

ANNUAL FINANCIAL REPORT

City of Aledo, Texas

*Year ended September 30, 2014*

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City of Aledo, Texas  
Annual Financial Report  
Year ended September 30, 2014

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# **Introductory Section**

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March 19, 2015

Honorable Mayor, City Council Members and Citizens of Aledo:

Chapter 103, Texas Municipal Code, requires that a city shall have an annual audit. Accordingly, the annual audit for the fiscal year ending September 30, 2014, was completed by Vail & Knauth, LLP, Independent Certified Public Accountants.

This audit report consists of management's representations concerning the finances of the City of Aledo. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. The goal of the independent audit was to provide reasonable assurance that the financial statements are free from material misstatements. Management provided a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal complements the MD&A.

The City of Aledo has experienced an increase in both housing and business activity. New homes are being built in the Parks of Aledo, a residential Planned Development; and Phase 3 is scheduled to open next month with an additional 121 lots available to build on. Also, another residential Planned Development, Brookhollow, will open in April with 127 lots available for new home building as well. On the commercial side, a new office/retail center is currently being built on south FM 1187, and two other retail centers are also planned in the near future. Additionally, the widening of FM 1187 to 4 concrete lanes and the Downtown Aledo Trail highway projects are nearing completion.

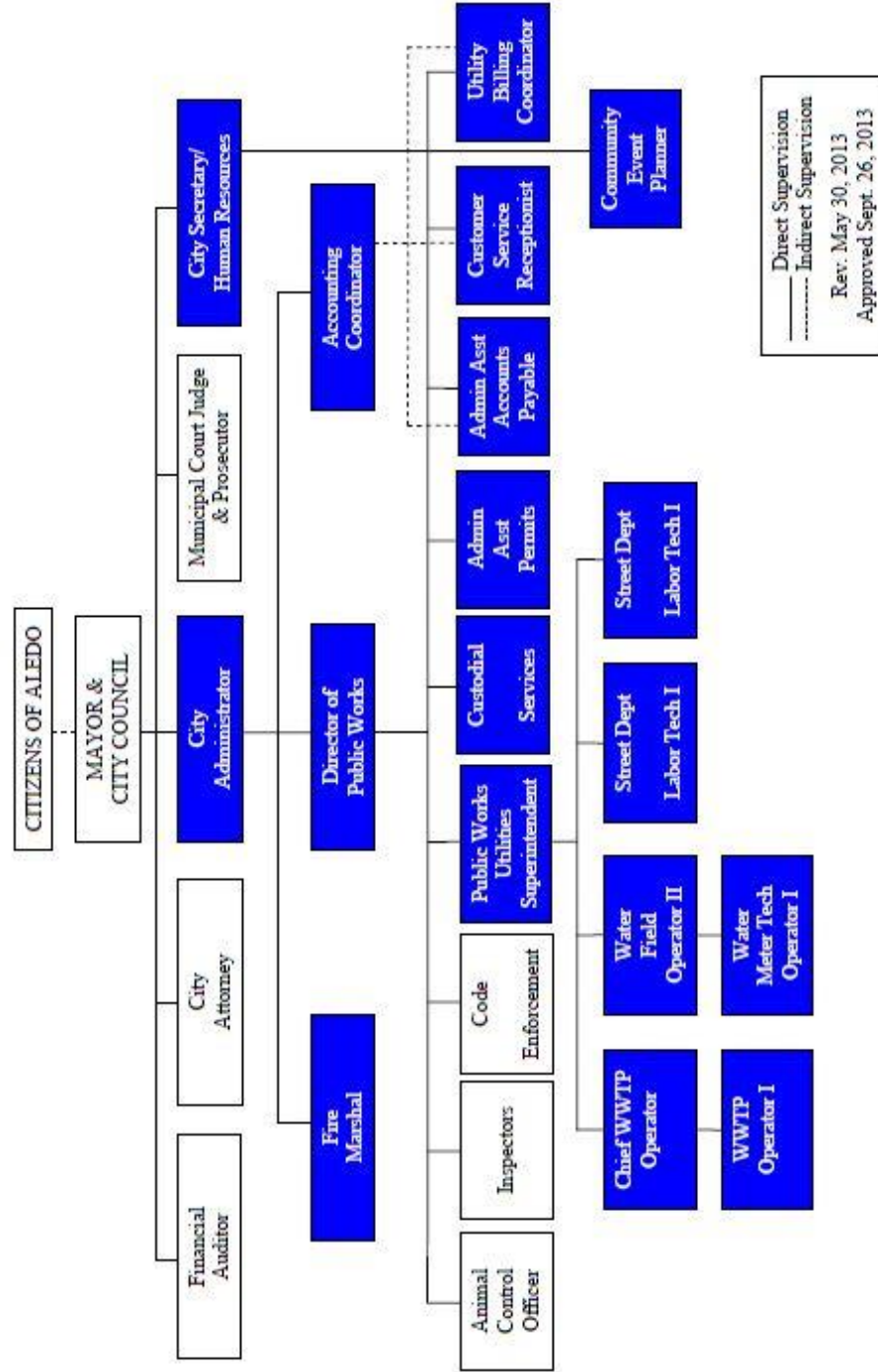
The City's property tax rate was lowered by almost one cent to \$0.3850 per \$100 of assessed property value, and remains one of the lowest tax rates in the area. Also, City revenues continue to increase due to the increased commercial and residential activity, and City government operation expenses have been reduced with the goal being a cost effective municipal organization.

The preparation of the annual audit report could not be accomplished without the efficient and dedicated services of City staff. I wish to express my appreciation to staff for their hard work. I also wish to thank our Mayor and City Council members for their guidance and support concerning the financial operations of the City.

Sincerely,

Ken Pfeifer  
City Administrator  
City of Aledo

# Aledo Organizational Chart





# **City of Aledo, Texas Principal Officials**

## **City Council**

Kit Marshall, Mayor

Kerby Smith – Place 1

Jean E. Bailey – Place 2

Bill McLeRoy – Place 3 – Mayor Pro Tem

Kim Hiebert – Place 4

Matt Casey - Place 5

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## **Financial Section**

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# VAIL & KNAUTH, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
AUDIT, TAX AND ADVISORY SERVICES

Michael G. Vail, CPA  
Chris E. Knauth, CPA  
Charles T. Gregg, CPA  
Don E. Graves, CPA  
Pamela C. Moore, CPA  
Courtney N. Cooper, CPA

Members:  
American Institute of CPAs  
Texas Society of CPAs

## Report of Independent Auditors

To the Mayor and Members of the City Council  
City of Aledo, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Aledo, Texas, as of and for the year ended September 30, 2014, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Aledo, Texas, as of September 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the Basic Financial Statements, certain errors resulting in \$69,497 decrease in governmental activities net assets and \$448,532 decrease in business-type activities as of September 30, 2013, were discovered by management of the City of Aledo during the current year. Accordingly, an adjustment has been made to net assets as of September 30, 2014, to correct the error.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress, and budgetary comparison information on pages 3 – 10, 42, and 43 – 45 and 48 – 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

The introductory section on pages i – iii has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2015, on our consideration of the City of Aledo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reports 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 *Governments Auditing Standards* in considering City of Aledo, Texas' internal control over financial reporting and compliance.

*Vail + Knauth, LLP*

Richardson, Texas  
March 16, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**City of Aledo, Texas**  
**Management Discussion and Analysis**  
**For the Fiscal Year Ended September 30, 2014**

Management's discussion and analysis (MD&A) of the City of Aledo's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2014. The MD&A should be read in conjunction with the accompanying financial statements and the notes to those financial statements.

**FINANCIAL HIGHLIGHTS**

The assets of the City exceeded liabilities at the close of the 2014 fiscal year by \$11,407,555 (net position, page 11). Of this amount, \$2,268,695 is restricted for specific purposes and \$2,887,126 represents unrestricted net position that may be used to meet the City's ongoing obligations to citizens and creditors. As required by GASB Statement No. 34, net position also reflects \$6,251,734 that is the net investment in capital assets.

In contrast to the government-wide statements, the governmental fund statements report combined fund balances at year-end on page 15 of \$2,596,613 of which \$407,312 represents restricted fund balance for Economic Development. Unassigned fund balance in the General Fund is maintained as emergency reserves. The General Fund unassigned fund balance of \$2,189,301 equals 162% of total General Fund expenditures.

Following is a table of the City's designated uses of unrestricted cash balances as of September 30, 2014.

**City of Aledo, Texas**  
**Designated Uses of Unrestricted Cash Balances**  
**September 30, 2014**

	General Fund	W/WW Operating Fund	EDC Fund	TOTAL
Reserved Cash and Cash Equivalents in TexStar	\$ 1,333,734	\$ 840,980	\$ 239,109	\$ 2,413,823
Unrestricted Cash and Cash Equivalents	814,665	184,572	132,624	1,131,861
Cash and Cash Equivalents	2,148,399	1,025,552	371,733	3,545,684
Designated Uses of Unrestricted Cash				
90 Days Reserves	467,898	516,975	-	984,873
Emergency Reserves	100,000	100,000	-	200,000
Gas Lease Bonus and Royalty Reserves	11,755	-	-	11,755
Municipal Court Reserves	5,026	-	-	5,026
Future Water Meter Change Outs	-	22,500	-	22,500
W/WW Rate Offset	-	150,000	-	150,000
Projects:				-
Aledo Trail / FM 1187 Improvements	-	-	238,538	238,538
Park Capital Improvements	74,440	-	-	74,440
Omitted Property Taxes	207,514	-	-	207,514
Total Designated Uses of Unrestricted Cash	866,633	789,475	238,538	1,894,646
Remaining Reserved Cash and Equivalents and Undesignated Cash and Cash Equivalents	\$ 1,281,766	\$ 236,077	\$ 133,195	\$ 1,651,038

On page 34, the City's debt for certificates of obligation in the business-type activities decreased by \$585,000 due to principal portion of scheduled annual debt service payments. The City's debt for capital leases in the business-type activities decreased by \$25,850 due to the scheduled payment of principal on capital leases.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**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 private sector business. They present the financial picture of the City from an economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the City (excluding infrastructure purchased or donated prior to October 1, 2003) as well as all liabilities. Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 in regards to interfund activity, payables, and receivables.

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 net position changed during the most recent fiscal year using the full accrual basis of accounting. 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 result in cash flows in future fiscal periods (e.g., uncollected taxes 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 business 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: Administration, Public Works and Streets, Municipal Court, Parks and Recreation, and the Community Center. Appropriations with a contract are made to the Parker County Emergency Services District #1 / Aledo Fire, East Parker County Library, and the Parker County Sheriff's Office. The business-type activity of the City is water and sewer operations and contracting for solid waste services. All governmental and business-type activities included in the government-wide financial statements are functions of the City (known as the primary government). The government-wide financial statements can be found on pages 11 and 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. Unlike the government-wide financial statements, however, 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 the City'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 the comparison between governmental funds and governmental activities.

The City maintains two governmental funds, the general fund and the economic development corporation fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and the economic development corporation fund.

The City adopts an annual appropriated budget for its general fund and EDC special development fund. A budgetary comparison statement (original versus final) has been provided in this report to demonstrate compliance with this budget. The governmental fund financial statements can be found on pages 13 through 16 of this report.

**Proprietary funds** - Proprietary funds can be further classified into two different types of funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City allocates costs directly to the operating departments and accordingly does not account or report any internal service funds.

Proprietary fund financial statements 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 through 20 of this report.

**Notes to the basic 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 through 41 of this report.

**Other information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning pension benefits. The required supplementary information can be found starting on page 42 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 \$11,407,555 as of September 30, 2014.

### City of Aledo Net position September 30, 2014

	Governmental Activities		Business-type Activities		Total	
	FY 2013-14	FY 2012-13	FY 2013-14	FY 2012-13	FY 2013-14	FY 2012-13
Current and Other Assets	\$ 2,674,276	\$ 2,283,762	\$ 2,555,659	\$ 3,035,245	\$ 5,229,935	\$ 5,319,007
Capital Assets	2,180,931	2,219,985	18,654,338	19,264,503	20,835,269	21,484,488
Total Assets	4,855,207	4,503,747	21,209,997	22,299,748	26,065,204	26,803,495
Long-term Liabilities Outstanding	16,881	18,271	14,253,934	14,863,436	14,270,815	14,881,707
Other Liabilities	66,895	58,680	319,939	427,081	386,834	485,761
Total Liabilities	83,776	76,951	14,573,873	15,290,517	14,657,649	15,367,468
Net Position:						
Net investment in capital assets	2,180,931	2,055,841	4,070,803	4,360,837	6,251,734	6,416,678
Restricted for:						
Economic Development	407,312	373,598	-	-	407,312	373,598
Capital improvements	-	-	1,015,604	831,827	1,015,604	831,827
Impact fees	-	-	845,779	669,215	845,779	669,215
Unrestricted	2,183,188	1,997,357	703,938	1,147,352	2,887,126	3,144,709
Total Net Position	\$ 4,771,431	\$ 4,426,796	\$ 6,636,124	\$ 7,009,231	\$ 11,407,555	\$ 11,436,027

The largest portion of the City's net position (55%) reflects its investment in capital assets (land, building, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses those assets to provide services to the 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. An additional \$1,861,383 or 16% of the City's net position represents resources that are subject to external restrictions on how they may be used. All restricted assets of the City are being held for capital improvements, debt service requirements on the City's outstanding debt, and economic development. The remaining portion of the City's net position (29%) may be used to meet the City's ongoing obligations to citizens and creditors.

**City of Aledo**  
**Changes in Net position**  
**FYE September 30, 2014**

	Governmental Activities		Business-type Activities		Total	
	FY 2013-14	FY 2012-13	FY 2013-14	FY 2012-13	FY 2013-14	FY 2012-13
Revenue						
Program revenue						
Charges for Services	\$ 454,754	\$ 280,954	\$ 1,880,737	\$ 1,857,868	\$ 2,335,491	\$ 2,138,822
Capital grants and contributions	-	787,170	-	603,629	-	1,390,799
General revenue						
Property Taxes	744,421	683,737	-	-	744,421	683,737
Sales Taxes	517,443	456,944	-	-	517,443	456,944
Franchise Taxes	278,755	231,831	-	-	278,755	231,831
Interest on Investments	1,252	1,691	1,846	2,193	3,098	3,884
Miscellaneous	12,128	80,349	174,185	123,531	186,313	203,880
Total revenues	2,008,753	2,522,676	2,056,768	2,587,221	4,065,521	5,109,897
Expense						
Administration	801,243	628,071	-	-	801,243	628,071
Public works and city streets	479,403	358,100	-	-	479,403	358,100
Municipal court	12,178	9,923	-	-	12,178	9,923
Parks and recreation	49,074	34,758	-	-	49,074	34,758
Community center	64,833	48,861	-	-	64,833	48,861
Water and Sewer	-	-	2,169,233	3,037,566	2,169,233	3,037,566
Total expenses	1,406,731	1,079,713	2,169,233	3,037,566	3,575,964	4,117,279
Change in Net Position Before Transfers	602,022	1,442,963	(112,465)	(450,345)	489,557	992,618
Transfers	(187,890)	(174,075)	187,890	174,075	-	-
Change in Net Position	414,132	1,268,888	75,425	(276,270)	489,557	992,618
Net Position, beginning of year, as restated	4,357,299	3,157,908	6,560,699	7,285,501	10,917,998	10,443,409
Net Position, end of year	<u>\$ 4,771,431</u>	<u>\$ 4,426,796</u>	<u>\$ 6,636,124</u>	<u>\$ 7,009,231</u>	<u>\$ 11,407,555</u>	<u>\$ 11,436,027</u>

In total, the City's total net position increased by \$489,557 during the current fiscal year. The City's governmental activities increased net position by \$414,132. The total cost of all governmental activities this year was \$1,406,731. The amount that taxpayers paid for these activities through property taxes was \$744,421 or 53%. The City's business-type activities increased net position by \$75,425. The total cost of all business-type activities for FY 2014 was \$2,169,233.

**Governmental activities** – Governmental activities increased the City's net position by \$414,132. The key elements of this increase are as follows:

- General Fund
- Actual revenues exceeded actual expenditures \$465,061

**Business-type activities** – Business-type activities increased the City's net position by \$75,425. The key element of this increase was a decrease in depreciation expense (due to a change in estimate) from \$1,149,076 in the prior year to \$632,101 in FY 2014.

## FINANCIAL ANALYSIS OF GOVERNMENTAL 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 \$2,596,613 (page 15), an increase of \$387,479 from the prior year. Unassigned fund balance reported in the general fund of \$2,189,301 represents amounts available for spending at the City’s discretion.

As a measure of the General Fund’s liquidity, we compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 162% of the total fund expenditures, an increase of \$353,766. The key factor in this increase was savings through efficient operation of various City Departments.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Adjustments to the original 2013-2014 General Fund annual budget can be briefly summarized as increased inspector services and supplies, legal fees, property insurance, animal control, and oak wilt live oak tree treatment costs.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets:** The City’s investments in total capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$20,835,269 (net of accumulated depreciation on page 11). Investments in capital assets related to governmental activities of \$2,180,931, includes land and land rights, construction in progress, buildings and improvements, street reconstruction, other improvements, vehicles, and office furniture and equipment. The City’s investments in capital assets related to business-type activities of \$18,654,338, includes land and land rights, construction in progress, the water and sewer system, vehicles and other equipment.

Major capital asset events during the current fiscal year include: purchase of a new law enforcement vehicle and improvements to FM 1187 and Aledo Trail highway projects.

**City of Aledo  
Capital Assets  
September 30, 2014**

	Governmental Activities		Business-type Activities		Total	
	FY 2013-14	FY 2012-13	FY 2013-14	FY 2012-13	FY 2013-14	FY 2012-13
Land	\$ 102,855	\$ 102,855	\$ 334,604	\$ 334,604	\$ 437,459	\$ 437,459
Construction in Progress	52,256	16,163	-	-	52,256	16,163
Water system	-	-	7,913,822	8,151,013	7,913,822	8,151,013
Sewer system	-	-	10,300,467	10,633,586	10,300,467	10,633,586
Buildings and improvements	200,153	210,892	2,861	2,968	203,014	213,860
Street infrastructure	1,596,319	1,609,831	-	-	1,596,319	1,609,831
Vehicles	41,551	10,948	13,683	22,162	55,234	33,110
Machinery and equipment	25,208	24,674	88,901	79,940	114,109	104,614
Storm water drainage	93,035	162,534	-	-	93,035	162,534
Other improvements	69,554	82,088	-	-	69,554	82,088
Total	<u>\$ 2,180,931</u>	<u>\$ 2,219,985</u>	<u>\$ 18,654,338</u>	<u>\$ 19,224,273</u>	<u>\$ 20,835,269</u>	<u>\$ 21,444,258</u>

Additional information on the City's capital assets can be found in Note 5 of this report.

**Long-term debt** - At the end of the current fiscal year, the City had total debt outstanding of \$14,234,178. Of this amount, \$14,230,000 represents certificates of obligation secured by property tax collections and \$13,178 represents capital leases. In total, the City's long term debt decreased by \$610,850 during the current fiscal year.

**City of Aledo  
Long Term Debt  
September 30, 2014**

Business-type Activities	
FY 2013-14	FY 2012-13
\$ 13,178	\$ 39,028
14,230,000	14,815,000
<u>\$ 14,243,178</u>	<u>\$ 14,854,028</u>

State statutes limit the total property tax rate to \$2.50 per \$100 assessed valuation. The City's total property tax rate for 2013-14 was \$0.3943 per \$100 assessed valuation, of which \$0.1819486 was for annual water and sewer debt service. Additional information on the City's long-term debt can be found in Note 7 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES** – The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as, a means to accomplish the highest priority objectives. Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities.

In considering the FY2015 budget, City Council and management considered the following factors:

- The FY 2015 adopted property tax rate was (\$0.3850), almost a one cent reduction in the property tax rate.
- No new positions were budgeted.
- The major expenditure categories, including debt service, were for water purchases from the City of Fort Worth, law enforcement contract expenses for two County deputies, animal control contract services with the City of Weatherford, purchases of Public Works vehicles, and City street improvements.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the City finances and to show the City's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the City Secretary at: 200 Old Annetta Road, Aledo TX 76008.



## BASIC FINANCIAL STATEMENTS

City of Aledo, Texas  
Statement of Net Position  
September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 797,884	\$ 138,932	\$ 936,816
Restricted cash and cash equivalents - current	1,722,248	1,789,224	3,511,472
Restricted cash and cash equivalents - non current	-	365,340	365,340
Receivables (net of allowance for uncollectible)	31,344	233,929	265,273
Due from other governments	122,800	-	122,800
Prepaid Expense	-	2,514	2,514
Inventory	-	5,756	5,756
Bond issuance costs	-	19,964	19,964
Capital Assets:			
Land	102,855	334,604	437,459
Construction in progress	52,256	-	52,256
Buildings and improvements	340,535	3,210	343,745
Automobiles	81,970	124,953	206,923
Machinery and equipment	123,298	229,623	352,921
Water and sewer system	-	22,227,098	22,227,098
Other improvements	183,102	-	183,102
Street infrastructure	2,048,058	-	2,048,058
Storm Water Drainage	97,072	-	97,072
Accumulated depreciation	(848,215)	(4,265,150)	(5,113,365)
Total capital assets	2,180,931	18,654,338	20,835,269
Total assets	\$ 4,855,207	\$ 21,209,997	\$ 26,065,204
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 66,895	\$ 134,218	\$ 201,113
Payable from restricted assets:			
Accrued interest	-	71,334	71,334
Customer deposits	-	103,021	103,021
Due to other funds	-	11,366	11,366
Noncurrent liabilities:			
Due within one year	16,881	543,934	560,815
Due in more than one year	-	13,710,000	13,710,000
Total liabilities	\$ 83,776	\$ 14,573,873	\$ 14,657,649
<b>Net Position</b>			
Invested in capital assets, net of related debt	\$ 2,180,931	\$ 4,070,803	\$ 6,251,734
Restricted for:			
Economic development	407,312	-	407,312
Capital improvement	-	1,015,604	1,015,604
Impact fees	-	845,779	845,779
Unrestricted	2,183,188	703,938	2,887,126
Total net position	\$ 4,771,431	\$ 6,636,124	\$ 11,407,555

*The accompanying notes are an integral part of this statement*

City of Aledo, Texas  
Statement of Activities  
September 30, 2014

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
Administration	\$ 801,243	\$ 243,282	\$ -	\$ -	\$ (557,961)	\$ -	\$ (557,961)	
Public works	307,236	150,572	-	-	(156,664)	-	(156,664)	
City streets	172,167	-	-	-	(172,167)	-	(172,167)	
Municipal court and other fees	12,178	15,778	-	-	3,600	-	3,600	
Parks and recreation	49,074	28,409	-	-	(20,665)	-	(20,665)	
Community center	64,833	16,713	-	-	(48,120)	-	(48,120)	
Total governmental activities	\$ 1,406,731	\$ 454,754	\$ -	\$ -	\$ (951,977)	\$ -	\$ (951,977)	
Business-type activities:								
Water and sewer	\$ 2,169,233	\$ 1,880,737	\$ -	\$ -	\$ -	\$ (288,496)	\$ (288,496)	
Total business-type activities	2,169,233	1,880,737	-	-	-	(288,496)	(288,496)	
Total primary government	\$ 3,575,964	\$ 2,335,491	\$ -	\$ -	\$ (951,977)	\$ (288,496)	\$ (1,240,473)	
General revenues:								
Taxes								
Property taxes					\$ 744,421	\$ -	\$ 744,421	
Sales taxes					517,443	-	517,443	
Franchise taxes					278,755	-	278,755	
Interest on investments					1,252	1,846	3,098	
Impact fees					-	174,185	174,185	
Miscellaneous					12,128	-	12,128	
Transfers					(187,890)	187,890	-	
Total general revenues and transfers					1,366,109	363,921	1,730,030	
Change in net position					414,132	75,425	489,557	
Net position - beginning					4,426,796	7,009,231	11,436,027	
Prior period adjustment					(69,497)	(448,532)	(518,029)	
Net position - ending					\$ 4,771,431	\$ 6,636,124	\$ 11,407,555	

*The accompanying notes are an integral part of this statement*

City of Aledo, Texas  
Balance Sheet - Governmental Funds  
September 30, 2014

	General Fund	Economic Development Fund	Total Governmental Funds
<b>Assets</b>			
Deposits and investments	\$ 2,148,399	\$ 371,733	\$ 2,520,132
Receivables:			
Property taxes, net of allowance for uncollectible of \$1,879	10,648	-	10,648
Accounts receivable	20,696	-	20,696
Due from other governments - sales tax	74,289	37,145	111,434
Due from other funds	11,366	-	11,366
Total assets and other debits	<u>\$ 2,265,398</u>	<u>\$ 408,878</u>	<u>\$ 2,674,276</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 54,882	\$ 1,566	\$ 56,448
Accrued liabilities	10,447	-	10,447
Deferred income	10,768	-	10,768
Total liabilities	<u>76,097</u>	<u>1,566</u>	<u>77,663</u>
Fund balances:			
Restricted, Economic Development	-	407,312	407,312
Unassigned, reported in general fund	2,189,301	-	2,189,301
Total fund balances	<u>2,189,301</u>	<u>407,312</u>	<u>2,596,613</u>
Total liabilities and fund balances	<u>\$ 2,265,398</u>	<u>\$ 408,878</u>	<u>\$ 2,674,276</u>

*The accompanying notes are an integral part of this statement.*

City of Aledo, Texas  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
September 30, 2014

Total fund balances - governmental funds	\$ 2,596,613
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Amounts reported for governmental activities in the statement of net assets  
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.	2,180,931
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Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	10,768
--	--------

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 fund financial statements.	(16,881)
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Net assets of governmental activities	<u>\$ 4,771,431</u>
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*The accompanying notes are an integral part of this statement.*

City of Aledo, Texas  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Governmental Funds  
Year ended September 30, 2014

	General Fund	Economic Development Fund	Total Governmental Funds
Revenues			
Taxes:			
Property	\$ 744,421	\$ -	\$ 744,421
Sales	344,962	172,481	517,443
Franchise	278,755	-	278,755
Building permits	243,282	-	243,282
Court fines and fees	20,726	-	20,726
Construction fees	150,572	-	150,572
Rental revenue	16,713	-	16,713
Event revenue	7,323	21,087	28,410
Credit card revenue	235	-	235
Interest income	1,095	157	1,252
Miscellaneous	11,550	578	12,128
Total revenues	<u>\$ 1,819,634</u>	<u>\$ 194,303</u>	<u>\$ 2,013,937</u>
Expenditures			
Current:			
Administration	\$ 722,319	\$ 46,501	\$ 768,820
Public works	307,188	-	307,188
City streets	149,380	-	149,380
Municipal court	11,917	-	11,917
Parks and recreation	4,921	-	4,921
Community center	64,823	-	64,823
Event expense	3,022	28,591	31,613
Credit card expense	259	-	259
Capital outlay	90,744	8,903	99,647
Total expenditures	<u>1,354,573</u>	<u>83,995</u>	<u>1,438,568</u>
Excess (deficiency) of revenues over expenditures	465,061	110,308	575,369
Other financing sources (uses)			
Transfers in	234,555	-	234,555
Transfers out	(345,850)	(76,595)	(422,445)
Total other financing sources (uses)	<u>(111,295)</u>	<u>(76,595)</u>	<u>(187,890)</u>
Net change in fund balances	353,766	33,713	387,479
Fund balances - beginning	1,835,535	373,599	2,209,134
Fund balances - ending	<u>\$ 2,189,301</u>	<u>\$ 407,312</u>	<u>\$ 2,596,613</u>

*The accompanying notes are an integral part of this statement.*

City of Aledo, Texas  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balance of Governmental Funds to the Statement of Activities  
Year ended September 30, 2014

Net changes in fund balances - total governmental funds	\$ 387,479
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Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	99,647
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Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(176,748)
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Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(209)
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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>103,963</u>
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Change in net assets of governmental activities	<u><u>\$ 414,132</u></u>
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*The accompanying notes are an integral part of this statement.*

City of Aledo, Texas  
Statement of Net Position - Proprietary Funds  
September 30, 2014

	Business Type Activities - <u>Enterprise Fund</u>
<b>Assets</b>	
Current assets:	
Deposits and investments	\$ 138,932
Accounts receivable, net of allowance for uncollectible of \$25,236	233,929
Prepaid expense	2,514
Inventory	<u>5,756</u>
Total current assets	381,131
 Restricted deposits and investments (see Note 6 on page 33):	
Restricted assets - current	1,789,224
Restricted assets - non current	<u>365,340</u>
Total restricted assets	2,154,564
 Non-current assets:	
Deferred bond issuance cost	19,964
Capital assets	
Land	334,604
Buildings and improvements	3,210
Automobiles	124,953
Machinery and equipment	229,623
Water and sewer system	22,227,098
Less accumulated depreciation	<u>(4,265,150)</u>
Net capital assets	<u>18,654,338</u>
Total noncurrent assets	<u>18,674,302</u>
Total Assets	<u><u>\$ 21,209,997</u></u>

*The accompanying notes are an integral part of this statement.*



City of Aledo, Texas  
Statement of Net Position - Proprietary Funds  
September 30, 2014

	Business Type Activities - Enterprise Fund
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 126,198
Accrued expenses	8,020
Compensated absences	10,756
Current portion of certificates of obligation payable	520,000
Current portion of capital lease payable	13,178
Total current liabilities	<u>678,152</u>
Current liabilities payable from restricted assets:	
Accrued interest	71,334
Customer deposits	103,021
Due to other funds	11,366
Total current liabilities payable from restricted assets	<u>185,721</u>
Noncurrent liabilities:	
Certificates of obligation payable	<u>13,710,000</u>
Total noncurrent liabilities	<u>13,710,000</u>
Total Liabilities	<u>14,573,873</u>
<b>Net position</b>	
Net investment in capital assets	4,070,803
Restricted for:	
Capital projects	1,015,604
Impact fees	845,779
Unrestricted	703,938
Total Net Position	<u><u>\$ 6,636,124</u></u>

*The accompanying notes are an integral part of this statement.*

City of Aledo, Texas  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds  
Year ended September 30, 2014

	Business Type Activities - Enterprise Fund
Operating revenues:	
Water and sewer service	\$ 1,866,365
Credit card fees	3,990
Refuse revenue	144,902
Other revenues	1,911
Total operating revenues	<u>2,017,167</u>
Operating expenses	
Administrative costs	318,874
Supplies and maintenance	441,888
Utilities	99,889
Professional and contract services	61,301
Refuse expenses	144,706
Credit card expense	4,502
Other operating expenses	16,043
Depreciation	632,101
Total operating expenses	<u>1,719,304</u>
Operating income	<u>297,863</u>
Nonoperating revenues (expenses):	
Interest income	1,846
Impact fees	174,185
Bond issue cost	(1,426)
Interest expense and fiscal agent fee	(584,933)
Total nonoperating revenues (expense)	<u>(410,328)</u>
Income (loss) before transfers	<u>(112,465)</u>
Transfers in	345,850
Transfers out	(157,960)
Net transfer in	<u>187,890</u>
Change in net assets	<u>75,425</u>
Net assets - beginning	7,009,231
Prior period adjustment	(448,532)
Net assets - ending	<u><u>\$ 6,636,124</u></u>

*The accompanying notes are an integral part of this statement.*

City of Aledo, Texas  
Statement of Cash Flows – Proprietary Funds  
Year ended September 30, 2014

	Business Type Activities - Enterprise Fund Water and Sewer
<b>Operating Activities</b>	
Cash received from customers	\$ 1,868,608
Payments to vendors	(669,953)
Employee payroll	(316,260)
Net cash provided by operating activities	<u>882,395</u>
<b>Noncapital Financing Activities</b>	
Transfers (to) from other funds	<u>187,890</u>
Net cash provided by noncapital financing activities	<u>187,890</u>
<b>Capital and Related Financing Activities</b>	
Capital expenditures	(21,935)
Repayment of debt	(610,851)
Impact fees	174,185
Interest paid on debt	(584,933)
Net cash used in capital and related financing activities	<u>(1,043,534)</u>
<b>Investing Activities</b>	
Change in restricted assets	(474,360)
Interest received	<u>1,846</u>
Net cash provided by investing activities	<u>(472,514)</u>
Net increase (decrease) in cash and cash equivalents	(445,763)
Cash and cash equivalents - beginning	<u>584,695</u>
Cash and cash equivalents - ending	<u><u>\$ 138,932</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 297,863
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	632,100
Change in assets and liabilities:	
Prepaid expense	(2,514)
Accounts receivable	(3,853)
Accounts payable and accrued liabilities	(41,201)
Net cash provided by operating activities	<u><u>\$ 882,395</u></u>

*The accompanying notes are an integral part of this statement.*

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City of Aledo, Texas  
Notes to Basic Financial Statements  
September 30, 2014

**1. Summary of Significant Accounting Policies**

The City of Aledo, Texas was incorporated in 1963 and has a population of approximately 2,980. The City operates under a General Law - Type A City and provides the following services: administration, public works and streets, water and sewer, municipal court, parks and recreation, and community center.

The financial statements of the City of Aledo are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**A. Financial Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and 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 cause the reporting entity's financial statements to 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 organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of service performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government. Complete financial statements for the individual component units may be obtained at the City's office.

The following entity was found to be a component unit of the City and is included in the combined financial statements:

Blended Component Unit - Aledo Economic Development Corporation - On May 10, 2008, the voters approved the creation of this Corporation for the purpose of projects and improvements that promote economic development within the City. Funding for the Economic Development Corporation is generated

City of Aledo, Texas  
Notes to Basic Financial Statements

**A. Financial Reporting Entity (continued)**

from 0.50% sales tax. The Corporation's governing body is substantially the same as the governing body of the City of Aledo. There are seven directors appointed by the City Council. At least three of the directors must not be employees, officers, or members of the City Council. All Board members are appointed by the City Council. The Corporation is authorized to sell bonds or other forms of indebtedness. Upon dissolution of the Corporation, the assets of the Corporation shall be distributed to the City of Aledo, Texas. The Corporation provides all of its services to the City of Aledo, Texas.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements include the statement of Net Position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes while business type activities rely, to a significant extent, on fees and charges for support.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 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) 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 in program revenues are reported as general revenues. Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

*Governmental-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Revenues are classified as program revenues and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment earnings and various other revenues.

*Fund Financial Statements*

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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be

City of Aledo, Texas  
Notes to Basic Financial Statements

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue. Expenditures generally are recorded when a fund liability is incurred.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Economic Development Fund is used to account for the accumulation of financial resources to promote economic development within the City. The fund balance is reserved to signify the amounts are restricted for the development and improvements that will promote economic growth.

*Proprietary Fund Financial Statements*

The City reports the following major proprietary fund:

Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs (expenses) of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, contractual and operational services, supplies, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The General Fund and the other governmental fund are accounted for using the modified accrual basis of accounting. Its revenues are recognized when they become measurable and available as net current assets.

Gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.

City of Aledo, Texas  
Notes to Basic Financial Statements

**D. Basis of Accounting (continued)**

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: principal and interest on general long-term debt which is recognized when due.

The Water and Sewer Fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

**E. Budgets and Budgetary Accounting**

The City maintains control over expenditures in the General Fund, the Economic Development Corporation, the Water and Sewer Fund, and the Water and Sewer Debt Service Fund by the establishment of an annual budget. The annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget, as formally adopted by the City Council, establishes the maximum authorization of operating funds to be expended by any fund. Any subsequent amendment thereto must be approved by the Council.

Unused appropriations for all of the budgeted funds lapse at the end of the year. The amended budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

**F. Cash Equivalents**

For purposes of the statement of cash flows, the City considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**G. Allowance for Uncollectible Accounts**

The allowance for doubtful accounts is calculated using prior bad debt experience and takes into account management's estimate of specific uncollectible accounts through review of individual accounts and other information available.

**H. Inventory**

The enterprise fund inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

**I. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, sidewalks, curbs and drainage systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$3,000 or more and an estimated useful life in excess of one year. 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 asset lives are not capitalized.



City of Aledo, Texas  
Notes to Basic Financial Statements

**I. Capital Assets (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest of approximately \$157,800 was capitalized during the year ended September 30, 2014.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	15-30 Years
Water and sewer system infrastructure	5-40 Years
Machinery and equipment	3-15 Years
Vehicles	3-15 Years
Other improvements	3-15 Years
Street infrastructure	15 Years

Infrastructure acquired prior to October 1, 2003 has not been recorded. The City has elected not to report major general infrastructure assets retroactively in accordance with GASB Statement No. 34.

**J. Nature and Purpose of Designations of Fund Equity**

The City has implemented Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) during the year ending September 30, 2011. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance categories under GASB 54 are Nonspendable and Spendable. Classifications under the Spendable category are Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the City classifies governmental fund balances effective with its financial statement ended September 30, 2011, and thereafter, as follows:

1. Nonspendable Fund Balance – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.
2. Spendable Fund Balance
  - a. Restricted Fund Balance – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
    - i. The aggregate fund balance of the Economic Development Corporation is legally restricted for the promotion of economic development within the City.

City of Aledo, Texas  
Notes to Basic Financial Statements

**J. Nature and Purpose of Designations of Fund Equity (continued)**

- b. Committed Fund Balance – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.
- c. Assigned Fund Balance – Includes amounts intended to be used by the City for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year's budget.
- d. Unassigned Fund Balance – Includes the residual classification of the general fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

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.

**K. Net Position**

Net Position represent the difference between assets and liabilities. Net Position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net Position are 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. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net asset classifications, restricted Net Position will be fully utilized first followed by unrestricted as necessary.

**L. Use of Estimates**

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

**M. 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. These risks are covered by the City's participation in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for liability, property, and workers' compensation insurance. These are self-sustaining risk pools operated on a statewide basis for the benefit of several hundred Texas cities and other public entities. The City pays annual premiums to the TMLIRP, which retains risk of loss up to \$1,000,000 for property and liability

City of Aledo, Texas  
Notes to Basic Financial Statements

**M. Risk Management (continued)**

insurance and up to \$1,500,000 for workers' compensation and obtains independent coverage for losses in excess of these amounts. The City retains no risk except for deductible amounts. There have been no significant reductions in coverage in the past fiscal year and there have been no settlements exceeding insurance coverage in the current year or the past three fiscal years.

**2. Deposits, Securities, and Investments**

Chapter 2256 of the Texas Government Code, known as the Public Funds Investment Act (the "Act") authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal, liquidity, diversification, availability of cash to meet the City's obligations and maximization of interest earnings. The investment policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy, which is approved annually by City Council. The Investment Policy includes a list of authorized investments and a maximum allowable maturity of any individual investment. In addition it includes an "Investment Strategy" that specifically addresses each fund's investment options and describes the diversification, management of maturities, pooling of deposits and investments, depository bank relationships, and maximizing investable cash balances.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities, excluding mortgage backed securities;
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or respective agencies and instrumentalities, excluding mortgage-related securities;
4. Collateralized Certificates of Deposit issued by a state or national bank domiciled in the state or a federal credit union domiciled in the state that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or as further described in the Investment policy;
5. Eligible Local Government Investment Pools;
6. Repurchase agreements, reverse repurchase agreements, bankers' acceptances and commercial paper that are described in more detail in the Investment policy; and
7. Regulated No-Load Money Market Mutual Funds.

All investments held by the City at September 30, 2014 were in the TexSTAR Investment Pool.

City of Aledo, Texas  
Notes to Basic Financial Statements

**2. Deposits, Securities, and Investments (continued)**

Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five member Board of Directors. In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors, which may be extended periodically to a term of two years or less. JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co. The business and affairs of TexSTAR are managed by the Board in accordance with its bylaws.

The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through daily, weekly, and monthly reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Cash and cash equivalents as of September 30, 2014, consist of the following:

Deposits with financial institutions	\$ 1,135,979
Investments	<u>3,677,650</u>
	<u>\$ 4,813,628</u>
Governmental activities	\$ 2,520,132
Business-type activities	<u>2,293,496</u>
	<u>\$ 4,813,628</u>

**A. 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 mainly in investment pools which purchase a combination of shorter term investments thus 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.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexSTAR	\$ 3,677,650	51 days

City of Aledo, Texas  
Notes to Basic Financial Statements

**2. Deposits, Securities, and Investments (continued)**

**B. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment.

State statute requires that investments in Local Government Investment Pools be rated AAA or the equivalent by a nationally recognized credit rating agency. As of September 30, 2014, the TexSTAR investment pool was rated AAA by Standard and Poor's.

**C. Concentration of Credit Risk**

In accordance with the City's Investment policy, the City limits their exposure of concentration of credit risk by restricting investments in the following investment instruments:

	<u>Maximum Percentage of Portfolio</u>
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	80%
Authorized Local Government Investment Pools	100%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	10%
SEC-Regulated No-Load Money Market Mutual Funds	50%

**D. Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized with securities held by the pledging financial institution, or uncollateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. At year end, the City's cash and cash equivalents were not exposed to custodial credit risk.

**3. Delinquent Property Taxes Receivable and Revenue**

Delinquent taxes are prorated between General and the Water and Sewer Funds based on rates adopted for the year of the levy. The Parker County Appraisal District appraises, assesses and collects taxes on behalf of the City.

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the City's fiscal year.

City of Aledo, Texas  
Notes to Basic Financial Statements

**4. Interfund Balances and Transfers**

Inter-fund transfers are reported in the governmental funds and proprietary fund financial statements. In the government-wide statements, inter-fund transfers are eliminated within the governmental activities column and business-type activities column, as appropriate.

Transfers are used to (1) move revenues collected in the special revenue funds to finance various programs in accordance with budgetary authorizations, (2) move receipts restricted for debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, (3) reimburse one fund for services provided to another fund, (4) move unrestricted General Fund revenues to Capital Improvement Project Fund as determined by the Council for capital projects, and (5) transfer payments for economic development agreements to the Economic Development Fund.

There were no Interfund receivables or payables at September 30, 2014.

Interfund transfers between the primary government's funds consisted of:

Primary Government	<u>Transfers To Funds</u>	<u>Transfers From Funds</u>
General Fund (Fund 100):		
Transfer from W/S fund	\$ -	\$ 157,960
Transfer to W/S Debt Service fund	345,850	-
Transfer from EDC	-	76,595
EDC Fund (Fund 700):		
Transfer to General fund	76,595	-
W/S Fund (Fund 200):		
Transfer to General Fund	157,960	-
Transfer to W/S Debt Service Fund	836,315	-
W/S Debt Service Fund (Fund 300):		
Transfer from General Fund	-	345,850
Transfer from W/S fund	-	836,315
Transfer to Capital Improvement fund	445,000	-
Capital Improvement Fund (Fund 500):		
Transfer from W/S Debt Service Fund	-	445,000
	<u>\$ 1,861,720</u>	<u>\$ 1,861,720</u>

City of Aledo, Texas  
Notes to Basic Financial Statements

**5. Capital Assets**

Capital Asset Activities for the year ended September 30, 2014 was as follows:

	Balance September 30, 2013	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2014
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 102,855	\$ -	\$ -	\$ 102,855
Construction in progress	16,163	36,093	-	52,256
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets not being depreciated	119,018	36,093	-	155,111
Capital assets being depreciated				
Buildings and improvements (restated)	336,465	4,070	-	340,535
Street infrastructure	1,931,262	116,796	-	2,048,058
Storm water drainage (restated)	97,072	-	-	97,072
Vehicles	45,842	36,128	-	81,970
Machinery and equipment	109,194	14,104	-	123,298
Other improvements	183,102	-	-	183,102
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated	2,702,937	171,098	-	2,874,035
Less accumulated depreciation				
Buildings and improvements (restated)	127,998	12,384	-	140,382
Street infrastructure	321,431	130,308	-	451,739
Storm water drainage	1,610	2,427	-	4,037
Vehicles	34,894	5,525	-	40,419
Machinery and equipment	84,520	13,570	-	98,090
Other improvements	101,014	12,534	-	113,548
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	673,292	176,748	-	848,215
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated, net	2,100,967	(5,650)	-	2,025,820
	<hr/>	<hr/>	<hr/>	<hr/>
Governmental activities capital assets, net	<u>\$ 2,219,985</u>	<u>\$ 30,443</u>	<u>\$ -</u>	<u>\$ 2,180,931</u>

City of Aledo, Texas  
Notes to Basic Financial Statements

**5. Capital Assets (continued)**

Governmental activities depreciation expense was charged as a direct expense to the following programs:

Administration	\$ 34,056
City streets	130,308
Community center	12,384
Total depreciation expense - Governmental activities	<u>\$ 176,748</u>

	Balance September 30, 2013	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2014
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 334,604	\$ -	\$ -	\$ 334,604
Total capital assets not being depreciated	334,604	-	-	334,604
Capital assets being depreciated				
Water system (restated)	9,833,790	31,978	-	9,865,768
Sewer system (restated)	12,361,330	-	-	12,361,330
Buildings	3,210	-	-	3,210
Vehicles	124,953	-	-	124,953
Machinery and equipment (restated)	199,434	30,189	-	229,623
Total capital assets being depreciated	22,522,717	62,167	-	22,584,884
Less accumulated depreciation				
Water system	1,682,779	269,167	-	1,951,946
Sewer system	1,732,216	328,647	-	2,060,863
Buildings	242	107	-	349
Vehicles	102,791	8,479	-	111,270
Machinery and equipment	115,022	25,700	-	140,722
Total accumulated depreciation	3,633,050	632,100	-	4,265,150
Total capital assets being depreciated, net	18,889,667	(569,933)	-	18,319,734
Business-type capital assets, net	<u>\$ 19,224,271</u>	<u>\$ (569,933)</u>	<u>\$ -</u>	<u>\$ 18,654,338</u>

Business-type activities depreciation expense was all charged to the City's water and sewer operations.

Water and sewer	\$ 632,100
Total depreciation expense - Business-type activities	<u>\$ 632,100</u>



City of Aledo, Texas  
Notes to Basic Financial Statements

**6. Business-Type Activities Restricted Cash and Investments**

The Water and Sewer Fund maintains an interest and sinking account/certificate fund, which had a balance of \$190,716 at September 30, 2014. The property tax collections accumulated in this account are restricted to pay the water and sewer fund's bond requirements and are divided ratably between the bond issues.

The Certificates of Obligation require that certificate funds be established for the payment of debt service. The City is in compliance with the reserve requirements of these certificates of obligation as of September 30, 2014.

The Water and Sewer Fund maintains a customer deposit security account for the purposes of segregating liabilities payable to customers for security deposits. The account balance at September 30, 2014 amounted to \$102,465.

The Water and Sewer Fund has \$845,779 in restricted impact fees for the purpose of funding facility expansions and capital improvements. These restricted impact fees consist of \$800,139 in a TexSTAR investment account and \$45,640 in a bank account.

The Water and Sewer Fund also has \$1,015,604 in restricted cash and investment accounts that is to be used for the improvements and construction activities specified in the 2007, 2009, 2010, 2011 and 2012 Certificates of Obligation.

The following is a recap of the restricted cash and investments of the Water and Sewer Fund at September 30, 2014:

	As of September 30, 2014
Total cash and investments restricted for debt service	\$ 190,716
Customer security deposits	102,465
Water and wastewater impact fees	845,779
Future construction total restricted assets	1,015,604
	<u>\$ 2,154,564</u>

City of Aledo, Texas  
Notes to Basic Financial Statements

**7. Long-Term Debt**

The following is a summary of changes in non-current liabilities for the year ended September 30, 2014:

	Beginning of Year	Increase	(Decrease)	End of Year	Due Within One Year
Governmental Activities					
Compensated absences	\$ 16,672	\$ 18,556	\$ (18,347)	\$ 16,881	\$ 16,881
Total governmental activities	<u>\$ 16,672</u>	<u>\$ 18,556</u>	<u>\$ (18,347)</u>	<u>\$ 16,881</u>	<u>\$ 16,881</u>
Business-type Activities					
Certificates of Obligation	\$ 14,815,000	\$ -	\$ (585,000)	\$ 14,230,000	\$ 520,000
Capital Lease Obligation	39,028	-	(25,850)	13,178	13,178
Compensated Absences	9,407	11,869	(10,519)	10,757	10,757
Total business-type activities	<u>\$ 14,863,435</u>	<u>\$ 11,869</u>	<u>\$ (621,369)</u>	<u>\$ 14,253,935</u>	<u>\$ 543,935</u>

The annual requirements to amortize Water and Sewer Fund debt as of September 30, 2014 are as follows:

Certificates of Obligation

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ -	\$ -	\$ -	\$ 520,000	\$ 574,800	\$ 1,094,800
2016	-	-	-	535,000	560,710	1,095,710
2017	-	-	-	550,000	545,445	1,095,445
2018	-	-	-	500,000	530,878	1,030,878
2019	-	-	-	505,000	516,717	1,021,717
2020-2024	-	-	-	2,790,000	2,334,353	5,124,353
2025-2029	-	-	-	2,930,000	1,803,239	4,733,239
2030-2034	-	-	-	1,890,000	1,307,434	3,197,434
2035-2039	-	-	-	2,390,000	797,250	3,187,250
2040-2042	-	-	-	1,620,000	164,367	1,784,367
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,230,000</u>	<u>\$ 9,135,193</u>	<u>\$ 23,365,193</u>

The annual requirements to amortize Water and Sewer Fund capital lease obligations as of September 30, 2014 are as follows:

Capital Leases

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	-	-	-	13,178	173	13,351
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,178</u>	<u>\$ 173</u>	<u>\$ 13,351</u>

City of Aledo, Texas  
Notes to Basic Financial Statements

**7. Long-Term Debt (Continue)**

A summary of long-term debt as of September 30, 2014 is as follows:

Description	Original Amount	Interest Rate	Payment Terms	Final Year of Maturity	Outstanding Balance as of September 30, 2014	Governmental Activities	Business-type Activities
<b>Certificates of Obligation</b>							
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 1999	\$ 850,000	4.2% - 5.35%	Bond payments due in semi-annual installments on February 15 and August 15	2014	\$ -	\$ -	\$ -
Combination Tax and Waterworks and Sewer System Revenue CO, Series 2002	\$ 720,000	5.55%	Bond payments due in semi-annual installments on February 15 and August 15	2017	\$ 195,000	\$ -	\$ 195,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2007	\$ 5,765,000	2.35% - 3.10%	Bond payments due in semi-annual installments on February 15 and August 15	2028	\$ 4,340,000	\$ -	\$ 4,340,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2009	\$ 675,000	2.30% - 5.55%	Bond payments due in semi-annual installments on February 15 and August 15	2042	\$ 655,000	\$ -	\$ 655,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2010A	\$ 2,110,000	1.30% - 4.80%	Bond payments due in semi-annual installments on February 15 and August 15	2042	\$ 2,030,000	\$ -	\$ 2,030,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2010B	\$ 360,000	1.94% - 5.59%	Bond payments due in semi-annual installments on February 15 and August 15	2041	\$ 345,000	\$ -	\$ 345,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2011A	\$ 3,345,000	1.00% - 5.45%	Bond payments due in semi-annual installments on February 15 and August 15	2042	\$ 3,215,000	\$ -	\$ 3,215,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2011B	\$ 1,700,000	2.24% - 5.59%	Bond payments due in semi-annual installments on February 15 and August 15	2041	\$ 1,640,000	\$ -	\$ 1,640,000
Tax and Waterworks and Sewer System Surplus Revenue CO, Series 2012	\$ 1,900,000	0.30% - 4.45%	Bond payments due in semi-annual installments on February 15 and August 15	2042	\$ 1,810,000	\$ -	\$ 1,810,000
					<u>\$ 14,230,000</u>	<u>\$ -</u>	<u>\$ 14,230,000</u>

City of Aledo, Texas  
Notes to Basic Financial Statements

**7. Long-Term Debt (continued)**

A summary of long-term debt as of September 30, 2014 is as follows (continued):

Description	Original Amount	Interest Rate	Payment Terms	Final Year of Maturity	Outstanding Balance as of September 30, 2014	Governmental Activities	Business-type Activities
<b>Capital Leases</b>							
Capital lease payable to Frost National Bank secured by equipment and vehicles	N/A	3.48%	Lease payments due in quarterly payments due in November, February, May, and August	2015	\$ 13,178	\$ -	\$ 13,178
					<u>\$ 14,243,178</u>	<u>\$ -</u>	<u>\$ 14,243,178</u>

**8. Accumulated Unpaid Vacation and Sick Leave Benefits**

The City's policy allows employees to accumulate up to 20 days of vacation and 30 days of sick leave. Sick leave is paid only upon illness while in the employment of the City.

Therefore, no accrual is reflected in the financial statements for sick pay. Vacation is earned in varying amounts. The City has accrued for the estimated liability for compensated absences in the governmental and business-type activities in the government-wide financial statements and in the proprietary fund financial statements. The City's aggregate liability for accrued vacation payable as of September 30, 2014 was \$27,638.

**9. Pension Plan**

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**Benefits**

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, 200%) of the employee's accumulated contributions.

In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary

City of Aledo, Texas  
Notes to Basic Financial Statements

**9. Pension Plan (continued)**

credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City are as follows:

	Plan Year 2013	Plan Year 2014
Employee deposit rate:	7%	7%
Matching ratio (City to Employee):	2 to 1	2 to 1
Years required for vesting	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

**Contributions**

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2011 valuation is effective for rates beginning January 2012). The annual pension cost is as follows:

Trend information for the Retirement Plan for the Employees of City of Aledo				
Fiscal Year Ending	Annual Pension Costs (APC)	Actual Contribution Made	% of APC Contributed	Net Pension Obligation
09/30/2011	31,889	31,889	100%	-
09/30/2012	30,561	30,561	100%	-
09/30/2013	17,424	17,424	100%	-
09/30/2014	24,196	24,196	100%	-

City of Aledo, Texas  
Notes to Basic Financial Statements

**9. Pension Plan (continued)**

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

<b>Valuation Date</b>	<b>12/31/2011</b>	<b>12/31/2012</b>	<b>12/31/2013</b>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	20.9 years; closed period	19.7 years; closed period	30.0 years; closed period
Amortization Period for New Gains/Losses	16 years	16 years	19 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return*	7.00%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

City of Aledo, Texas  
Notes to Basic Financial Statements

**9. Pension Plan (continued)**

**Funding Status and Funding Progress**

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuation date, is 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
12/31/13	\$ 511,364	\$ 562,530	90.90%	\$ 51,166	\$ 579,926	8.80%

Actual 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.

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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.

City of Aledo, Texas  
Notes to Basic Financial Statements

**9. Pension Plan (continued)**

**Funding Status and Funding Progress (Continue)**

Schedule of Contribution Rates (Retiree-only portion of the rate)			
Plan Year	Annual Required Contribution (Rate)	Annual Contribution Made (Rate)	% of ARC Contributed
2011	0.03%	0.03%	100.00%
2012	0.03%	0.03%	100.00%
2013	0.03%	0.03%	100.00%
2014	0.03%	0.03%	100.00%
2015	0.03%	0.03%	100.00%

**10. Contingencies**

There are various lawsuits pending in which the City is involved. In the opinion of legal counsel and City management, the settlement of these lawsuits will not have a material adverse effect on the City's financial position.

**11. Prior Period Adjustments**

The accompanying financial statements reflect adjustments resulting from a restatement of beginning fund balance/net assets as of September 30, 2014 as follows:

- Decrease in Water & Sewer Fund of \$40,232 to decrease fixed assets recorded as of September 30, 2013.
- Decrease in Water & Sewer Debt Service Fund of \$6,333 for write-off of debt issuance costs due to GASB 65 implementation.
- Decrease in Capital Improvement Fund of \$401,967 for write-off of debt issuance costs due to GASB 65 implementation.
- Decrease in General Fund of \$69,497 to decrease fixed assets recorded as of September 30, 2013.

The combined effect of these prior period adjustments on the government-wide financial statements is to decrease governmental activities net assets by \$69,497 from \$4,426,796 to \$4,357,299 and decrease business-type activities net assets by \$448,532 from \$7,009,231 to \$6,560,699.

**12. Future Financial Reporting Requirement**

The GASB has issued the following statement which will become effective in future years.

Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27." – This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date. This statement will become effective for the City in fiscal year 2015.

Management has not yet determined the effect of these statements on the financial statements



City of Aledo, Texas  
Notes to Basic Financial Statements

**13. Subsequent Events**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 16, 2015, the date the financial statements were available to be issued.

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## REQUIRED SUPPLEMENTARY INFORMATION

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City of Aledo, Texas  
Required Supplementary Information  
Schedule of Funding Progress for Participation in Texas Municipal Retirement System  
September 30, 2014

Texas Municipal Retirement System  
Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Asset	Actuarial Accrued Liability	Funded Ratio	Unfunded Actuarial Accrued Liability	Covered Payroll	Unfunded Actuarial Accrued Liability as a percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2011	\$ 382,145	\$ 462,176	82.7%	\$ 80,031	\$ 486,645	16.4%
12/31/2012	442,278	524,439	84.3%	82,161	505,053	16.3%
12/31/2013	511,364	562,530	90.9%	51,166	79,926	8.8%

City of Aledo, Texas  
 Budgetary Comparison Schedule - General Fund  
 Year ended September 30, 2014

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 378,994	\$ 378,994	\$ 744,421	\$ 365,427
Sales taxes	300,000	300,000	344,962	44,962
Franchise fees	216,195	216,505	278,755	62,250
Building permits	91,903	164,458	243,282	78,824
Court fines and fees	23,100	23,100	20,726	(2,374)
Construction fees	66,690	66,690	150,572	83,882
Rental revenue	10,000	10,510	16,713	6,203
Event revenue	8,000	8,000	7,323	(677)
Credit card revenue	95	95	235	140
Interest income	1,000	1,000	1,095	95
Miscellaneous	14,290	14,290	11,550	(2,740)
Total revenues	\$ 1,110,267	\$ 1,183,642	\$ 1,819,634	\$ 635,992
Expenditures				
Current				
Administration	\$ 758,703	\$ 784,573	\$ 722,319	\$ (62,254)
Public works	255,410	305,100	307,188	2,088
City streets	155,914	155,914	149,380	(6,534)
Municipal court	12,455	14,295	11,917	(2,378)
Park and recreation	60,350	55,815	4,921	(50,894)
Community center	83,945	83,955	64,823	(19,132)
Event expense	4,000	4,000	3,022	(978)
Credit card expense	-	500	259	(241)
Capital outlay	100,000	100,000	90,744	(9,256)
Total expenditures	1,430,777	1,504,152	1,354,573	(149,579)
Excess (deficiency) of revenues over expenditures	(320,510)	(320,510)	465,061	785,571
Other financing sources (uses):				
Transfers in	234,555	234,555	234,555	-
Transfers out	-	-	(345,850)	(345,850)
Total other financing sources (uses)	234,555	234,555	(111,295)	(345,850)
Net change in fund balances	(85,955)	(85,955)	353,766	439,721

City of Aledo, Texas  
 Budgetary Comparison Schedule - Economic Development Corporation  
 Year ended September 30, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues				
Sales taxes	\$ 150,000	\$ 150,000	\$ 172,481	\$ 22,481
Interest income	200	200	157	(43)
Event revenue	13,500	21,160	21,087	(73)
Miscellaneous revenue	-	-	578	578
Total revenues	163,700	171,360	194,303	22,943
Expenditures				
Event expense	\$ 20,000	\$ 29,295	\$ 28,591	\$ (704)
Administration	31,450	71,985	46,501	(25,484)
Capital outlay	153,840	153,840	8,903	(144,937)
Total expenditures	205,290	255,120	83,995	(171,125)
Excess (deficiency) of revenues over expenditures	(41,590)	(83,760)	110,308	194,068
Other financing sources (uses)				
Transfers out	(76,595)	(76,595)	(76,595)	-
Total other financing sources (uses)	(76,595)	(76,595)	(76,595)	-
Net change in fund balances	(118,185)	(160,355)	33,713	194,068
Fund balance, beginning of year	373,599	373,599	373,599	-
Fund balance, end of year	<u>\$ 255,414</u>	<u>\$ 213,244</u>	<u>\$ 407,312</u>	<u>\$ 194,068</u>

City of Aledo, Texas  
Notes to Required Supplementary Information

**1. BUDGETS AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedules:

1. No later than the August Council meeting, the City Administrator submits to City Council a proposed operating budget for the General Fund, Economic Development Fund, Water and Sewer Debt Service Fund and Enterprise Fund. The City's operating budget, is consistent with U.S. generally accepted accounting principles (GAAP) for the General and Economic Development funds and includes expenditures and means of financing them. The Water and Sewer Debt Service fund is budgeted separately; however, it is included in the proprietary fund for presentation in the financial statements. The Water and Sewer Capital Projects fund is not budgeted. In addition, depreciation expense is not budgeted, however, it is recorded in the proprietary and business type financial statements.
2. A public hearing is conducted to obtain taxpayer comment.
3. The City Council approves, by ordinance, budget appropriations by September 30. Any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by fund.
4. Unused appropriations of the above annually budgeted funds lapse at the end of each fiscal year.
5. The City Council may authorize additional appropriations during the year. The City Council amended the budget during the year. Amendments to the budget were insignificant.



## **Other Supplementary Information Section**

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**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENTAL AUDITING STANDARDS**

To the City Council  
City of Aledo, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Aledo, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Aledo's basic financial statements, and have issued our report thereon dated March 16, 2015.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Aledo's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Vail + Knauth, LLP*

Richardson, Texas

March 16, 2015

# **Budgetary Comparison Schedule**

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City of Aledo, Texas  
 Budgetary Comparison Schedule - Water and Sewer Debt Service Fund  
 Year ended September 30, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues				
Other revenue	\$ -	\$ -	\$ 19	\$ 19
Total revenues	-	-	19	19
Expenditures				
Administration	640	640	-	(640)
Total expenditures	640	640	-	(640)
Nonoperating revenue (expenses)				
Interest income	300	300	330	30
Interest expense	(583,755)	(583,755)	(582,764)	991
Fiscal agent fees	(1,850)	(1,850)	(1,200)	650
Property taxes	334,630	334,630	-	(334,630)
Total nonoperating revenue (expenses)	(250,675)	(250,675)	(583,634)	(332,959)
Excess (deficiency) of revenues over expenditures	(251,315)	(251,315)	(583,615)	(332,300)
Other financing sources (uses)				
Transfers in	836,315	836,315	1,182,165	345,850
Transfers out	-	-	(445,000)	(445,000)
Total other financing sources (uses)	836,315	836,315	737,165	(99,150)
Net change in fund balances	585,000	585,000	153,550	(431,450)
Fund balance, beginning of year	80,242	80,242	80,242	-
Prior period adjustment	-	-	(6,333)	(6,333)
Fund balance, end of year	<u>\$ 665,242</u>	<u>\$ 665,242</u>	<u>\$ 227,459</u>	<u>\$ (437,783)</u>

City of Aledo, Texas  
 Budgetary Comparison Schedule - Water and Sewer Fund  
 Year ended September 30, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final	Amounts	
Revenues				
Charges for services & other revenues	\$ 1,950,625	\$ 1,946,625	\$ 1,866,364	\$ (80,261)
Credit card fees	3,000	3,000	3,990	990
Refuse revenue	125,000	125,000	144,902	19,902
Other revenue	5,200	5,200	1,892	(3,308)
Total revenues	2,083,825	2,079,825	2,017,148	(62,677)
Expenditures				
Administration	321,170	329,470	318,874	(10,596)
Supplies and maintenance	452,690	487,030	441,888	(45,142)
Utilities	132,200	134,770	99,889	(34,881)
Professional services	118,450	110,655	61,301	(49,354)
Refuse expenses	125,000	125,000	144,706	19,706
Credit card expenses	3,500	3,500	4,502	1,002
Other operating expenses	47,455	46,650	16,043	(30,607)
Depreciation	-	-	632,101	632,101
Total expenditures	1,200,465	1,237,075	1,719,304	482,229
Nonoperating revenue (expenses)				
Interest income	2,000	2,000	1,516	(484)
Impact fees	-	-	174,185	174,185
Interest and fiscal agent fees	(1,085)	(1,085)	(969)	116
Bond issue costs	-	-	(1,426)	(1,426)
Total nonoperating revenue (expenses)	915	915	173,306	172,391
Excess (deficiency) of revenues over expenditures	884,275	843,665	471,150	(372,515)
Other financing sources (uses)				
Transfers in	-	-	445,000	445,000
Transfers out	(994,275)	(994,275)	(994,275)	-
Total other financing sources (uses)	(994,275)	(994,275)	(549,275)	445,000
Net change in fund balances	(110,000)	(150,610)	(78,125)	72,485
Fund balance, beginning of year	6,928,989	6,928,989	6,928,989	-
Prior period adjustment	-	-	(442,199)	(442,199)
Fund balance, end of year	<u>\$ 6,818,989</u>	<u>\$ 6,778,379</u>	<u>\$ 6,408,665</u>	<u>\$ (369,714)</u>