



Boucher, Morgan and Young, a P.C.

To City Council  
and Management of City of Valley Mills, Texas

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Valley Mills, Texas (the City) as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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 following deficiencies in internal control to be material weaknesses:

Throughout the course of the audit, significant audit adjustments were posted to record transactions in accordance with Generally Accepted Accounting Principles including appropriately recording receivables for property taxes, sales taxes, franchise taxes, water and sewer billings, and appropriately recording payables and other liabilities due from the City. It is recommended that all transactions occurring throughout the year be evaluated for appropriate accounting treatment, and that all balance sheet accounts be reconciled to the general ledger with any reconciling items or any items out of the normal course of business being investigated. This review and reconciliation should occur, at a minimum, annually.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

There is currently no segregation of duties in the cash receipts process. The City Clerk currently controls every aspect of the cash receipts cycle including billing, cash receipt, recording receipt into the general ledger, and maintaining accounts receivable. It is recommended that the City Administrator review a monthly edit report to determine if there have been any unapproved manual adjustments to accounts as well as a daily cash receipt report to verify that it reconciles to the deposit slip. In addition, someone other than the employee entering accepting cash receipts should be taking the deposits to the bank daily.

Meter readings are currently recorded and entered manually by hand creating opportunity for human error. It is recommended that someone other than the employee entering meter readings review monthly usage prior to billings being mailed for reasonableness.

Throughout the course of the audit, it was discovered that several policies (such as investment and purchasing) were not maintained by the City. It is recommended that management ensure the City is in compliance with all laws and regulations, including developing an investment policy in compliance with the Public Funds Investment Act and a purchasing policy in compliance with Texas Municipal Law.

This communication is intended solely for the information and use of management, the city council, and others within City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Boucher, Morgan & Young*

Boucher, Morgan and Young, a P.C.

Stephenville, Texas

February 4, 2015



February 5, 2015

To the City Council  
City of Valley Mills, Texas

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Valley Mills, Texas (the City) for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 2, 2014. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of the allowance for uncollectible taxes and accounts receivable is based on historical collection experience. We evaluated the key factors and assumptions used to develop the allowance for uncollectible taxes and accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

##### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

##### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Misstatements detected as a result of audit procedures and corrected by management are included in the attached schedule.

##### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

##### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 4, 2015.

##### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedule – General Fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

#### Restriction on Use

This information is intended solely for the use of City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Boucher, Morgan & Young". The signature is written in black ink and is positioned below the "Very truly yours," text.

Boucher, Morgan and Young, a P.C.

WPre: 3200.00  
 Name: Adjusting Journal Entry

Preparer: 10105 02/05/15  
 Reviewer: \*\*\*  
 Partner Review 1: \*\*\*  
 Partner Review 2: \*\*\*  
 Manager Review: \*\*\*

Prepared by _____		City of Valley Mills				38151	
Reviewed by _____		Adjusting Journal Entries				Page 1	
Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Workpaper
1001	Adjusting	09/30/13					
		10-00-4300	Grant Income	114,567.00			
		10-00-1103	Grant Funds Receivable		114,567.00		
			To write off receivable against revenue.			(114,567.00)	-4200.00
1002	Adjusting	09/30/13					
		10-00-1102	Sales Tax Receivable	12,361.00			
		10-00-4010	Sales Tax		12,361.00		
			To accrue sales tax.			12,361.00	4203.00
1003	Adjusting	09/30/13					
		20-20-5100	Materials	6,026.00			
		20-00-1610	Inventory		6,026.00		
			To write off inventory that cannot be substantiated.			(6,026.00)	4300.00
1004	Adjusting	09/30/13					
		10-00-1101	Allowance for Uncollectible	921.00			
		10-00-1100	Taxes Receivable	1,889.00			
		10-00-3020	Fund Balance	15,244.00			
		10-00-2200	Deferred Revenues		15,290.00		
		10-00-4801	Miscellaneous Income		2,764.00		
			To true up property taxes.			2,764.00	4201.00
1005	Adjusting	09/30/13					
		10-00-2300	Refundable Deposits	25.00			
		20-00-2700	Deferred Revenues	2,064.00			
		10-00-4050	Property Rentals		25.00		
		20-20-4000.1	Water & Sewer		2,064.00		
			To write off old liabilities.			2,089.00	5100/5300
1006	Adjusting	09/30/13					
		20-20-5901	Miscellaneous	3,757.00			
		20-00-2602	Garbage Collection Rates		3,757.00		
			To true up garbage payable			(3,757.00)	5100.00

WPre: 3200.00  
 Name: Adjusting Journal Entry

Preparer: 10105 02/05/15  
 Reviewer: \*\*\*  
 Partner Review 1: \*\*\*  
 Partner Review 2: \*\*\*  
 Manager Review: \*\*\*

Prepared by _____		City of Valley Mills				38151	
Reviewed by _____		Adjusting Journal Entries				Page 2	
Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Worksheet
1007	Adjusting	09/30/13					
		10-00-3020	Fund Balance	835,644.00			
		10-00-3040	Reserve for Fixed Assets		835,644.00		
		10-00-3020	Fund Balance	2,581.00			
		10-00-4801	Miscellaneous Income		2,581.00		
		20-00-3050	Retained Earnings	136.00			
		20-20-4001	Misc. income		136.00		
						2,717.00	
			To correct beginning fund balance.				6101.00
1008	Adjusting	09/30/13					
		20-20-4001	Misc. income	50,000.00			
		20-00-1530	Due From - Other Funds		50,000.00		
		10-00-2100	Due to Other Funds	50,000.00			
		10-00-4300	Grant Income		50,000.00		
		10-00-1130	Due From Other Funds	1,844.00			
		10-00-4035	Ambulance Fees		1,844.00		
		10-00-1130	Due From Other Funds	541.00			
		50-50-2000	Due To Other Funds		15.00		
		10-00-2100	Due to Other Funds		1,132.00		
		10-00-4801	Miscellaneous Income	591.00			
		50-50-1300	Due From Other Funds		15.00		
		10-00-4900	Transfers From Other Funds	276.00			
		10-00-5099	Transfers	280.00			
		20-20-5800	Transfers to Other Funds		80.00		
		10-00-4801	Miscellaneous Income		556.00		
		20-20-4001	Misc. income	80.00			
						1,253.00	
			To true up due to/from and transfers.				5600.00
1009	Adjusting	09/30/13					
		10-00-4031	Franchise Fees	805.00			
		10-00-4025	Verizon Site Lease		805.00		
		10-00-1110	Other Receivables	5,904.00			
		10-00-4030	ST Rentals - Utilities		5,904.00		
						5,904.00	
			To properly accrue franchise fee revenue.				7100.00
1010	Adjusting	09/30/13					
		20-20-5130	Depreciation	49,059.00			
		20-00-1820	Accumulated Depreciation		49,059.00		
		10-00-1400	Machinery Purchase	8,343.00			
		10-00-1511	Capital Improvements -City	388,878.00			
		10-00-3040	Reserve for Fixed Assets		112,688.00		
		10-00-3040	Reserve for Fixed Assets		397,221.00		
		10-00-5020	Fund Balance	112,688.00			
						(49,059.00)	
			To correct beg fixed assets, add current year additions and record dep exp.				4600.00

WPre: 3200.00  
 Name: Adjusting Journal Entry

Preparer: 10105 02/05/15  
 Reviewer: \*\*\*  
 Partner Review 1: \*\*\*  
 Partner Review 2: \*\*\*  
 Manager Review: \*\*\*

Prepared by _____		City of Valley Mills				38151	
Reviewed by _____		Adjusting Journal Entries				Page 3	
Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Worksheet
1011	Adjusting	09/30/13					
		20-00-1510	Utility Accounts Receivable		1,521.00		
		20-20-4000.1	Water & Sewer	1,521.00			
			To adjust water/sewer AR to actual.			(1,521.00)	4202.00
1012	Adjusting	09/30/13					
		20-00-2600	Customer Meter Deposits	2,309.00			
		20-20-4000.1	Water & Sewer		2,309.00		
			To adjust deposits to actual.			2,309.00	5100.00
1013	Adjusting	09/30/13					
		10-00-4801	Miscellaneous Income	200.00			
		10-11-5015	Professional - Legal & Account	2,584.00			
		10-11-5020	Advertising	37.00			
		10-13-5050	Court Costs	4,766.00			
		10-11-5035	Contract Labor	40.00			
		10-11-5040	Miscellaneous	400.00			
		10-13-5055	DPS Fees/OnmiBase Fees	259.00			
		10-11-5070	Dues/Memberships	39.00			
		10-11-5103	Supplies - Office	55.00			
		10-11-5104	Utilities & Phone - Office	1,299.00			
		10-11-5105	Building Maintenance	8.00			
		10-12-5203	Supplies - Police	254.00			
		10-12-5204	Utilities & Phone - Police	626.00			
		10-12-5205	Equipment - Police	176.00			
		10-12-5206	Equipment Maintenance - Police	1,687.00			
		10-12-5207	Fuel - Police	1,057.00			
		10-12-5210	Police-Per Diem Expense	300.00			
		10-14-5404	Utilities & Phone - Fire Dept	1,097.00			
		10-14-5409	Pensions & Marshall - Fire	300.00			
		10-18-5504	Utilities & Phone - Library	417.00			
		10-18-5604	Utilities & Phone - Recreation	47.00			
		10-16-5704	Utilities/Phone	2,465.00			
		10-16-5705	Equipment Maintenance - Street	2,205.00			
		10-00-2001	Accrued Liabilities		20,118.00		
		20-20-5001	Contract Labor	1,175.00			
		20-20-5100	Materials	121.00			
		20-20-5110	Equipment Maintenance & Repairs	144.00			
		20-20-5210	Professional Fees	2,498.00			
		20-20-5215	Advertising	105.00			
		20-20-5700	Office Supplies	20.00			
		20-20-5701	Utilities		505.00		
		20-00-2100	Accrued Liabilities		3,558.00		
		20-00-2100	Accrued Liabilities		3,137.00		
		20-20-5701	Utilities	3,137.00			
			To record AP as of 9/30			(26,813.00)	5101.00
TOTAL				1,695,667.00	1,695,667.00	(172,346.00)	

WPre: 3200.00  
Name: Adjusting Journal Entry

Preparer: 10105 02/05/15  
Reviewer: \*\*\*  
Partner Review 1: \*\*\*  
Partner Review 2: \*\*\*  
Manager Review: \*\*\*

Prepared by _____		City of Valley Mills				38151	
Reviewed by _____		Adjusting Journal Entries				Page 4	
Reference	Type	Date Account Number	Description	Debit	Credit	Net Income Effect	Worksheet



**CITY OF VALLEY MILLS, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED**  
**SEPTEMBER 30, 2013**

**CITY OF VALLEY MILLS, TEXAS  
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YEAR ENDED SEPTEMBER 30, 2013**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and members  
of the City Council  
City of Valley Mills, 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 City of Valley Mills, Texas as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major

fund of the City of Valley Mills, 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 conformity 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 and budgetary comparison information on pages 6 through 9 and 32 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.

*Boucher, Morgan & Young*

Stephenville, Texas  
February 4, 2015

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## CITY OF VALLEY MILLS, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

### Financial Highlights

- The City's total net position increased \$289,214 from prior year. Net position of our business-type activities increased \$2,921, while the net assets of our governmental activities increased \$286,293.
- During the year, the City's expenses were \$11,022 less than the revenue generated in taxes and other revenues for governmental programs, excluding transfers.
- The general fund reported a fund balance of \$752,983.

### Overview of the Financial Statements

This discussion and analysis is intended to serve 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 are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. There are two government-wide statements: the statement of net position and the statement of activities.

The statement of net position presents information on all of the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between them presented 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as 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., arbitrage rebate owed but not due until a future year and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, physical environment, and transportation. The business-type activities of the City include water, wastewater and solid waste and emergency transportation services.

The government-wide financial statements can be found on pages 11-12 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.

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

Because the focus of governmental funds is narrower than 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.

The City maintains one individual governmental fund, the general fund, which is considered to be a major fund.

The City adopts an annual legally appropriated budget for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget, which can be found on page 32.

The governmental fund financial statements can be found on pages 13 and 15 of this report.

*Proprietary funds.* The City maintains one proprietary fund, the Utility Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses its enterprise fund to account for its water and sewer operations along with the emergency transportation services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 17-19 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 21-30 of this report.

### **Financial Highlights**

The City's assets exceeded its liabilities at the close of September 30, 2013 by \$3.4 million of which \$1.8 million is a net investment in capital assets. The governmental activities comprised \$1.9 million and the business-type activities comprised \$1.5 million of the total net position.

Unrestricted cash and cash equivalents as of September 30, 2013 were \$753,676 in the governmental activities and \$693,233 in the business-type activities.

The overall increase in the City's net position for the year ended September 30, 2013 was \$289,214.

The general fund completed a \$526 thousand construction project of which \$328 thousand was expended in the current year.

## City's Financial Analysis

Comparative information between the current year and the prior year is presented below.

	Statement of Net Position				Totals		Percentage Change
	Governmental Activities		Business-type Activities		2013	2012	
	2013	2012	2013	2012			
Current and Other Assets	\$ 789,220	\$ 912,072	\$ 734,309	\$ 791,378	\$ 1,523,529	\$ 1,703,450	-11%
Capital and Non-Current Assets	1,088,015	812,790	864,750	800,035	1,952,765	1,612,825	21%
<b>Total Assets</b>	<b>1,877,235</b>	<b>1,724,862</b>	<b>1,599,059</b>	<b>1,591,413</b>	<b>3,476,294</b>	<b>3,316,275</b>	<b>5%</b>
Current Liabilities	20,947	154,867	49,375	44,650	70,322	199,517	-65%
<b>Total Liabilities</b>	<b>20,947</b>	<b>154,867</b>	<b>49,375</b>	<b>44,650</b>	<b>70,322</b>	<b>199,517</b>	<b>-65%</b>
Net Position							
Net Investment in Capital Assets	1,088,015	700,102	750,976	800,035	1,838,991	1,500,137	23%
Restricted	-	-	-	45,354	-	45,354	-100%
Unrestricted	768,273	869,893	798,708	701,374	1,566,981	1,571,267	0%
<b>Total Net Position</b>	<b>\$ 1,856,288</b>	<b>\$ 1,569,995</b>	<b>\$ 1,549,684</b>	<b>\$ 1,546,763</b>	<b>\$ 3,405,972</b>	<b>\$ 3,116,758</b>	<b>9%</b>

	Statement of Changes in Net Position						Total % Change
	Governmental Activities		Business-type Activities		Total		
	2013	2012	2013	2012	2013	2012	
<b>Revenues</b>	\$	\$	\$	\$	\$	\$	
Program Revenues:							
Charges for Service	33,242	123,331	314,444	264,651	347,686	387,982	3%
Operating Grants and Contributions	14,136	-	-	-	14,136	-	-80%
Capital Grants and Contributions	328,792	261,680	-	-	328,792	261,680	
<b>General Revenues:</b>							
Property tax	175,323	177,694	-	-	175,323	177,694	-100%
Sales tax	81,209	68,531	-	-	81,209	68,531	-103%
Franchise tax	25,662	4,937	-	-	25,662	4,937	-100%
Investment Earnings	2,706	4,475	4,596	4,772	7,302	9,247	-93%
Other income	29,821	-	-	23,238	29,821	23,238	-120%
Loss on disposal of assets	(8,342)	-	-	-	(8,342)	-	
<b>Total Revenues</b>	<b>682,549</b>	<b>640,648</b>	<b>319,040</b>	<b>292,661</b>	<b>1,001,589</b>	<b>933,309</b>	<b>-53%</b>
<b>Expenses</b>							
General Government	95,662	78,937	-	-	95,662	78,937	-87%
Public safety	209,848	217,960	-	-	209,848	217,960	-90%
Public works	44,347	103,861	-	-	44,347	103,861	-95%
Health	26,422	26,424	-	-	26,422	26,424	-1329%
Culture and recreation	19,977	14,556	-	-	19,977	14,556	-11%
Water and sewer	-	-	316,119	265,681	316,119	265,681	-48%
<b>Total Expenses</b>	<b>396,256</b>	<b>441,738</b>	<b>316,119</b>	<b>265,681</b>	<b>712,375</b>	<b>707,419</b>	<b>-91%</b>
Change in net position	286,293	198,910	2,921	26,980	289,214	225,890	
Net Position, Beginning	1,569,995	1,371,085	1,546,763	1,519,783	3,116,758	2,890,868	
Net Position, Ending	\$ 1,856,288	\$ 1,569,995	\$ 1,549,684	\$ 1,546,763	\$ 3,405,972	\$ 3,116,758	-2%

The government's net position creased by \$289,214 during the fiscal year, compared to the prior year increase of \$225,890. Governmental activities had an increase in net position of \$286,293 compared to the prior year increase of \$198,910. Business-type activities increased the City's net position by \$2,921 compared to an increase in the prior year of \$26,980.

## General Fund Budgetary Highlights

The City's General Fund operated with an original revenue budget total of \$811,299. Actual revenues were \$120,454 less than final budgeted revenues for the year. The City's General Fund operated with an original expenditure budgeted total of \$727,062. The total expenses and other uses of the General Fund were



\$47,239 less than final budgeted expenditures for the year and the General Fund experienced an increase in fund balance totaling \$11,022 for the year.

**Capital Asset and Debt Administration**

Over many years, the City has invested \$2.8 million in capital assets, which, net of accumulated depreciation has a book value of \$1.8 million in a broad range of capital assets. This amount as of September 30, 2013, represents an increase from the previous year due a capital project funded by the Safe Routes to School grant.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The City’s single largest source of revenue is utility sales, comprising approximately 48% of the City’s revenue. This level of revenue is lower than it could be because of inordinately low utility rates as well as antiquated metering equipment. In 2015, the City will replace all water meters with electronic remote-read devices, after which a rate study should be accomplished and rates adjusted accordingly. Property tax revenues represent only 29% of the City’s total revenue. Property values have not increased over the last few years. Sales tax revenue is the City’s third largest source of revenue source, representing 13% of total revenue. Sales tax revenue moderately increased from last year. The total general fund budgeted revenue was increased this year with a \$328,792 grant infusion. Municipal Court revenues, ordinarily about 16% of the City’s revenue, was half of the 10-year average income. This was due to a general failure of the Municipal Court to correctly and promptly process their paperwork.

**Contacting the City’s Financial Management**

The preparation of this report would not have been possible without the efficient and dedicated services of the new members of the City’s staff. Credit also goes to the City Council for their unfailing support for setting higher standards for maintaining accurate financial records than had been maintained in previous years by the management of the City of Valley Mills.

This financial report is designed to provide a general overview of the City’s finances for all those with an interest. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Administrator, 401 5<sup>th</sup> Street, P.O. Box 641, Valley Mills, Texas 76689, or by telephone 254-932-6146.

**BASIC FINANCIAL STATEMENTS**

**CITY OF VALLEY MILLS, TEXAS**

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 753,676	\$ 693,233	\$ 1,446,909
Receivables, Net of Allowance of \$1,698 Governmental Activities and \$661 Business Type Activities	33,700	41,076	74,776
Due from other funds	1,844	-	1,844
Capital assets (net of accumulated depreciation):			
Land	136,796	4,630	141,426
Infrastructure	-	726,653	726,653
Buildings and improvements	693,296	3,584	696,880
Equipment and vehicles	244,851	16,109	260,960
Office equipment	13,072	-	13,072
Restricted cash	-	113,774	113,774
Total Assets	1,877,235	1,599,059	3,476,294
<b>LIABILITIES:</b>			
Accounts payable	20,947	19,741	40,688
Customer deposits	-	27,790	27,790
Due to other funds	-	1,844	1,844
Total Liabilities	20,947	49,375	70,322
<b>NET POSITION</b>			
Net investment in capital assets	1,088,015	750,976	1,838,991
Unrestricted	768,273	798,708	1,566,981
Total net position	\$ 1,856,288	\$ 1,549,684	\$ 3,405,972

The accompanying notes are an integral part of this statement.

**CITY OF VALLEY MILLS, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>PRIMARY GOVERNMENT:</b>					
General Government	\$ 95,662	\$ -	\$ -	\$ -	\$ (95,662)
Public Safety					
Police	113,951	-	-	-	(113,951)
Municipal court	53,572	33,242	-	-	(20,330)
Fire	41,071	-	-	-	(41,071)
Other	1,254	-	-	-	(1,254)
Public Works	44,347	-	-	328,792	284,445
Health	26,422	-	14,136	-	(12,286)
Culture and recreation	19,977	-	-	-	(19,977)
Total Governmental Activities	<u>396,256</u>	<u>33,242</u>	<u>14,136</u>	<u>328,792</u>	<u>(20,086)</u>
Business-type Activities:					
Water and Sewer	<u>316,119</u>	<u>314,444</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Business-type Activities	<u>316,119</u>	<u>314,444</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 712,375</u>	<u>\$ 347,686</u>	<u>\$ 14,136</u>	<u>\$ 328,792</u>	<u>(20,086)</u>
Taxes:					
Property					175,323
Sales					81,209
Franchise					25,662
Investment earnings					2,706
Miscellaneous revenues					29,821
Loss on disposal of assets					(8,342)
Total general revenues and transfers					<u>306,379</u>
Change in net position					286,293
Net position - Beginning					1,569,995
Net position - Ending					<u>\$ 1,856,288</u>

The accompanying notes are an integral part of this statement.

**CITY OF VALLEY MILLS, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

	General Fund	Total Governmental Funds
<b>ASSETS AND OTHER DEBITS:</b>		
Assets:		
Cash and investments	\$ 753,676	\$ 753,676
Receivables, net of allowance of \$1,698	33,700	33,700
Due from other funds	1,844	1,844
Total Assets and Other Debits	\$ 789,220	\$ 789,220
 <b>LIABILITIES AND FUND BALANCES:</b>		
Liabilities:		
Accounts payable	\$ 20,947	\$ 20,947
Unearned revenues	15,290	15,290
Total Liabilities	36,237	36,237
 Fund Balances:		
Unassigned	752,983	752,983
Total Fund Balance	752,983	752,983
Total Liabilities and Fund Balance	\$ 789,220	\$ 789,220

The accompanying notes are an integral part of this statement.

**CITY OF VALLEY MILLS**  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013

Total fund balances - governmental funds balance sheet	\$ 752,983
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	1,088,015
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	<u>15,290</u>
Net position of governmental activities	<u><u>\$ 1,856,288</u></u>

The accompanying notes are an integral part of this statement.

**CITY OF VALLEY MILLS, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUE</b>		
Taxes:		
General Property	\$ 175,232	\$ 175,232
General Sales and Use	81,209	81,209
Franchise	25,662	25,662
Grant Revenues	328,792	328,792
Fines and Fees	33,242	33,242
Donations	14,362	14,362
Lease income	20,427	20,427
Interest income	2,751	2,751
Other Revenues	9,168	9,168
Total revenues	<u>690,845</u>	<u>690,845</u>
<b>EXPENDITURES</b>		
General Government	73,894	73,894
Public Safety		
Police	112,483	112,483
Municipal court	53,572	53,572
Fire	19,560	19,560
Other	852	852
Public Works	43,954	43,954
Health	26,422	26,422
Culture and recreation	18,966	18,966
Capital outlay	330,120	330,120
Total Expenditures	<u>679,823</u>	<u>679,823</u>
<b>Excess (Deficiency) of Revenues     Over (Under) Expenditures</b>	<u>11,022</u>	<u>11,022</u>
<b>Net Change in Fund Balances</b>	<u>11,022</u>	<u>11,022</u>
<b>Fund balance-Beginning, as previously stated</b>	854,649	854,649
Prior period adjustment	(112,688)	(112,688)
<b>Fund balance-Beginning, as restated</b>	<u>741,961</u>	<u>741,961</u>
<b>Fund Balances - Ending</b>	<u>\$ 752,983</u>	<u>\$ 752,983</u>

The accompanying notes are an integral part of this statement.

**CITY OF VALLEY MILLS, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>11,022</b>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report additions to capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets added in the current period.		336,264
Depreciation expense on capital assets is reported in the statement of activities and does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(52,697)
Governmental funds recognize all amounts received on the disposal of fixed assets as a gain. However, in the statement of activities, the gain or loss is offset by the remaining net book value of the asset.		(8,342)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		<u>46</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>286,293</u></b>

The accompanying notes are an integral part of this statement.



**CITY OF VALLEY MILLS, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**SEPTEMBER 30, 2013**

	Enterprise Fund
	Utility Fund
<b>ASSETS:</b>	
Current Assets:	
Cash and investments	\$ 693,233
Receivables, net of allowance of \$661	41,076
Total Current Assets	734,309
Noncurrent Assets:	
Restricted cash and investments	113,774
Capital Assets:	
Land	4,630
Infrastructure	1,137,432
Buildings and improvements	18,345
Equipment and vehicles	150,098
Office equipment	2,685
Less: Accumulated depreciation	(562,214)
Total Noncurrent Assets	864,750
Total Assets	1,599,059
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable	19,741
Customer deposits	27,790
Due to other funds	1,844
Total Current Liabilities	49,375
Total Liabilities	49,375
<b>NET POSITION:</b>	
Net investment in capital assets	750,976
Unrestricted	798,708
Total net position	\$ 1,549,684

The accompanying notes are an integral part of this statement.

**CITY OF VALLEY MILLS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Fund
	Water and Sewer
	Fund
<b>OPERATING REVENUES:</b>	
Water and sewer billing	\$ 288,779
Penalties	15,142
Miscellaneous income	10,523
Total Operating Revenues	314,444
<b>OPERATING EXPENSES:</b>	
Salaries	39,466
Payroll taxes	2,647
Repairs and maintenance	18,606
Utilities and telephone	44,269
Materials and supplies	25,455
Fuel	4,637
Office supplies	5,280
Labor	83,749
Professional fees	13,720
Insurance	19,316
Miscellaneous	9,915
Depreciation	49,059
Total Operating Expenses	316,119
Operating Income (loss)	(1,675)
<b>Non-operating Revenue</b>	
Interest income	4,596
Total Non-operating Revenue	4,596
<b>Net Income (Loss)</b>	2,921
<b>Change in Net Position</b>	2,921
<b>Net position - Beginning</b>	1,546,763
<b>Net position - Ending</b>	\$ 1,549,684

The accompanying notes are an integral part of this statement.

**CITY OF VALLEY MILLS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Fund Water and Sewer Fund
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers	\$ 313,365
Cash Paid to Employees	(140,031)
Cash Paid to Supplies	(114,036)
Net Cash Provided By Operating Activities	59,298
<b>Cash Flows from Non-capital Financing Activities:</b>	
Repayments Received on Amounts Due From Other Funds	45,463
Net Cash Provided By Non-capital Financing Activities	45,463
<b>Cash Flows from Investing Activities:</b>	
Interest on investments	4,596
Net Cash Provided By Investing Activities	4,596
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	109,357
<b>Cash and Cash Equivalents at Beginning of Year</b>	697,650
<b>Cash and Cash Equivalents at End of Year</b>	\$ 807,007
<b>Reconciliation of Cash and Cash Equivalents Per Statement of Cash Flows to the Statement of Net Position:</b>	
Cash and investments	\$ 693,233
Restricted cash and investments	113,774
	\$ 807,007
<b>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities:</b>	
Operating Loss	\$ (1,675)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation and amortization	49,059
Change in Assets and Liabilities:	
Decrease in receivables	1,520
Decrease in inventory	6,026
Increase in accounts payable	6,967
Decrease in unearned revenue	(2,064)
Decrease in customer deposits	(535)
Total Adjustments	60,973
Net Cash Provided By Operating Activities	\$ 59,298

The accompanying notes are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

**CITY OF VALLEY MILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**I. Summary of Significant Accounting Policies**

The City of Valley Mills, Texas was chartered in 1896, under the provisions of the State of Texas. The City is a general rule city and operates under a mayor-council form of government and provides the following services as authorized under general law: public safety (police, municipal court and fire), public works, health, cultural and recreation, water and sewer and general government services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. General accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The more significant accounting policies of the City are described below.

**A. New Pronouncements**

Effective October 1, 2012, the City implemented GASB Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, introduced and defined in GASB Concepts Statements No. 4. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management Discussion and analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**B. The Reporting Entity**

The City's combined financial statements include the primary government. The City evaluated whether any there were any other organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organization if its officials appoint a voting majority of an organizations' governing body and either is able to impose its will on the outside organization or there is potential for the outside organization to provide specific financial benefits to or impose specific financial burdens on the primary government. A primary government may also be financially accountable for organizations that are fiscally dependent on it and there is the potential for the outside organization to provide specific financial benefits or impose specific financial burdens on the primary government.

After careful consideration, the City has no such organizations in its primary government.

**CITY OF VALLEY MILLS, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**I. Summary of Significant Accounting Policies (continued)**

**C. Basis of Presentation**

**Government-wide Statements:**

The statement of net position and the statement of activities include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

**Fund Financial Statements:**

The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. There were no other funds to be aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major Governmental funds:

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

**CITY OF VALLEY MILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**I. Summary of Significant Accounting Policies (continued)**

The City reports the following major Enterprise fund:

The Water and Sewer Fund reports for revenues and expenses associated with water, sewer, and garbage services for the citizens of the City. Activities of the fund include administration, operations, and maintenance of the water, sewer and sanitation system and billing and collection activities. All costs are financed through charges to customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the related fund liability is incurred.

**E. Budgetary Control**

The City Manager submits an annual budget to the City Council in accordance with the requirements of the State of Texas. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In September, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's appropriated budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

**CITY OF VALLEY MILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**I. Summary of Significant Accounting Policies (continued)**

**F. Cash and Investments**

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have an original maturity of three months or less when purchased.

The City invests funds solely in time deposits and certificates of deposit provided by the depository bank.

**G. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. Unpaid taxes become delinquent on February 1 of the year in which imposed, and a tax lien attaches to property on that date to secure payment of all taxes, penalties, and interest. Property tax revenues are considered available and are recognized when they become due.

**H. Interfund Receivables and Payables**

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

**I. Transactions between Funds**

Interfund services provided and used are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures or expenses in the fund reimbursed. All other interfund transactions are recorded as transfers.

**J. Capital Assets**

Capital assets purchased or constructed are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are capitalized along with other capital assets. Constructed assets are depreciated when they are put into service.

Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Infrastructure	10 – 30 years
Buildings and improvements	10 – 50 years
Equipment and vehicles	3 – 10 years
Office equipment	3 – 10 years



**CITY OF VALLEY MILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**I. Summary of Significant Accounting Policies (continued)**

**K. Fund Balance and Net Position**

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:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in the spendable form or (b) are legally or contractually required to be maintained intact. Non spendable 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 board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the 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.

In circumstances where expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be extended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance. Net position represents the difference between assets and liabilities. Net investment 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 its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net position classifications, restricted position will be fully utilized first followed by unrestricted as necessary.

**CITY OF VALLEY MILLS, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**I. Summary of Significant Accounting Policies (continued)**

**L. Use of Estimates**

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. Deposits and Short-Term Investments**

Cash and investments as of September 30, 2013 consist of the following:

Deposits with financial institutions	\$ 245,148
Certificates of deposit	<u>1,315,535</u>
	<u>\$ 1,560,683</u>

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing certificates of deposit which guarantee a specific rate of return reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric. As of September 30, 2013, the City had investments in certificates of deposit totaling \$1,315,535 which had a weighted average maturity of 258 days. As of September 30, 2013, the City was not invested in any securities which are highly sensitive to interest rate fluctuation.

**CITY OF VALLEY MILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**II. Deposits and Short-Term Investments (continued)**

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, is AAA. The certificates of deposit are unrated.

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2013, other than certificates of deposit, the City did not have 5% or more of its investments with one issuer.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transactions, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

At September 30, 2013, the carrying amount of the City's cash on hand and deposits were \$245,148 and the bank balance was \$264,290. \$250,000 of the bank balance was covered by depository insurance under the FDIC, with the remaining \$14,290 secured with securities held by pledging financial institutions.

**III. Interfund Activity**

The Enterprise Fund owed the General Fund \$1,844 as of September 30, 2013 for ambulance donations received, but not yet remitted.

**CITY OF VALLEY MILLS, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**IV. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 136,796	\$ -	\$ -	\$ 136,796
Construction in process	234,474	327,921	562,395	-
Total assets not being depreciated	<u>371,270</u>	<u>327,921</u>	<u>562,395</u>	<u>136,796</u>
Capital assets, being depreciated:				
Buildings and improvements	217,225	562,395	-	779,620
Equipment and vehicles	536,546	-	8,342	528,204
Office equipment	27,718	8,343	-	36,061
Total capital assets being depreciated	<u>781,489</u>	<u>570,738</u>	<u>8,342</u>	<u>1,343,885</u>
Accumulated depreciation:				
Buildings and improvements	73,936	12,388	-	86,324
Equipment and vehicles	246,336	37,017	-	283,353
Office equipment	19,697	3,292	-	22,989
Total accumulated depreciation	<u>339,969</u>	<u>52,697</u>	<u>-</u>	<u>392,666</u>
Total capital assets being depreciated, net	<u>441,520</u>	<u>518,041</u>	<u>8,342</u>	<u>951,219</u>
Governmental activities capital assets, net	<u>\$ 812,790</u>	<u>\$ 845,962</u>	<u>\$ 570,737</u>	<u>\$ 1,088,015</u>

**CITY OF VALLEY MILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**IV. Capital Assets (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 4,630	\$ -	\$ -	\$ 4,630
Total assets not being depreciated	<u>4,630</u>	<u>-</u>	<u>-</u>	<u>4,630</u>
Capital assets, being depreciated:				
Buildings and improvements	18,345	-	-	18,345
Infrastructure	1,137,432	-	-	1,137,432
Equipment and vehicles	150,098	-	-	150,098
Office equipment	2,685	-	-	2,685
Total capital assets being depreciated	<u>1,308,560</u>	<u>-</u>	<u>-</u>	<u>1,308,560</u>
Accumulated depreciation:				
Buildings and improvements	14,074	687	-	14,761
Infrastructure	368,339	42,440	-	410,779
Equipment and vehicles	128,057	5,932	-	133,989
Office equipment	2,685	-	-	2,685
Total accumulated depreciation	<u>513,155</u>	<u>49,059</u>	<u>-</u>	<u>562,214</u>
Total capital assets being depreciated, net	<u>795,405</u>	<u>(49,059)</u>	<u>-</u>	<u>746,346</u>
Business-type activities capital assets, net	<u>\$ 800,035</u>	<u>\$ (49,059)</u>	<u>\$ -</u>	<u>\$ 750,976</u>

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

<b>Governmental Activities:</b>		
General government		\$ 27,912
Police and municipal court		1,468
Fire		21,511
Scale house		402
Public works		393
Culture and recreation		1,011
Total depreciation expense - governmental activities		<u>\$ 52,697</u>
<b>Business-type Activities:</b>		
Water and sewer system		\$ 49,059
Total depreciation expense - business-type activities		<u>\$ 49,059</u>

**V. Commitments**

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectability of any related receivable may be impaired. In the opinion of the City, there were no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statement for such contingencies.

**CITY OF VALLEY MILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**VI. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City insures its buildings and contents, law enforcement liability, public officials' liability, general liability and auto liability under a renewable one year policy with the Texas Municipal League. The City insures its workers compensation risk by participating in the Texas Municipal League Intergovernmental Risk Pool which is a self-insurance policy mechanism for political subdivisions in Texas. Rates are set by the State Insurance Board. Each participant's contribution to the pool is adjusted based on its workers' compensation history. The City is responsible only to the extent of premiums paid and contributions made to Texas Municipal League and the Intergovernmental Risk Pool. There have been no significant changes in insurance coverage as compared to last year and settlements have not exceeded coverage in each of the past three fiscal years.

**VII. Prior Period Adjustment**

During the current year, it was determined that the purchase of land in previous years was incorrectly recorded as a current asset instead of as capital outlay. To correct this error, the beginning fund balance of the General Fund of \$854,649, as originally reported, has been decreased to \$741,961. Because the land is a capital asset in the Government-Wide statements, there was no impact on the beginning net position for government activities.

**VIII. Future Accounting Pronouncements**

The GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities, which will be effective the year ending September 30, 2014. The statement reclassifies certain items that were previously reported as assets and liabilities, as deferred outflows or inflows of resources, and recognizes these items as outflows or inflows of resources. This Statement applies to all state and local governmental entities. The City will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which will be effective for the year ending September 30, 2015. The objective of this Statement is to improve accounting and financial reporting of state and local governmental pension plans. This Statement applies to all state and governmental entities and replaces Statements 27 and 50. The City will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which will be effective for the year ending September 30, 2014. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The City will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF VALLEY MILLS, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Taxes:				
General property	\$ 170,000	\$ 170,000	\$ 175,232	\$ 5,232
General sales and use	70,000	70,000	81,209	11,209
Franchise	35,000	35,000	25,662	(9,338)
Grant revenues	435,000	435,000	328,792	(106,208)
Fines and fees	63,600	63,600	33,242	(30,358)
Donations	14,000	14,000	14,362	362
Lease income	21,800	21,800	20,427	(1,373)
Interest income	-	-	2,751	2,751
Other revenues	1,899	1,899	9,168	7,269
Total revenues	<u>811,299</u>	<u>811,299</u>	<u>690,845</u>	<u>(120,454)</u>
<b>EXPENDITURES</b>				
General Government	54,337	54,337	73,894	(19,557)
Public Safety				
Police	138,075	138,075	112,483	25,592
Municipal Court	52,950	52,950	53,572	(622)
Fire	18,000	18,000	19,560	(1,560)
Other	500	500	852	(352)
Public Works	5,700	5,700	43,954	(38,254)
Health	22,000	22,000	26,422	(4,422)
Culture and recreation	-	-	18,966	(18,966)
Capital outlay	435,500	435,500	330,120	105,380
Total Expenditures	<u>727,062</u>	<u>727,062</u>	<u>679,823</u>	<u>47,239</u>
<b>Excess (Deficiency) of Revenues     Over (Under) Expenditures</b>	<u>84,237</u>	<u>84,237</u>	<u>11,022</u>	<u>(73,215)</u>
<b>Net Change in Fund Balances</b>	<u>84,237</u>	<u>84,237</u>	<u>11,022</u>	<u>(73,215)</u>
<b>Fund balance-Beginning, as previously stated</b>	854,649	854,649	854,649	854,649
Prior period adjustment	(112,688)	(112,688)	(112,688)	(112,688)
<b>Fund balance-Beginning, as restated</b>	<u>741,961</u>	<u>741,961</u>	<u>741,961</u>	<u>741,961</u>
<b>Fund Balances - Ending</b>	<u>\$ 826,198</u>	<u>\$ 826,198</u>	<u>\$ 752,983</u>	<u>\$ 668,746</u>