

The City Secretary and the City Administrator are responsible for this function.

Anticipated Completion Date: These improvements in the HR process have already been instituted.

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Item 2013-7:

<u>Condition:</u>	Bank reconciliations are not performed on all bank accounts.
<u>Criteria:</u>	Bank accounts should be reconciled monthly as a safeguard against fraud and to prevent overspending.
<u>Cause:</u>	Some accounts have little activity.
<u>Effect:</u>	Accounts are not being reconciled which makes it hard for the City to detect mistakes made intentionally or unintentionally.
<u>Recommendation:</u>	PBH suggests that all bank accounts be reconciled on a monthly basis. Additionally, all bank reconciliation should be documented and approved.
<u>Management's Response:</u>	In the past, the many (17) bank accounts were not properly reconciled on a regular monthly basis. The City Secretary has implemented new processes for reconciliations to ensure timely reports are done. An additional improvement will be to consolidate the current seventeen bank accounts into three or four accounts which can be more readily reconciled on a monthly basis. Fund accounting will be used to track the several separate funds, such as General Fund, Utility Fund, Court Fund, and others, within one master account. The City Secretary will present the reconciled accounts to the City Administrator for verification on a monthly basis.
<u>Contact Person Responsible for Corrective Action:</u>	The City Secretary is responsible for bank reconciliations. The City Administrator is responsible for the verification of the reconciliations.
<u>Anticipated Completion Date:</u>	The combining of the accounts and the verification process for the monthly reconciliations will be instituted immediately, November 2014, in order to simplify and streamline the financial security processes for the new Fiscal Year 2015 (FY15).

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Item 2013-8:

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.

Management's Response: All former employees have now been designated as "Inactive." The City Secretary or the City Administrator will review the employee list for accuracy, as well as the Administrator verifying all paychecks are accurate for names and amounts on a bi-weekly basis as he verifies the paychecks prior to being issued to the employees.

Contact Person Responsible for Corrective Action: The City Secretary has oversight responsibility over the Payroll system and its functioning.

Anticipated Completion Date: This necessary change has already been instituted.