

CITY OF FREDERICKSBURG
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2014

CITY OF FREDERICKSBURG, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information—State or Local Governmental Entity

Independent Auditor's Report

Mayor and City Council
City of Fredericksburg, Texas
Fredericksburg, Texas 78624

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of and for the twelve months ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, each major fund, and the aggregate remaining fund information of City of Fredericksburg, Texas as of September 30, 2014 and the respective changes in financial position and, where applicable,

cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3–10 and 50 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fredericksburg, Texas's basic financial statements. The accompanying supplementary information such as the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the other information, such as the introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying other information 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 January 31, 2015 on our consideration of City of Fredericksburg, Texas'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 reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fredericksburg, Texas's internal control over financial reporting and compliance.

Klein, Kraus and Company, LLC

Klein, Kraus and Company, LLC
Fredericksburg, Texas 78624

January 31, 2015

Management's Discussion and Analysis

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

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2014, by \$46,428,897 (net assets). Of this amount, \$8,952,658 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net assets increased by \$1,580,571.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,354,566.
- As of September 30, 2014, unreserved fund balance for the General Fund was \$7,862,633 or 64 percent of the current year's total General Fund expenditures of \$12,200,419.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. 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 a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are

intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government administration, public safety, streets, parks and recreation, and health services. The business-type activities of the City include electric, water, wastewater, storm water drainage, solid waste, emergency medical services (EMS), and golf operations.

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

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

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 14 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is considered to be the major fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the annual appropriated budget. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining fund statements and schedules elsewhere in this report.

Proprietary Funds. The City maintains two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for electric, water, wastewater, storm water drainage, solid waste, emergency medical services, and golf operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for the employee health insurance program. The internal service function has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Internal Service Fund is reported in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18 – 25 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 – 49 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$46,428,897 as of September 30, 2014, compared to \$44,848,326 as of September 30, 2013.

CITY OF FREDERICKSBURG'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 8,686,065	\$ 10,488,150	\$ 16,319,247	\$ 16,617,645	\$ 25,005,312	\$ 27,105,795
Capital assets	17,611,304	15,609,973	27,745,701	28,256,852	45,357,005	43,866,825
Total assets	<u>26,297,369</u>	<u>26,098,123</u>	<u>44,064,948</u>	<u>44,874,497</u>	<u>70,362,317</u>	<u>70,972,620</u>
Current liabilities	1,335,386	1,093,974	4,407,012	4,992,919	5,742,398	6,086,893
Noncurrent liabilities	5,961,022	6,010,482	12,230,000	14,026,919	18,191,022	20,037,401
Total liabilities	<u>7,296,408</u>	<u>7,104,456</u>	<u>16,637,012</u>	<u>19,019,838</u>	<u>23,933,420</u>	<u>26,124,294</u>
Net Assets:						
Invested in capital assets,						
Net of related debt	11,650,282	9,599,490	18,190,811	14,229,933	29,841,093	23,829,423
Restricted for Long Term Debt	-	-	37,323	57,534	37,323	57,534
Restricted for Capital Projects	2,500	1,644,214	7,595,323	6,433,464	7,597,823	8,077,678
Unrestricted	<u>7,348,180</u>	<u>7,749,963</u>	<u>1,604,478</u>	<u>5,133,728</u>	<u>8,952,658</u>	<u>12,883,691</u>
Total net assets	<u>\$ 19,000,962</u>	<u>\$ 18,993,667</u>	<u>\$ 27,427,935</u>	<u>\$ 25,854,659</u>	<u>\$ 46,428,897</u>	<u>\$ 44,848,326</u>

By far the largest portion of the City's net assets reflects its investments in capital assets (e.g., land, buildings, equipment and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets \$8,952,658 may be used to meet the government's ongoing obligations to citizens and creditors.

City of Fredericksburg
Statement of Activities
For Fiscal Years 2014 and 2013

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services	\$ 1,055,107	\$ 947,667	\$ 22,451,497	\$ 20,371,331	\$ 23,506,604	\$ 21,318,998
Operating Grants and Contributions	461,385	405,956			461,385	405,956
General Revenues:						
Property Taxes	3,167,030	3,159,363	303,012	295,474	3,470,042	3,454,837
Sales Taxes	4,752,931	4,470,701			4,752,931	4,470,701
Hotel Occupancy Taxes	2,407,978	2,116,839			2,407,978	2,116,839
Other Taxes	651,420	571,105			651,420	571,105
Miscellaneous Revenue	65,315	91,075	1,139,116	883,448	1,204,431	974,523
Investments Earnings	12,370	22,489	24,442	13,889	36,812	36,378
Total Revenues	<u>\$ 12,573,536</u>	<u>\$ 11,785,195</u>	<u>\$ 23,918,067</u>	<u>\$ 21,564,142</u>	<u>\$ 36,491,603</u>	<u>\$ 33,349,337</u>
Expenses						
Administrative	\$ 3,695,639	\$ 3,152,302			\$ 3,695,639	\$ 3,152,302
Police	4,021,418	3,289,958			4,021,418	3,289,958
Fire	813,444	752,310			813,444	752,310
Streets	2,332,909	2,200,513			2,332,909	2,200,513
Parks	1,721,227	1,547,049			1,721,227	1,547,049
Health	159,833	143,207			159,833	143,207
Food and Wine Festival	154,253	162,301			154,253	162,301
Emergency Management	129,822	119,388			129,822	119,388
Development Services	476,890	320,512			476,890	320,512
Electric			\$ 11,900,583	\$ 10,839,882	11,900,583	10,839,882
Water and Sewer			3,802,275	3,434,820	3,802,275	3,434,820
Golf			1,686,159	1,751,718	1,686,159	1,751,718
Landfill			1,957,954	1,969,968	1,957,954	1,969,968
EMS			1,843,930	1,711,832	1,843,930	1,711,832
Drainage Utilities			263,283	275,684	263,283	275,684
Total Expenses	<u>\$ 13,505,434</u>	<u>\$ 11,687,540</u>	<u>\$ 21,454,184</u>	<u>\$ 19,983,904</u>	<u>\$ 34,959,618</u>	<u>\$ 31,671,444</u>
Increase (decrease) in Net Assets Before Transfers	<u>\$ (931,898)</u>	<u>\$ 97,655</u>	<u>\$ 2,463,883</u>	<u>\$ 1,580,238</u>	<u>\$ 1,531,985</u>	<u>\$ 1,677,893</u>
Gain (Loss) on Retirement of Assets	21,835	43,977	23,457	32,868	45,292	76,845
Transfers	<u>917,360</u>	<u>381,364</u>	<u>(917,360)</u>	<u>(381,364)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>\$ 7,298</u>	<u>\$ 522,996</u>	<u>\$ 1,569,980</u>	<u>\$ 1,231,742</u>	<u>\$ 1,577,277</u>	<u>\$ 1,754,738</u>
Net Assets, Beginning	\$ 18,993,664	\$ 18,521,418	\$ 25,854,660	\$ 24,622,917	\$ 44,848,324	\$ 43,144,335
Prior Period Adjustment		(50,750)	3,295		3,295	(50,750)
Net Assets, Beginning	<u>\$ 18,993,664</u>	<u>\$ 18,470,668</u>	<u>\$ 25,857,955</u>	<u>\$ 24,622,917</u>	<u>\$ 44,851,619</u>	<u>\$ 43,093,585</u>
Net Assets, Ending	<u>\$ 19,000,962</u>	<u>\$ 18,993,664</u>	<u>\$ 27,427,935</u>	<u>\$ 25,854,659</u>	<u>\$ 46,428,897</u>	<u>\$ 44,848,323</u>

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

As a whole, the government's net assets increased by \$1,577,277 during the current fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,354,566. Refer to page 14 of this report for a more detailed presentation of governmental fund balances.

The General Fund is the chief operating fund of the City. The total fund balance of the General Fund was unreserved and amounted to \$7,862,633.

The fund balance of the City's General Fund increased by \$655,523 during the current fiscal year.

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

Unrestricted net assets of the City's Enterprise Funds at the end of the year amounted to \$1,604,478. Net assets of the City's Enterprise Funds increased by \$1,573,275 in the current year. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2014, amounts to \$45,357,005 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities and infrastructure.

Major capital asset acquisitions occurring during the current fiscal year included the following:

• IT Warehouse Improvements	\$89,803
• Police Vehicles	108,961
• Fire Pumper	526,520
• Street and Bridge Improvements	142,332
• Sidewalks	107,107
• Park Pool Project	2,153,232
• Electric Department Bucket Truck	112,397
• Water Department Vehicles	61,311
• Wastewater Treatment Plant Improvements	495,327
• Water Tank Improvements	240,283
• Pressure Plane Improvements	75,760
• Water Main Improvements	91,727
• Landfill Equipment	329,693
	<u>\$4,534,453</u>

Additional information on the City's capital assets can be found on pages 37 – 38 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total bonded debt of \$13,780,000. The entire amount is debt backed in full faith and credit of the City.

The City carries bond ratings from Standard and Poor's of AA- and from Moody's Investors Service of Aa3.

Additional information on the City's long term-debt can be found in pages 42 – 44 of this report.

PROPERTY TAXES

General Fund Property Tax Rate

In the budget for fiscal year-end September 30, 2014, the adopted property tax rate decreased from \$.2647 to \$.2482 per \$100 of assessed valuation.

Tax Rate, Levy and Collection History

Fiscal Year Ended September 30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2014	0.2482	0.1992	0.0490	3,435,935	92.62%	99.26%
2013	0.2647	0.1940	0.0707	3,415,974	92.15%	99.12%
2012	0.2444	0.1917	0.0527	3,162,656	92.50%	99.60%
2011	0.2365	0.1794	0.0571	3,059,692	93.74%	99.75%
2010	0.2319	0.1413	0.0906	3,050,545	91.78%	99.78%
2009	0.2350	0.1608	0.0742	3,002,027	92.39%	99.88%
2008	0.2414	0.1606	0.0808	2,760,539	91.76%	99.90%
2007	0.2566	0.1636	0.0930	2,574,997	92.48%	99.90%
2006	0.2596	0.1557	0.1039	2,353,435	93.16%	99.91%
2005	0.2820	0.1681	0.1139	2,314,321	92.15%	99.96%
2004	0.2567	0.1955	0.0612	1,926,198	92.44%	99.91%
2003	0.2370	0.1764	0.0606	1,610,865	93.16%	99.92%
2002	0.2505	0.1939	0.0566	1,501,757	92.02%	99.90%
2001	0.2651	0.2063	0.0588	1,453,310	91.38%	99.90%

**City of Fredericksburg
Budget Comparison
For Fiscal Years 2015 and 2014**

	2014-2015 <u>Budget</u>	2013-2014 <u>Budget</u>	Increase <u>(Decrease)</u>	Increase <u>(Decrease)</u>
Revenues				
General Fund	\$ 13,897,700	\$ 12,657,100	\$ 1,240,600	9.80%
Electric	14,159,900	12,329,800	1,830,100	14.84%
Water & Sewer	6,104,400	5,498,300	606,100	11.02%
Golf	1,786,600	1,716,100	70,500	4.11%
Landfill	2,350,600	1,815,300	535,300	29.49%
EMS	1,706,100	1,718,800	(12,700)	-0.74%
Drainage	134,000	379,300	(245,300)	-64.67%
Emergency Management	135,200	122,600	12,600	10.28%
Debt Service	605,000	664,100	(59,100)	-8.90%
Internal Service Fund	<u>1,473,200</u>	<u>1,207,000</u>	<u>266,200</u>	<u>22.05%</u>
Total Revenues	\$ 42,352,700	\$ 38,108,400	\$ 4,244,300	11.14%
Expenditures				
General Fund				
Administrative	\$ 4,009,800	\$ 4,089,500	\$ (79,700)	-1.95%
Police	4,054,700	3,875,700	179,000	4.62%
Fire	799,600	758,300	41,300	5.45%
Street	2,556,800	2,427,400	129,400	5.33%
Park	1,526,600	1,370,400	156,200	11.40%
Development Services	424,500	401,100	23,400	5.83%
Health	167,400	153,200	14,200	9.27%
Municipal Court	153,600	n/a	n/a	
Engineering	212,600	n/a	n/a	
Food and Wine Festival	<u>155,800</u>	<u>140,000</u>	<u>15,800</u>	<u>11.29%</u>
	\$ 14,061,400	\$ 13,215,600	\$ 845,800	6.40%
Electric	\$ 14,120,500	\$ 12,400,000	\$ 1,720,500	13.88%
Water & Sewer	6,928,600	5,768,500	1,160,100	20.11%
Golf	1,786,600	1,716,100	70,500	4.11%
Landfill	3,178,000	1,871,400	1,306,600	69.82%
EMS	1,706,000	1,718,800	(12,800)	-0.74%
Drainage	344,500	452,400	(107,900)	-23.85%
Emergency Management	135,200	122,600	12,600	10.28%
Debt Service	619,400	652,300	(32,900)	-5.04%
Internal Service Fund	<u>1,473,200</u>	<u>1,188,300</u>	<u>284,900</u>	<u>23.98%</u>
Total Expenditures	\$ 44,353,400	\$ 39,106,000	\$ 5,247,400	13.42%
Budgeted Revenues in Excess (Deficiency) of Expenditures	<u>\$ (2,000,700)</u>	<u>\$ (997,600)</u>	<u>\$ (1,003,100)</u>	

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Laura Hollenbeak, Director of Finance, 126 West Main, Fredericksburg, Texas 78624 or call (830) 997-7521.

BASIC FINANCIAL STATEMENTS

City of Fredericksburg, Texas
Statement of Net Assets
September 30, 2014

	Primary Government			Component Unit Convention & Visitors Bureau
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 6,775,959	\$ 9,945,531	\$ 16,721,490	\$ 453,198
Investments - Current		650,000	650,000	
Tax Receivables (Net of Allowance)	659,584		659,584	
Internal Balances	221,108	2,149,207	2,370,315	
Intergovernmental Receivable	924,045		924,045	
Due from Others	105,369	2,465,763	2,571,132	25
Inventory		1,108,745	1,108,745	
Property and Equipment, Net of Depreciation				
Land	2,954,743	1,068,323	4,023,066	
Buildings	7,334,151	6,611,721	13,945,872	
Improvements	18,442,241	46,198,358	64,640,599	
Machinery & Equipment	7,449,851	9,055,106	16,504,957	82,119
Less: Accumulated Depreciation	(18,569,682)	(35,187,808)	(53,757,490)	(63,792)
Total Assets	<u>\$ 26,297,369</u>	<u>\$ 44,064,948</u>	<u>\$ 70,362,317</u>	<u>\$ 471,550</u>
LIABILITIES				
Accounts Payable	\$ 658,999	\$ 1,409,633	\$ 2,068,632	\$ 25,968
Accrued Payroll	131,144	116,429	247,573	31,754
Intergovernmental Payable	48,639	221,755	270,393	
Accrued Interest Payable	26,476	43,912	70,388	
Internal Balances	294,541	2,075,774	2,370,315	
Deferred Revenues	56,783		56,783	
Other Current Liabilities	118,804	539,510	658,314	
Noncurrent Liabilities				
Due Within One Year	610,643	2,160,875	2,771,518	
Due in More Than One Year	5,350,379	10,069,125	15,419,504	
Total Liabilities	<u>\$ 7,296,408</u>	<u>\$ 16,637,012</u>	<u>\$ 23,933,420</u>	<u>\$ 57,722</u>
NET ASSETS				
Invested in Fixed Assets, Net of Related Debt	\$ 11,650,282	\$ 18,190,811	\$ 29,841,093	
Restricted for Long Term Debt		37,323	37,323	
Restricted for Capital Projects	2,500	7,595,323	7,597,823	
Unrestricted Net Assets	7,348,180	1,604,478	8,952,658	\$ 413,828
Total Net Assets	<u>\$ 19,000,962</u>	<u>\$ 27,427,935</u>	<u>\$ 46,428,897</u>	<u>\$ 413,828</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Statement of Activities
For the Year Ended September 30, 2014

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
Administration	\$ 1,393,801	\$ 39,692	
Tourism	2,301,838		
Police	4,021,418	142,891	\$ 45,160
Fire	813,444		310,522
Emergency Management	129,822		77,528
Streets	2,332,909	11,423	
Parks	1,721,227	443,024	129
Health	159,833	91,133	28,046
Food and Wine Festival	154,253	195,376	
Development Services	476,890	131,567	
Total Governmental Activities	\$ 13,505,434	\$ 1,055,107	\$ 461,385
Business-type Activities:			
Electric	\$ 11,900,583	\$ 12,667,707	
Water	3,802,275	5,411,824	
Golf	1,686,159	1,159,712	
Landfill	1,957,954	2,018,510	
EMS	1,843,930	1,117,673	
Drainage	263,283	76,072	
Total Business-type Activities	\$ 21,454,184	\$ 22,451,497	\$ -
Total Government	\$ 34,959,618	\$ 23,506,604	\$ 461,385
Component Unit			
Fredericksburg Convention and Visitors Bureau	\$ 1,841,918		

General Revenues:
Taxes
Property Taxes
Sales Tax
Hotel Occupancy Tax
Other Taxes
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)
Gain (Loss) on Retirement of Fixed Assets
Total General Revenues
Change in Net Assets
Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Unit Convention & Visitors Bureau
\$ (1,354,108)		\$ (1,354,108)	
(2,301,838)		(2,301,838)	
(3,833,368)		(3,833,368)	
(502,922)		(502,922)	
(52,294)		(52,294)	
(2,321,485)		(2,321,485)	
(1,278,074)		(1,278,074)	
(40,653)		(40,653)	
41,123		41,123	
(345,322)		(345,322)	
<u>\$ (11,988,942)</u>	<u>\$ -</u>	<u>\$ (11,988,942)</u>	
	\$ 767,124	\$ 767,124	
	1,609,549	1,609,549	
	(526,447)	(526,447)	
	60,555	60,555	
	(726,257)	(726,257)	
	(187,211)	(187,211)	
<u>\$ -</u>	<u>\$ 997,313</u>	<u>\$ 997,313</u>	
<u>\$ (11,988,942)</u>	<u>\$ 997,313</u>	<u>\$ (10,991,629)</u>	
			<u>\$ 1,841,918</u>
\$ 3,167,030	\$ 303,012	\$ 3,470,042	
4,752,931		4,752,931	
2,407,978		2,407,978	
651,420		651,420	
65,315	1,139,116	1,204,431	\$ 1,735,774
12,370	24,442	36,812	
917,360	(917,360)	-	
21,835	23,457	45,292	
<u>\$ 11,996,240</u>	<u>\$ 572,667</u>	<u>\$ 12,568,907</u>	<u>\$ 1,735,774</u>
\$ 7,298	\$ 1,569,980	\$ 1,577,277	\$ 106,144
\$ 18,993,664	\$ 25,854,660	\$ 44,848,324	\$ 309,313
	3,295	3,295	(1,629)
<u>\$ 19,000,962</u>	<u>\$ 27,427,935</u>	<u>\$ 46,428,896</u>	<u>\$ 413,828</u>

City of Fredericksburg
Governmental Funds
Balance Sheet
September 30, 2014

	General	Capital Project	Debt Service	Total
Assets				
Cash and Cash Equivalents	\$ 7,208,759	\$ (506,599)	\$ (3,072)	\$ 6,699,088
Taxes Receivable (Net of Allowance for Uncollectible)	659,584			659,584
Receivable (Net of Allowance for Uncollectible)	98,487			98,487
Intergovernmental Receivables	924,045			924,045
Due from Other Funds	181,853		1,604	183,456
Total Assets	<u>\$ 9,072,728</u>	<u>\$ (506,599)</u>	<u>\$ (1,469)</u>	<u>\$ 8,564,661</u>
 Liabilities and Fund Balance				
Accounts Payable	\$ 508,999			\$ 508,999
Wages and Salaries Payable	131,144			131,144
Intergovernmental Payable	48,639			48,639
Due to other Funds	294,541			294,541
Deferred Revenues	107,969			107,969
Other Current Liabilities	118,804			118,804
Total Liabilities	<u>\$ 1,210,095</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,210,095</u>
 Fund Balance				
Reserved for:				
Debt service			\$ (1,469)	\$ (1,469)
Capital Improvements		\$ (506,599)		\$ (506,599)
Unreserved reported in General Fund	\$ 7,862,633			7,862,633
Total Fund Balances	<u>\$ 7,862,633</u>	<u>\$ (506,599)</u>	<u>\$ (1,469)</u>	<u>\$ 7,354,566</u>
Total Liabilities and Fund Balance	<u>\$ 9,072,728</u>	<u>\$ (506,599)</u>	<u>\$ (1,469)</u>	<u>\$ 8,564,661</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 September 30, 2014

Total Fund Balances - Governmental Funds	\$7,354,566
The City uses an internal service fund to charge the cost of hospitalization self insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.	(28,597)
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$33,063,820 and the accumulated depreciation was \$17,453,848. The net effect of including the beginning balances for capital assets (net of accumulated depreciation) in the government-wide financials is an increase (decrease) to net assets.	15,609,972
Current year net capital outlays are expenditures in the fund financial statements, but they should be shown as increases to capital assets in the government-wide financial statements. The net effect of including 2014 net capital outlays is an increase (decrease) to net assets.	3,264,783
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to increase (decrease) net assets.	(1,263,451)
Long term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including beginning balances for long-term debt in the government-wide activities is to increase (decrease) net assets.	(6,010,482)
Current year proceeds from issuance of long-term debt are reported as other financing sources in the fund financial statements, but they should be shown as an increase to long-term debt in the government-wide financial statements. The net effect of including 2014 bond proceeds is an increase (decrease) to net assets.	(526,520)
Current year long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as reductions in long-term debt in the government-wide financial statements. The net effect of including 2014 debt principal payments is to increase (decrease) net assets.	575,979
Various other reclassification and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	24,712
Net Assets of Governmental Activities	<u><u>\$19,000,962</u></u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2014

	General	Capital Project	Debt Service	Total
Revenues				
General Property Taxes	\$ 2,512,744		\$ 656,190	\$ 3,168,934
General Sales and Use Taxes	4,752,931			4,752,931
Hotel Occupancy Taxes	2,407,978			2,407,978
Other Taxes	651,420			651,420
Licenses and Permits	223,205			223,205
Charges for Services	11,423			11,423
Fines	131,690			131,690
Pavilion and Camping Fees	389,208			389,208
Rentals	39,492			39,492
Intergovernmental Revenue	415,921			415,921
Grants	31,199			31,199
Investment Earnings	9,872	\$ 2,419	79	12,370
Other Revenues	339,664			339,664
Total Revenues	\$ 11,916,747	\$ 2,419	\$ 656,270	\$ 12,575,436
Expenditures				
Administration	\$ 1,223,311			\$ 1,223,311
Tourism	2,301,838			2,301,838
Police	3,573,802			3,573,802
Fire	664,557			664,557
Emergency Management	124,897			124,897
Streets	1,646,196			1,646,196
Parks	1,194,498			1,194,498
Health	147,801			147,801
Food and Wine Festival	154,253			154,253
Development Services	448,208			448,208
Debt Service				
Principal	133,057		\$ 506,348	639,405
Interest	2,971		145,797	148,768
Capital Outlays	585,031	\$ 2,153,232		2,738,263
Total Expenditures	\$ 12,200,419	\$ 2,153,232	\$ 652,145	\$ 15,005,797
Excess of Revenues Over (Under) Expenditures	\$ (283,672)	\$ (2,150,813)	\$ 4,124	\$ (2,430,361)
Other Financing Sources (Uses)				
Sale of Real and Personal Property	\$ 21,835			\$ 21,835
Transfers in	1,676,800			1,676,800
Transfers (out)	(759,440)			(759,440)
Total Other Financing Sources (Uses)	\$ 939,195	\$ -	\$ -	\$ 939,195
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 655,523	\$ (2,150,813)	\$ 4,124	\$ (1,491,165)
Fund Balances - Beginning	7,207,110	1,644,214	(5,593)	8,845,731
Fund Balances - Ending	\$ 7,862,633	\$ (506,599)	\$ (1,469)	\$ 7,354,566

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg
 Reconciliation of the Governmental Funds Balance Sheet to
 the Statement of Net Assets
 September 30, 2014

Total Net Change in Fund Balances - Governmental Funds (\$1,491,163)

The City uses an internal service fund to charge the cost of hospitalization insurance to the governmental funds. The net income (loss) of this internal service fund is consolidated with the governmental fund in the Statement of Activities. (544,147)

Governmental funds report capital outlays as expenditures. However in the Statement of Activities these costs are reported as depreciation expense to allocate the expenditures over the life of the asset.

Capital Outlays	3,264,783
Depreciation Expense	(1,263,451)

Bond proceeds provide current financial resources to government funds, but issuing debt increases long term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Lease Proceeds	(526,520)
Principal Payments	639,405

Some expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Balances	(63,426)
Accrued Interest Expense	(6,281)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest.

Deferred Revenue	(1,904)
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Change in Net Assets of Governmental Activities \$7,298

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2014

	Business-type Activities - Enterprise Funds			
	Electric	Water	Golf	Landfill
ASSETS				
Current assets:				
Cash and Cash Equivalents	\$ 992,440	\$ 8,257,708	\$ (265,923)	\$ 1,158,110
Investments		400,000		250,000
Internal Balances	954,939			954,939
Accounts Receivable (Net of Allowance)	1,340,411	500,721		178,184
Inventory	867,453	173,835	67,458	
Total Current Assets	<u>\$ 4,155,243</u>	<u>\$ 9,332,264</u>	<u>\$ (198,465)</u>	<u>\$ 2,541,233</u>
Non-current Assets:				
Property and Equipment				
Land	\$ 89,475	\$ 463,900	\$ 305,399	\$ 209,549
Buildings	2,039,886	2,385,773	1,753,473	63,923
Improvements	8,183,062	25,762,486	3,206,159	4,144,708
Machinery and Equipment	1,474,514	2,109,287	934,748	3,376,483
Less: Accumulated Depreciation	(8,975,229)	(13,746,515)	(2,318,864)	(6,561,804)
Total Noncurrent Assets	<u>\$ 2,811,707</u>	<u>\$ 16,974,931</u>	<u>\$ 3,880,913</u>	<u>\$ 1,232,860</u>
Total Assets	<u>\$ 6,966,949</u>	<u>\$ 26,307,195</u>	<u>\$ 3,682,448</u>	<u>\$ 3,774,093</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 1,030,060	\$ 273,104	\$ 31,501	\$ 30,858
Accrued Payroll	22,607	30,101	18,724	22,111
Intergovernmental Payable	136,067		12,646	14,821
Accrued Interest Payable	235	31,269	7,879	2,883
Internal Balances	99,064	42,173	1,913,321	17,304
Other Current Liabilities	346,114	167,991	14,506	10,900
Capital Leases Payable	37,520		209,442	363,665
Bonds Payable-Current Maturity				
General Obligation Bonds		245,000		
Limited Tax Notes		1,145,000		
Total Current Liabilities	<u>\$ 1,671,668</u>	<u>\$ 1,934,638</u>	<u>\$ 2,208,019</u>	<u>\$ 462,542</u>
Noncurrent Liabilities:				
Bonds Payable-Non Current				
General Obligation Bonds		\$ 750,000		
Revenue Bonds		6,500,000		
Unamortized Charge-Refunding Bond		(83,182)		
Unamortized Premiums (Discount) on Bonds		0		
Compensated Absences	\$ 122,980	101,855	\$ 79,196	\$ 104,831
Closure and Post Closure Liability				2,202,752
Total Noncurrent Liabilities	<u>\$ 122,980</u>	<u>\$ 7,268,673</u>	<u>\$ 79,196</u>	<u>\$ 2,307,583</u>
Total Liabilities	<u>\$ 1,794,648</u>	<u>\$ 9,203,310</u>	<u>\$ 2,287,215</u>	<u>\$ 2,770,125</u>
Net Assets				
Invested in Fixed Assets, Net of Related Debt Restricted for Long Term Debt	\$ 2,774,187	\$ 8,418,113	\$ 3,671,471	\$ 869,195
Restricted for Long Term Debt		37,323		
Restricted for Capital Projects		7,592,823		2,500
Unrestricted Net Assets	2,398,115	1,055,626	(2,276,238)	132,273
Total Net Assets	<u>\$ 5,172,302</u>	<u>\$ 17,103,885</u>	<u>\$ 1,395,233</u>	<u>\$ 1,003,968</u>

The notes to the Financial Statements are an integral part of this statement.

City of Fredericksburg, Texas
Proprietary Funds
Statement of Net Assets
September 30, 2014

EMS	Drainage	Enterprise Fund Totals	Governmental Activities Internal Service Fund
\$ (390,475)	\$ 193,671	\$ 9,945,531	\$ 76,870
238,590	740	650,000	
439,665	6,782	2,149,207	37,652
		2,465,763	6,882
		1,108,745	
<u>\$ 287,780</u>	<u>\$ 201,194</u>	<u>\$ 16,319,247</u>	<u>\$ 121,404</u>
		\$ 1,068,323	
\$ 368,666		6,611,721	
6,907	\$ 4,895,036	46,198,358	
1,157,744	2,330	9,055,106	
(1,069,593)	(2,515,802)	(35,187,808)	
<u>\$ 463,724</u>	<u>\$ 2,381,565</u>	<u>\$ 27,745,701</u>	<u>\$ -</u>
\$ 751,504	\$ 2,582,758	\$ 44,064,948	\$ 121,404
\$ 30,276	\$ 13,834	\$ 1,409,633	\$ 150,000
22,886		116,429	
58,220		221,755	
658	988	43,912	
3,913		2,075,774	
104,928		539,510	
		715,555	
	55,320	300,320	
		1,145,000	
<u>\$ 220,881</u>	<u>\$ 70,141</u>	<u>\$ 6,567,888</u>	<u>\$ 150,000</u>
	\$ 235,941	\$ 985,941	
	(12,474)	6,500,000	
	3,729	(95,656)	
\$ 63,496		3,729	
		472,359	
		2,202,752	
<u>\$ 63,496</u>	<u>\$ 227,196</u>	<u>\$ 10,069,124</u>	<u>\$ -</u>
<u>\$ 284,377</u>	<u>\$ 297,338</u>	<u>\$ 16,637,012</u>	<u>\$ 150,000</u>
\$ 358,796	\$ 2,099,049	\$ 18,190,811	
		37,323	
		7,595,323	
108,331	186,372	1,604,478	(28,596)
<u>\$ 467,127</u>	<u>\$ 2,285,421</u>	<u>\$ 27,427,935</u>	<u>\$ (28,596)</u>

City of Fredericksburg, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2014

	Business-type Activities - Proprietary Funds		
	Electric	Water	Golf
OPERATING REVENUES			
Electric Sales	\$ 12,628,089		
Water Sales		\$ 2,989,437	
Sewer Sales		2,406,008	
Golf Course Fees			\$ 1,159,712
Garbage Collection and Tipping Fees			
EMS Fees			
Drainage Utilities			
Licenses and Permits	9,742	16,380	
-2			
Rents and Royalties	29,876	2,553	
Other Revenue	259,474	528,068	3,423
Total Operating Revenues	<u>\$ 12,927,180</u>	<u>\$ 5,942,445</u>	<u>\$ 1,163,135</u>
OPERATING EXPENSES			
Salaries and Wages	\$ 823,314	\$ 1,016,765	\$ 644,630
Employee Benefits	206,691	293,871	208,435
Contracted Services	146,349	75,747	5,948
Other Operating Expenses	10,424,807	1,327,692	570,907
Amortization of Bond Costs		14,684	
Depreciation	298,255	802,019	237,575
Total Operating Expenses	<u>\$ 11,899,416</u>	<u>\$ 3,530,777</u>	<u>\$ 1,667,496</u>
Operating Income (Loss)	\$ 1,027,764	\$ 2,411,668	\$ (504,360)
Nonoperating Revenues (Expenses):			
Investment Income	\$ 9,036	\$ 5,493	\$ 86
Interest Expense	(1,167)	(271,498)	(18,663)
Transfers to Other Funds	(1,037,000)	(475,800)	
Transfers from Other Funds			421,900
Gain (Loss) on Sale of Fixed Assets	4,957		
Total Nonoperating Revenues (Expenses)	<u>\$ (1,024,174)</u>	<u>\$ (741,805)</u>	<u>\$ 403,323</u>
Changes in Net Assets	\$ 3,590	\$ 1,669,863	\$ (101,037)
Total Net Assets - Beginning	5,168,712	15,434,022	1,492,975
Prior Period Adjustment			3,295
Total Net Assets - Ending	<u>\$ 5,172,302</u>	<u>\$ 17,103,885</u>	<u>\$ 1,395,233</u>

The notes to the Financial Statements are an integral part of this statement.

				Governmental Activities	
Landfill	EMS	Drainage	Totals	Internal Service Fund	
			\$ 12,628,089		
			2,989,437		
			2,406,008		
			1,159,712		
\$ 2,018,285			2,018,285		
	\$ 1,117,673		1,117,673		
25		\$ 76,072	76,072		
			26,147		
200		303,010	303,010		
1,060	344,540		32,629		
\$ 2,019,570	\$ 1,462,213	\$ 379,082	\$ 23,893,625	\$ 1,245,910	\$ 1,245,910
\$ 746,014	\$ 1,008,377		\$ 4,239,101		
229,605	252,208		1,190,809		
9,939	7,056	\$ 167	245,207		
536,473	449,026	117	13,309,022	\$ 1,791,216	
		5,962	20,646		
435,923	122,846	244,105	2,140,724		
\$ 1,957,954	\$ 1,839,514	\$ 250,351	\$ 21,145,508	\$ 1,791,216	
\$ 61,615	\$ (377,301)	\$ 128,731	\$ 2,748,117	\$ (545,306)	
\$ 8,330	\$ 150	\$ 1,347	\$ 24,442	\$ 1,160	
	(4,416)	(12,932)	(308,676)		
(164,000)			(1,676,800)		
	337,540		759,440		
18,500			23,457		
\$ (137,170)	\$ 333,274	\$ (11,585)	\$ (1,178,137)	\$ 1,160	
\$ (75,554)	\$ (44,027)	\$ 117,146	\$ 1,569,980	\$ (544,146)	
1,079,522	511,154	2,168,275	25,854,660	515,550	
			3,295		
\$ 1,003,968	\$ 467,127	\$ 2,285,421	\$ 27,427,935	\$ (28,596)	

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2014

	Enterprise Funds	
	Electric	Water
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 12,839,677	\$ 5,867,873
Cash Payments to Employees for Services	(1,027,196)	(1,306,482)
Cash Payments for Suppliers	(10,228,502)	(1,568,808)
Net Cash Provided (Used) by Operating Activities	\$ 1,583,979	\$ 2,992,583
Cash Flows from Non-capital Financing Activities		
Operating Transfers Out	\$ (1,037,000)	\$ (475,800)
Operating Transfers In		
Net Cash Provided (Used) by Non-capital Financing Activities	\$ (1,037,000)	\$ (475,800)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	\$ (212,870)	\$ (1,003,559)
Capital Lease Proceeds		
Bond Proceeds less Issuance Costs		
Principal Paid on Capital Debt	(36,828)	(1,556,200)
Interest Paid on Capital Debt	(1,167)	(271,498)
Proceeds from the Sale of Capital Assets	4,957	
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (245,908)	\$ (2,831,257)
Cash Flows from Investing Activities		
Interest Received on Investments	\$ 9,036	\$ 5,493
Net Cash Provided by Investing Activities	\$ 9,036	\$ 5,493
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 310,107	\$ (308,981)
Cash and Cash Equivalents, Beginning	682,333	8,966,689
Cash and Cash Equivalents, Ending	\$ 992,440	\$ 8,657,708

The notes to the Financial Statements are an integral part of this statement

<u>Golf</u>	<u>Landfill</u>	<u>EMS</u>	<u>Drainage</u>	<u>Totals</u>	<u>Internal Service Fund</u>
\$ 1,163,136	\$ 1,997,425	\$ 1,354,525	\$ 378,993	\$ 23,601,629	\$ 1,239,052
(851,192)	(972,224)	(1,258,979)		(5,416,073)	
<u>(619,639)</u>	<u>(437,048)</u>	<u>(967,924)</u>	<u>(265,143)</u>	<u>(14,087,064)</u>	<u>(1,806,753)</u>
\$ (307,695)	\$ 588,153	\$ (872,378)	\$ 113,850	\$ 4,098,492	\$ (567,701)
	\$ (164,000)			\$ (1,676,800)	
\$ 421,900		\$ 337,540		759,440	
\$ 421,900	\$ (164,000)	\$ 337,540	\$ -	\$ (917,360)	\$ -
\$ (39,867)	\$ (338,093)	\$ -	\$ (35,183)	\$ (1,629,572)	
39,867	311,193			351,060	
(75,362)	(184,411)	(106,007)	(287,452)	(2,246,260)	
(20,098)	18,500	(4,416)	(12,932)	(310,111)	
				23,457	
\$ (95,460)	\$ (192,811)	\$ (110,423)	\$ (335,567)	\$ (3,811,426)	\$ -
\$ 86	\$ 8,330	\$ 150	\$ 1,347	\$ 24,442	\$ 1,160
\$ 86	\$ 8,330	\$ 150	\$ 1,347	\$ 24,442	\$ 1,160
\$ 18,831	\$ 239,672	\$ (645,111)	\$ (220,370)	\$ (605,852)	\$ (566,541)
(284,754)	1,168,438	254,636	414,041	11,201,383	643,411
\$ (265,923)	\$ 1,408,110	\$ (390,475)	\$ 193,671	\$ 10,595,531	\$ 76,870

City of Fredericksburg, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2014

	<u>Enterprise Funds</u>	
	<u>Electric</u>	<u>Water</u>
<u>Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	\$ 1,027,764	\$ 2,411,668
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	298,255	802,019
Amortization		14,684
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (Increase) in Receivables	(87,503)	(74,573)
Decrease (Increase) in Due from Other Funds	292,121	
Decrease (Increase) in Inventories	(107,463)	6,308
Increase (Decrease) in Accounts Payable	65,049	82,599
Increase (Decrease) in Wages Payable	2,809	4,154
Increase (Decrease) in Interest Payable	(231)	4,918
Increase (Decrease) in Due to Other Funds	10,349	(276,808)
Increase (Decrease) in Due to Other Governments	13,626	
Increase (Decrease) in Compensated Absences Payable	(3,328)	(4,726)
Increase (Decrease) in Landfill Closure Liability		
Increase (Decrease) in Other Current Liabilities	72,531	22,340
Net Cash Provided by (Used For) Operating Activities	<u>\$ 1,583,979</u>	<u>\$ 2,992,583</u>

The notes to the Financial Statements are an integral part of this statement.

Golf	Landfill	EMS	Drainage	Totals	Internal Service Fund
\$ (504,360)	\$ 61,615	\$ (377,301)	\$ 128,731	\$ 2,748,117	\$ (545,307)
237,575	435,923	122,846	244,105	2,140,724	
			5,962	20,646	
	(22,143)	(107,688)	(92)	(291,999)	(6,858)
5,950	22,121	(238,590)	9,576	91,178	(15,536)
(5,476)				(106,631)	
(3,106)	(8,446)	(594)	13,833	149,335	
1,873	3,395	1,606		13,837	
(388)	1,399	(319)	(718)	4,661	
(43,127)	786	(219,229)	(287,547)	(815,576)	
(2,191)	95	(45,090)		(33,560)	
4,728	1,962	(8,019)		(9,383)	
	91,746			91,746	
827	(300)			95,398	
<u>\$ (307,695)</u>	<u>\$ 588,153</u>	<u>\$ (872,378)</u>	<u>\$ 113,850</u>	<u>\$ 4,098,492</u>	<u>\$ (567,701)</u>

CITY OF FREDERICKSBURG, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fredericksburg, Texas (the "City") is a municipal corporation incorporated under Article XI, Section 4 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides such services as are authorized by its code of ordinances and its inhabitants. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The City has no blended component units. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

A. Discretely Presented Component Unit

The Fredericksburg Convention and Visitor Bureau's mission is to create a positive business environment, take a leadership role in community affairs, be an information resource for its members, help in providing a better quality of life for its citizens and increase growth of the overnight tourism and meeting industry in Fredericksburg.

The Bureau is governed by a Board of Directors comprised of 11 members. Each member is appointed by the City Council of the City of Fredericksburg. The Bureau also provides the City with financial information, as required by City Council. In addition, the annual budget for the Bureau must be approved by City Council. These facts distinguish the Bureau as a discretely presented component unit of the City.

Complete financial statements for the component unit may be obtained at the Fredericksburg Convention and Visitor Bureau's administrative office, which is located at 302 E. Austin, Fredericksburg, Texas 78624.

B. Government-wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or indirectly 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 among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. 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

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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City has the following major governmental fund:

The **General Fund** – is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following proprietary funds:

The Electric Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates electricity services.

The Water and Sewer Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates water and sewer services.

The Golf Course Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a golf course facility.

The Solid Waste Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates a sanitary landfill.

The Emergency Medical Service Fund (EMS) – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates Emergency Medical Services jointly with the County of Gillespie.

The Drainage Utilities Fund – is used to account for operations that are intended to be self-supporting through user charges. The City of Fredericksburg operates drainage utilities services.

Additionally, the government reports the following fund types:

Internal Service Funds account for Health Insurance services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Amounts reported as *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, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenue includes all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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. The principal operating revenues of the Enterprise Funds, and of the City's Internal Service Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund and Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

Cash and temporary investments consist of demand deposits, time deposits, and balances in public funds investment pools. Short-term investments are stated at cost.

For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). There were no balances that were considered “advanced to/from other funds” at September 30, 2014. All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is based on historical collection rates.

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. The Gillespie County Central Appraisal District (“CAD”) establishes appraised values. Taxes are levied by the City Council based on the appraised values received from the CAD. The Gillespie County Tax Assessor performs billings and collection of tax levies.

3. Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories in the Enterprise Fund are valued at cost (first-in, first-out method).

4. Capital Assets

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

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. **Assets, Liabilities, and Net Assets or Equity** (Continued)

4. Capital Assets (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	10 – 50
Improvements other than buildings	10 – 50
Equipment	5 – 15
Infrastructure	30

5. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time off (PTO). Vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may only carry 480 hours of PTO over into the next calendar year. Expenditures are reported for these amounts.

6. Long-term Obligations

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

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

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for the use for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

8. Net assets

Net assets represent the difference between assets and liabilities. Net assets 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 assets 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.

9. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

10. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. The reclassifications did not change total assets, total liabilities, total fund equity, total revenue of funds and total expense/expenditures.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$24,712 difference are as follows:

Deferred Revenues	\$	51,188
Accrued Interest Expense		<u>(26,476)</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	\$	<u>24,712</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental fund* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “*Various other reclassifications and eliminations*” The details of this \$(1,904) difference are as follows:

Reclass delinquent property taxes collected in current year	\$	<u>(1,904)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities</i>	\$	<u>(1,904)</u>

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements.

1. At least 30 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The proposed budget includes estimated revenue and proposed expenditures for the General and Special Revenue Funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted on a fund basis by the City Council.
4. The City Council can adjust the budget during its formal City Council meetings.
5. Actual expenditures cannot exceed the legally-adopted budget.
6. Appropriations lapse at the end of the year.
7. Budgets are adopted on a basis consistent with generally accepted accounting principles.

4. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

As of September 30, 2014, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Tex Pool	\$ 449,300	30
Portfolio weighted average maturity (days)	\$ 449,300	30

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by maintaining a weighted average days to maturity for the operating fund portfolio of less than 360 days. The maximum allowable maturity for any investment is 3 years.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Deposits and Investments

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2014, the City had cash deposits of \$17,366,040. The total fair market value of pledged securities held as collateral amounted to \$20,262,013. In addition, \$250,000 of the deposits are covered by FDIC insurance.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investments as of September 30, 2014, were rated as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAA	Standard & Poor's

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., its agencies and instrumentalities;
2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amount not to exceed \$250,000;
3. No-load money market mutual funds; and
4. TexPool, Lone Star Investment Pool and MBIA Class.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council's investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year-end are representative of the types of investments maintained by the City during the year.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Receivables

Receivables as of year-end for the government's individual major funds, nonmajor funds and enterprise funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Government Funds			Enterprise Funds			Totals
	<u>General</u>	<u>Electric</u>	<u>Water</u>	<u>Landfill</u>	<u>EMS</u>	<u>Drainage</u>	
Taxes	\$667,084						\$667,084
Due from Other Governments	924,045						924,045
Customer Accounts	62,528	\$1,359,981	\$505,991	\$179,079	\$527,309	\$6,854	2,641,742
Notes	40,250						40,250
Interest	0	0	10	14	0	0	24
Gross Receivables	1,693,907	1,359,981	506,001	179,093	527,309	6,854	4,273,145
Less: Allowance for Uncollectibles	(11,791)	(19,570)	(5,280)	(909)	(87,644)	(72)	(125,266)
Net Total Receivables	\$1,682,116	\$1,340,411	\$500,721	\$178,184	\$439,665	\$6,782	\$4,147,879

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

General Fund – Deferred Revenues

Fines Receivable	\$	42,107
Taxes Receivable – Delinquent		<u>65,862</u>
Total Deferred Revenues	\$	<u>107,969</u>

4. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,954,743	\$ -	\$ -	\$ 2,954,743
Total assets not being depreciated	<u>2,954,743</u>	<u>-</u>	<u>-</u>	<u>2,954,743</u>
Capital assets, being depreciated:				
Buildings	7,275,396	58,755	-	7,334,151
Improvements other than buildings	15,946,826	2,495,415	-	18,442,241
Equipment	6,886,855	710,613	147,616	7,449,852
Total capital assets being depreciated	<u>30,109,077</u>	<u>3,264,783</u>	<u>147,616</u>	<u>33,226,244</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>17,453,848</u>	<u>1,263,451</u>	<u>147,616</u>	<u>18,569,683</u>
Total capital assets being depreciated, net	<u>12,655,229</u>	<u>2,001,332</u>	<u>-</u>	<u>14,656,561</u>
Governmental activities capital assets, net	\$ <u>15,609,972</u>	\$ <u>2,001,332</u>	\$ <u>-</u>	\$ <u>17,611,304</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,068,323	\$ -	\$ -	\$ 1,068,323
Total assets not being depreciated	<u>1,068,323</u>	<u>-</u>	<u>-</u>	<u>1,068,323</u>
Capital assets, being depreciated:				
Buildings	6,561,721	50,000	-	6,611,721
Improvements other than buildings	45,170,455	1,027,904	-	46,198,359
Equipment	8,710,177	551,668	206,739	9,055,106
Total capital assets being depreciated	<u>60,442,353</u>	<u>1,629,572</u>	<u>206,739</u>	<u>61,865,186</u>
Less accumulated depreciation:				
Total accumulated depreciation	<u>33,253,824</u>	<u>2,140,723</u>	<u>206,739</u>	<u>35,187,808</u>
Total capital assets being depreciated, net	<u>27,188,529</u>	<u>(511,151)</u>	<u>-</u>	<u>26,677,378</u>
Business-type activities capital assets, net	<u>28,256,852</u>	<u>(511,151)</u>	<u>-</u>	<u>27,745,701</u>
Total City Net Capital Assets	\$ <u>43,866,824</u>	\$ <u>1,490,181</u>	\$ <u>-</u>	\$ <u>45,357,005</u>

(continued)

44 DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets (Continued)

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

Governmental activities:		
Administrative	\$	130,107
Police		147,629
Fire		94,718
Streets		520,932
Parks		365,120
Health		20
Emergency Management		4,925
		<hr/>
Total depreciation expense – governmental activities	\$	<u>1,263,451</u>
Business-type activities:		
Electric	\$	298,255
Water and Sewer		802,019
Golf		237,575
Landfill		435,923
EMS		122,846
Drainage Utilities		244,105
		<hr/>
Total depreciation expense – business-type activities	\$	<u>2,140,724</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers

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

General Fund	DUE TO	DUE FROM
Electric – In Lieu of Taxes		\$ 96,300
Water – In Lieu of Taxes		37,400
Landfill – In Lieu of Taxes		13,500
EMS	238,590	
Drainage	740	
Emergency Management	34,653	
Debt Service	1,604	
Hospitalization Insurance	18,684	
Electric Fund		
General Fund – In Lieu of Taxes	96,300	
Golf		954,939
Hospitalization Insurance	2,764	
Water & Sewer Fund		
General Fund – In Lieu of Taxes	37,400	
Hospitalization Insurance	4,773	
Golf Fund		
Electric	954,939	
Landfill	954,939	
Hospitalization	3,444	
Landfill		
General Fund – In Lieu of Taxes	13,500	
Golf		954,939
Hospitalization Insurance	3,804	
EMS		
General Fund		238,590
Hospitalization Insurance	3,913	
Drainage		
General Fund		740
Emergency Management		
General Fund		34,653
Hospitalization Insurance	270	
Debt Service		
General Fund		1,604
Hospitalization Insurance		
General Fund		18,684
Electric		2,764
Water & Sewer		4,773
Golf		3,444
Landfill		3,804
EMS		3,913
Emergency Management		270
Total Due To/Due From	\$ 2,370,315	\$ 2,370,315

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers (Continued)

The balances of \$954,939 due to the Electric Fund and the Solid Waste Fund represent amounts that were lent to the Golf Course to fund 2011-12 renovations to the Golf Course. The Note's terms include a 1% annual interest rate and a twenty year amortization period with a 10/1/2034 maturity date.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund		
Electric	\$ 1,037,000	
Water & Sewer	475,800	
Landfill	164,000	
EMS		\$ 337,540
Golf		421,900
Electric Fund		
General Fund		1,037,000
Water and Sewer Fund		
General Fund		475,800
Landfill		
General Fund		164,000
EMS		
General Fund	337,540	
Golf		
General Fund	421,900	
Total Transfers	\$ <u>2,436,240</u>	\$ <u>2,436,240</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Interfund Receivables, Payables and Transfers (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as the debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended September 30, 2014, the City made payments from various funds to the General Fund in lieu of taxes. GASB 34 requires that these payments be treated as transfers. Transfers were made from the following funds:

Electric	\$ 1,037,000
Water and Sewer	475,800
Landfill	<u>164,000</u>
	<u>\$ 1,676,800</u>

Capital Leases

The government has acquired certain fixed assets for governmental activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014 were as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
2015	136,028	380,167
2016	70,296	220,150
2017	70,296	141,282
2018	70,296	-
2019	70,296	-
2020	70,296	-
2021	<u>70,296</u>	<u>-</u>
Total minimum lease payments	557,804	741,599
Less: amount representing interest	<u>(36,886)</u>	<u>(26,044)</u>
Present value of minimum lease payments	<u>\$520,918</u>	<u>\$715,555</u>

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 5,355,087	\$ -	\$ 506,348	\$ 4,848,739	\$ 484,681
Total bonds payable	5,355,087	-	506,348	4,848,739	484,681
Capitalized leases	127,455	526,520	133,057	520,918	125,962
Compensated absences	527,939	63,426	-	591,365	-
Total governmental Activities	\$ 6,010,481	\$ 589,946	\$ 639,405	\$ 5,961,022	\$ 610,643
Business-type activities					
General obligation bonds:					
General obligation bonds	\$ 2,029,913	\$ -	\$ 743,652	\$ 1,286,261	\$ 300,320
Less: Unamortized issuance costs	(33,033)	-	(8,713)	(24,320)	-
Add: Unamortized premiums	8,415	-	4,686	3,729	-
Less: Deferred amount on refundings	(12,524)	-	(8,839)	(3,685)	-
Total bonds payable	1,992,771	-	730,786	1,261,985	300,320
Revenue Bonds and Notes					
Revenue bonds	6,500,000	-	-	6,500,000	-
Less: Unamortized issuance costs	(66,522)	-	(3,326)	(63,196)	-
Limited tax notes	2,245,000	-	1,100,000	1,145,000	1,145,000
Less: Unamortized issuance costs	(8,910)	-	(4,455)	(4,455)	-
Total revenue bonds & notes	8,669,568	-	1,092,219	7,577,349	1,145,000
Capitalized leases	771,833	351,060	407,338	715,555	364,394
Compensated absences	481,741	-	9,382	472,359	-
Total business-type Activities	\$ 11,915,913	\$ 351,060	\$ 2,239,725	\$ 10,027,248	\$ 1,809,714
Long-term liabilities	\$ 17,926,394	\$ 941,006	\$ 2,879,130	\$ 15,988,270	\$ 2,420,357

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities (Continued)

Governmental activities long-term liabilities at September 30, 2014, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General Obligation Refunding Bonds	\$ 3,604,164	1.00%-3.00%	\$ 1,893,739
2012 General Obligation Bonds	3,200,000	2.877%	<u>2,955,000</u>
			<u>\$ 4,848,739</u>

Compensated absences are generally liquidated by the General Fund. The funds utilized for the repayment of long-term liabilities for governmental activities are the Debt Service Fund and the General Fund.

Business-type Activities long-term liabilities at September 30, 2014, consisted of the following:

Series	Original Issue	Interest Rate	Debt Outstanding
2008 Limited Tax Notes	\$ 6,200,000	3.340%	\$ 1,145,000
2010 General Obligation Refunding Bonds	2,465,836	1.00% to 3.00%	291,261
2012 General Obligation Refunding Bonds	1,485,000	.50% to 1.35%	995,000
2013 Revenue Bonds	6,500,000	3.097%	<u>6,500,000</u>
			<u>\$ 8,931,261</u>

The annual debt service requirements to be paid on governmental activities long-term debt outstanding at September 30, 2014, are as follows:

September 30,	Principal	General Obligation Bonds Interest	Total
2015	484,680	134,595	619,275
2016	498,347	123,732	622,079
2017	512,015	110,711	622,726
2018	530,015	95,445	625,460
2019	543,682	79,644	623,326
2020-2024	775,000	273,684	1,048,684
2025-2029	900,000	153,206	1,053,206
2030-2032	<u>605,000</u>	<u>26,541</u>	<u>631,541</u>
	\$ 4,848,739	\$ 997,558	\$ 5,846,297

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Liabilities (Continued)

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2014, are as follows:

September 30,	Principal	General Obligation Bonds, Revenue Bonds, & Limited Tax Notes Interest	Total
2015	\$ 1,445,319	\$ 237,952	\$ 1,683,271
2016	576,653	211,323	787,976
2017	592,986	198,634	791,620
2018	604,985	184,831	789,816
2019	361,318	172,175	533,493
2020-2024	1,650,000	703,793	2,353,793
2025-2029	1,925,000	427,618	2,352,618
2030-2033	1,775,000	112,034	1,887,034
	<u>\$ 8,931,261</u>	<u>\$ 2,248,360</u>	<u>\$ 11,179,621</u>

Employee Retirement Systems

Texas Municipal Retirement System (TMRS)

Plan Description

The City provides pension benefits for all of its fulltime employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 823 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the 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%, or 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 credits and employee contributions accumulated with interest if the current employee contribution rate and 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.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Plan Description (Continued)

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 were as follows.

Deposit Rate:	5%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: **5yrs/age 60, 20 yrs/any age**

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 28-year amortization period. The unit credit actuarial cost method is used for determining the City 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, 2007 valuation is effective for rates beginning January 2009.)

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Municipal Retirement System (TMRS) (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actual valuation date		<u>12/31/13</u>		<u>12/31/12</u>
Actuarial value of assets	\$	29,217,821	\$	27,299,038
Actuarial accrued liability		33,478,488		25,420,350
Percentage funded		87.3%		107.4%
Unfunded (over-funded)				
actuarial accrued liability (UAAL)		4,260,667		(1,878,688)
Annual covered payroll		8,017,226		7,999,971
UAAL as a percentage of covered payroll		(53.1)%		(23.5)%
Net pension obligation (NPO) at the beginning of period				
Annual Pension Cost:				
Annual required contribution (ARC)		344,818		383,923
Contributions made		344,818		383,923
Increase in NPO		-		-
NPO at the end of period		-		-

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25.1 Years – Closed Period
Asset Valuation Method	-	10-year Smoothed Market
Investment Rate of Return	-	7.5%
Projected Salary Increases	-	Varies by age and service
Includes Inflation at	-	3.0%

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund

Plan Description

The Fire Fighters' Pension Commission is the administrator of the Texas Statewide Emergency Services Personnel Retirement Fund (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without monetary remuneration. At August 31, 2014, there were 198 members of fire or emergency services departments participating in the Fund. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2014, the Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,073
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	2,161
Active Participants (Vested and Nonvested)	<u>4,036</u>
	<u>9,270</u>

Senate Bill 411, 65th Legislature, Regular Session (1977), created the Fund, and established the applicable benefit provisions. These benefit provisions include retirement benefits as well as death and disability benefits. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas and eligibility requirements by Board rule. Members are 50% vested after the 10th year of service, with the vesting percent increasing 10% for each of the next 5 years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by 6 times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Employee Retirement Systems (Continued)

Texas Statewide Emergency Services Personnel Retirement Fund (Continued)

Plan Description (Continued)

Contribution provisions were established by S.B. 411, 65th Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by volunteer emergency services personnel. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. Additional contributions may be made by governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The state may also be required to make annual contributions up a limited amount to make the funds actuarially sound.

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; and natural disasters for which the City participates in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation claims. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is only reported in the government-wide financial statements because it is not expected to be liquidated with expendable available financial resources. However, none are reported at September 30, 2014.

Contingent Liabilities

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

(continued)

4. DETAILED NOTES ON ALL FUNDS (Continued)

Closure and Postclosure Care Costs

State and federal laws and regulations require that the City of Fredericksburg place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability must be recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill capacity used to date. Estimated liability for landfill closure and postclosure care costs has a balance of \$2,202,752 as of September 30, 2014, which is based on 89.4% usage of current open cells and 31.11% *usage of the entire landfill*. The landfill is expected to be filled to capacity in 2054. The estimated total current cost of the landfill closure and postclosure care is based on a third party completing the actual work. The amount includes costs for equipment, facilities, and services required to close, monitor, and maintain the landfill as if purchased at September 30, 2014. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Governmental Accounting Standards Board Statement #54

Beginning with fiscal year ended September 30, 2011, the Statement of Net Assets and Statement of Activities are presented in accordance with Governmental Accounting Standards Board Statement #54.

Prior Period Adjustment

During fiscal year 2013, the City received lease proceeds for the purchase of a Pro-Turf mower in the Golf fund. The mower was not added to fixed assets nor was the lease payable recorded. The FY 13 debt service payment of \$4,730 was recorded erroneously as a maintenance expense. In addition, accrued interest payable on the lease of \$1,435 was not recorded. The credit adjustment to the fund balance of the Golf Fund of \$3,295 corrects the net over recording of expenses due to these errors.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fredericksburg, Texas
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Year Ended September 30, 2014

	Budgeted Amounts		GAAP Basis Actual	Variance With Final Budget Positive or (Negative)
	Original	Final		
Revenues				
General Property Taxes	\$ 2,509,500	\$ 2,509,500	\$ 2,512,744	\$ 3,244
General Sales and Use Taxes	4,400,000	4,570,000	4,752,931	182,931
Hotel Occupancy Taxes	2,189,000	2,189,000	2,407,978	218,978
Other Taxes	577,000	605,000	651,420	46,420
Licenses and Permits	168,100	168,100	223,205	55,105
Charges for Services	3,000	3,000	11,423	8,423
Fines	145,500	145,500	131,690	(13,810)
Pavilion and Camping Fees	360,500	360,500	389,208	28,708
Rentals	37,900	37,900	39,492	1,592
Intergovernmental Revenue	440,500	440,500	415,921	(24,579)
Grants	21,000	21,000	31,199	10,199
Investment Earnings	11,100	11,100	9,872	(1,228)
Other Revenues	279,700	279,700	339,666	59,966
Total Revenues	\$ 11,142,800	\$ 11,340,800	\$ 11,916,749	\$ 575,949
Expenditures				
Administration	\$ 1,135,100	\$ 1,164,100	\$ 1,223,311	\$ (59,211)
Tourism	2,098,600	2,370,600	2,301,838	68,762
Police	3,603,500	3,603,500	3,573,802	29,698
Fire	688,200	688,200	664,557	23,643
Emergency Management	122,600	122,600	124,897	(2,297)
Streets	1,891,900	1,891,900	1,646,196	245,704
Parks	1,202,900	1,213,900	1,194,498	19,402
Health	153,200	153,200	147,801	5,399
Food and Wine Festival	140,000	140,000	154,253	(14,253)
Development Services	365,100	401,100	448,208	(47,108)
Debt Service				
Principal	132,600	132,600	133,057	(457)
Interest	3,300	3,300	2,971	329
Capital Outlays	729,800	872,186	585,031	287,155
Total Expenditures	\$ 12,266,800	\$ 12,757,186	\$ 12,200,419	\$ 556,767
Excess of Revenues Over (Under) Expenditures	\$ (1,124,000)	\$ (1,416,386)	\$ (283,670)	\$ 1,132,716
Other Financing Sources (Uses)				
Sale of Real and Personal Property	14,500	14,500	21,835	50,835
Transfers in	\$ 1,622,400	\$ 1,622,400	1,676,800	54,400
Transfers out	573,700	1,432,900	759,440	673,460
Total Other Financing Sources (Uses)	\$ 1,063,200	\$ 204,000	\$ 939,195	\$ (568,225)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (60,800)	\$ (1,212,386)	\$ 655,525	\$ 564,490
Fund Balances - Beginning	3,007,965	2,934,465	7,207,109	4,272,644
Fund Balances - Ending	\$ 2,947,165	\$ 1,722,079	\$ 7,862,634	\$ 6,140,555

The notes to the Financial Statements are an integral part of this statement.