

**CITY OF WOLFFORTH, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2014**

**CITY OF WOLFFORTH, TEXAS**

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# **CITY OF WOLFFORTH, TEXAS**

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**CITY OF WOLFFORTH**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

As management of the City of Wolfforth (the City), 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. This discussion and analysis is designed to provide an objective and easy to read analysis of the City's financial activities based on currently known facts, decisions or conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the City's activities based on information presented in the financial report and fiscal policies that have been adopted by the Council. Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the adopted budget) and identify individual fund issues or concerns. As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

**Financial Highlights**

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ending September 30, 2014 by \$6,826,956 (net position) an increase of \$519,363.
- The City's assets and deferred outflows increased by \$356,077 during the year while the liabilities decreased by \$163,286.
- The City paid off the Series 1976 Revenue Bonds.
- The City issued Tax Notes Series 2013 in the amount of \$580,000 for various capital projects.

**Overview of the Financial Statements**

This annual report consists of two parts - management's discussion and analysis (this section) and the basic financial statements. This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and 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 two government-wide statements report the City's net position and how it has changed. The

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*Statement of Net Position* includes all of the City's assets and liabilities. Net position is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position is an indicator of whether its financial position is improving or deteriorating. The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of the timing of the 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 not used vacation leave). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in governmental fund financial statements.

Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads and streets, sidewalks, etc.) to assess the overall health or financial condition of the City.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

- **Governmental Activities** – Distinguish functions of the City that are principally supported by taxes and intergovernmental revenues. Most of the City's basic services are reported here, including the general administration, police, fire, streets, library, and parks.
- **Business-type Activities** – Report functions of the City that are intended to recover all or a significant portion of their costs through user fees and charges. The City's water and sewer system and sanitation solid waste collection are reported here.

All of these activities are collectively referred to in the financial statements as those of the *primary government*.

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

- **Governmental funds** – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those

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funds and the balances left at year-end that are available for spending. Essentially the same functions are reported in the governmental funds as in the governmental activities section of the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- The City maintains two governmental funds. Information is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund which is considered to be a major fund. The other governmental fund is the Debt Service Fund.
- Proprietary funds – Services for which the City charges customers a fee generally are reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both short-term and long-term financial information. The City maintains two types of proprietary funds. The enterprise fund, which is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The second type is the internal service fund which is an accounting device used to accumulate and allocate costs internally among the City's various functions. The internal service fund is used to account for the health insurance for City employees. Because the internal service fund predominantly benefits governmental rather than business-type functions the fund is included within governmental activities in the government-wide financial statements.
- The City maintains a single individual enterprise fund. The City uses the enterprise fund to account for its water and sewer services and sanitation (solid waste disposal) services.

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**Notes to the Financial Statements**

The notes provide disclosures and additional information that is essential to a full understanding of the financial information presented in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information regarding the City's budgetary comparative information for the general fund and pension funding progress. This information follows the notes to the financial statements.

**THE CITY AS A WHOLE – Government-wide Financial Analysis**

As stated above, the government-wide statements provide information on the City as a whole in a manner similar to businesses. The net position statement demonstrates the differences between the City's assets and liabilities and serves as an indicator of the City's growth or decline in financial position. The statement of activities demonstrates the amount of growth or decline in the City's financial position.

The City's combined net position was \$6.8 million as of September 30, 2014. Analyzing the governmental and business-type activities separately, the business-type activities net position was \$3.2 million. This analysis focuses on the net position (table 1) and changes in general revenues (table 2) and significant expense of the City's governmental and business-type activities.

The largest portion of the City's net position (approximately 75%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities. Additionally, a significant portion of the City's net position is restricted for capital improvements or debt service.

**CITY OF WOLFFORTH**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2014**

**Table 1**  
**Summary of Net Position**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Current and other assets	\$ 897,136	\$ 1,445,766	\$ 7,012,767	\$ 3,377,019	\$ 7,909,903	\$ 4,822,785
Capital assets	5,053,700	5,154,485	6,961,702	10,313,612	12,015,402	15,468,097
Total assets	5,950,836	6,600,251	13,974,469	13,690,631	19,925,305	20,290,882
Deferred outflows of resources	20,886	18,987	60,500	52,899	81,386	71,886
Current liabilities	292,120	452,079	698,919	722,733	991,039	1,174,812
Long-term liabilities	2,510,600	2,540,320	10,197,459	9,820,680	12,708,059	12,361,000
Total liabilities	2,802,720	2,992,399	10,896,378	10,543,413	13,699,098	13,535,812
Net position						
Net investment in capital assets	2,531,611	2,581,948	2,438,895	2,601,214	4,970,506	5,183,162
Restricted	558,528	280,288			558,528	280,288
Unrestricted	78,863	764,603	699,696	598,903	778,559	1,363,506
Total net position	\$ 3,169,002	\$ 3,626,839	\$ 3,138,591	\$ 3,200,117	\$ 6,307,593	\$ 6,826,956

**Governmental Activities**

The City's governmental activities revenues were up approximately \$218,148 or 8.5% over the prior fiscal year. Revenues were up from most of the major sources. Expenditures were up \$97,439 from the previous year.

**Table 2**  
**Governmental Activity Revenues**

	<u>2013</u>	<u>2014</u>
Property taxes including P & I	\$ 1,430,443	\$ 1,572,613
Sales tax	282,929	285,405
Fire department revenue	66,087	66,631
EMS revenue	314,516	335,063
Franchise fees	191,809	277,261
Municipal court revenue	136,280	112,263
Permits and licenses	46,259	56,184
Library revenue	11,048	11,208
Park revenue	13,410	10,584
Interest revenue	22,968	9,969
Grant proceeds	5,500	1,258
Other revenues	28,065	29,023
	<u>\$ 2,549,314</u>	<u>\$ 2,767,462</u>



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Table 3 explains the changes in net position for the City for the years ended September 30, 2013 and 2014. The governmental activities show an increase in net position for the year in the amount of \$457,837 while the business-type activities show an increase in net position in the amount of \$61,526 for a total increase of \$519,363.

**Table 3**  
**Changes in Net Position**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 322,314	\$ 380,122	\$ 1,557,153	\$ 1,946,511	\$ 1,879,467	\$ 2,326,633
Operating grants and cont	125,885	95,717			125,885	95,717
Capital grants and cont	5,500	1,258			5,500	1,258
General revenues						
Property taxes	1,430,443	1,572,613			1,430,443	1,572,613
Sales tax	282,929	285,405			282,929	285,405
Franchise fees	191,809	277,261			191,809	277,261
Other	190,434	155,086	90,677	116,377	281,111	271,463
<b>Total Revenues</b>	<b>2,549,314</b>	<b>2,767,462</b>	<b>1,647,830</b>	<b>2,062,888</b>	<b>4,197,144</b>	<b>4,830,350</b>
<b>Expenses:</b>						
City government	27,945	19,906			27,945	19,906
Municipal court	81,832	74,960			81,832	74,960
Financial administration	241,287	278,306			241,287	278,306
Building and grounds	210,195	196,201			210,195	196,201
Code enforcement	2,790	13,614			2,790	13,614
Public safety - police depart	707,733	746,316			707,733	746,316
Public safety - fire & EMS	624,664	594,749			624,664	594,749
Miscellaneous public service	7,643	5,470			7,643	5,470
Disaster management	17,110	24,320			17,110	24,320
Public works - street depart	74,735	100,626			74,735	100,626
Park	38,784	52,322			38,784	52,322
Library	109,830	133,043			109,830	133,043
Water, sewer and sanitation			1,654,828	1,808,681	1,654,828	1,808,681
Interest	93,028	95,182	175,301	167,291	268,329	262,473
<b>Total Expenses</b>	<b>2,237,576</b>	<b>2,335,015</b>	<b>1,830,129</b>	<b>1,975,972</b>	<b>4,067,705</b>	<b>4,310,987</b>
<b>Increase (decrease) in net</b>						
<b>assets before transfers</b>	<b>311,738</b>	<b>432,447</b>	<b>(182,299)</b>	<b>86,916</b>	<b>129,439</b>	<b>519,363</b>
<b>Transfers</b>	<b>(269,365)</b>	<b>25,390</b>	<b>269,365</b>	<b>(25,390)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in</b>						
<b>net position</b>	<b>\$ 42,373</b>	<b>\$ 457,837</b>	<b>\$ 87,066</b>	<b>\$ 61,526</b>	<b>\$ 129,439</b>	<b>\$ 519,363</b>

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The most significant governmental expense for the City is public safety. Public safety expenses are offset by traffic fines, fire call revenue from Lubbock County, EMS subsidy from University Medical Center, and EMS revenue from patients.

**Business-type Activities**

Revenues of the City's business-type activities were \$2,062,888 for the year ended September 30, 2014. Expenses for the City's business-type activities were \$1,975,972 for the year, resulting in an income before transfers of \$86,916.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the 2014 fiscal year, the City had \$15.5 million invested in a broad range of fixed assets (net of accumulated depreciation), including buildings, streets, water and sewer lines and equipment, vehicles, police and fire department equipment.

Table 4 details the investment in capital assets at September 30, 2013 and 2014.

**Table 4**  
**Capital Assets (Net of Accumulated Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Land	\$ 403,537	\$ 403,537	\$ 486,271	\$ 486,271	\$ 889,808	\$ 889,808
Buildings and improvements	2,934,947	2,824,479	86,999	81,801	3,021,946	2,906,280
Street and infrastructure	759,419	904,437			759,419	904,437
Office furniture, equipment	33,519	24,896			33,519	24,896
Vehicles and equipment	850,997	917,783	54,055	128,762	905,052	1,046,545
Library books and equipment	27,210	35,282			27,210	35,282
Construction in progress	44,071	44,071			44,071	44,071
Water and sewer system			6,334,377	9,616,778	6,334,377	9,616,778
Totals	<u>\$ 5,053,700</u>	<u>\$ 5,154,485</u>	<u>\$ 6,961,702</u>	<u>\$ 10,313,612</u>	<u>\$ 12,015,402</u>	<u>\$ 15,468,097</u>

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**Debt**

At year-end, the City had \$13,111,057 in debt outstanding as compared to \$13,286,379 at the end of the prior fiscal year, a decrease of \$175,322 or 1.3%. Table 5 indicates the outstanding debt at September 30, 2013 and 2014.

**Table 5**  
**Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Revenue Bonds						
Series 1976	\$	\$	\$ 8,000	\$	\$ 8,000	\$
Certificates of Obligation Series 2006			2,090,000	2,090,000	2,090,000	2,090,000
Refunding Bonds						
Series 2006	675,000	630,000	1,860,000	1,735,000	2,535,000	2,365,000
Certificates of Obligation Series 2010	1,970,000	1,875,000			1,970,000	1,875,000
Certificates of Obligation Series 2013			6,625,000	6,370,000	6,625,000	6,370,000
Tax Notes Series 2013		330,460		72,540		403,000
Notes and Capital Leases Payable	<u>51,729</u>	<u>5,598</u>	<u>6,650</u>	<u>2,459</u>	<u>58,379</u>	<u>8,057</u>
Totals	<u>\$ 2,696,729</u>	<u>\$ 2,841,058</u>	<u>\$ 10,589,650</u>	<u>\$ 10,269,999</u>	<u>\$ 13,286,379</u>	<u>\$ 13,111,057</u>

**General Fund Budgetary Highlights**

The originally adopted budget was amended at the end of the fiscal year to reflect unexpected changes in expenditures that arose during the year. Revenues came in over the budget amount by \$17,192. Expenses were under budget by \$15,289.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2014 budget, tax rate, and fees that will be charged for the business-type activities. The City experienced growth in the tax base during the past year that is reflected in higher property tax revenues.

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**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darrell Newsom, at the City of Wolfforth, PO Box 36, Wolfforth, Texas 79382.

# Terry & King, CPAs, P.C.

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the City Council  
City of Wolfforth, Texas

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

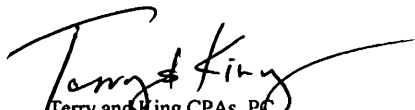
### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Wolfforth, 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 management's discussion and analysis, budgetary comparison information, and TMRS – Schedule of Funding Progress on pages 1 through 9 and 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

  
Terry and King CPAs, PC  
Lubbock, Texas  
November 28, 2014



**CITY OF WOLFFORTH, TEXAS**  
**STATEMENT OF NET POSITION**  
**AS OF SEPTEMBER 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Wolfforth EDC
<b>Assets</b>				
Cash and cash in bank	\$ 1,053,091.48	\$ 615,596.84	\$ 1,668,688.32	\$ 667,675.41
Cash equivalent - Texpool		1,490.42	1,490.42	
Receivables				
Taxes, net	45,723.66		45,723.66	
Customer accounts, net		181,466.55	181,466.55	
Other governments	44,198.70		44,198.70	
Miscellaneous sources	22,464.89		22,464.89	
City of Wolfforth				11,980.40
Notes receivable				75,673.57
Prepaid insurance		24,730.54	24,730.54	
Restricted Assets				
Cash and cash in bank	280,287.53	2,553,734.50	2,834,022.03	
Capital Assets, nondepreciable				
Land	403,537.07	486,270.40	889,807.47	
Construction in progress	44,070.98		44,070.98	
Capital Assets, depreciable, net				
Buildings and improvements	2,824,478.56	81,801.02	2,906,279.58	
Streets and infrastructure	904,436.99		904,436.99	
Office furniture and equipment	24,895.61		24,895.61	
Equipment and vehicles	917,783.25	128,762.21	1,046,545.46	
Library books and equipment	35,282.58		35,282.58	
Water and sewer system		9,616,778.56	9,616,778.56	
<b>Total Assets</b>	<b>6,600,251.30</b>	<b>13,690,631.04</b>	<b>20,290,882.34</b>	<b>755,329.38</b>
<b>Deferred Outflows of Resources</b>				
Deferred amount on refunding	18,986.90	52,898.91	71,885.81	-

The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**STATEMENT OF NET POSITION**  
**AS OF SEPTEMBER 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Wolfforth EDC
<b>Liabilities</b>				
Accounts payable	\$ 38,685.58	\$ 72,623.53	\$ 111,309.11	\$
Accounts payable - EDC	11,980.40		11,980.40	
Accrued compensation payable	39,857.82	18,402.68	58,260.50	
Accrued interest payable	14.64	37,554.88	37,569.52	
Deposits and utility deposits	6,450.00	108,702.64	115,152.64	
Internal balances	42,713.30	(42,713.30)	-	
Payable from restricted assets				
Accrued interest payable	11,639.31		11,639.31	
<b>Non-current Liabilities</b>				
Unamortized premium on certificates of obligation		78,843.27	78,843.27	
Due within one year:				
Notes payable	5,598.20	2,459.00	8,057.20	14,040.23
Tax notes payable	145,140.00	31,860.00	177,000.00	
Certificates of obligation payable	100,000.00	285,000.00	385,000.00	
Refunding bonds payable	50,000.00	130,000.00	180,000.00	
Due in more than one year:				
Tax notes payable	185,320.00	40,680.00	226,000.00	98,267.92
Certificates of obligation payable	1,775,000.00	8,175,000.00	9,950,000.00	
Refunding bonds payable	580,000.00	1,605,000.00	2,185,000.00	
<b>Total Liabilities</b>	<b>2,992,399.25</b>	<b>10,543,412.70</b>	<b>13,535,811.95</b>	<b>112,308.15</b>
<b>Net Position</b>				
Net investment in capital assets	2,581,948.10	2,601,214.48	5,183,162.58	
Unrestricted	764,603.32	598,902.77	1,363,506.09	643,021.23
Restricted for capital improvements	175,801.78		175,801.78	
Restricted for debt service	104,485.75		104,485.75	
<b>Total Net Position</b>	<b>\$ 3,626,838.95</b>	<b>\$ 3,200,117.25</b>	<b>\$ 6,826,956.20</b>	<b>\$ 643,021.23</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position			Component
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Unit
					Governmental Activities	Business-type Activities	Total	Wolfforth EDC
Primary Government:								
Governmental Activities:								
City government	\$ 19,905.91	\$ 56,184.22	\$	\$	\$ 36,278.31	\$	\$ 36,278.31	\$
Municipal court	74,959.56				(74,959.56)		(74,959.56)	
Financial administration	278,306.43				(278,306.43)		(278,306.43)	
Building and grounds	196,201.32				(196,201.32)		(196,201.32)	
Code enforcement	13,613.92				(13,613.92)		(13,613.92)	
Public safety - police department	746,315.98				(746,315.98)		(746,315.98)	
Public safety - fire and EMS	594,748.80	313,353.79	88,340.00		(193,055.01)		(193,055.01)	
Miscellaneous public service	5,470.49				(5,470.49)		(5,470.49)	
Disaster management	24,319.95				(24,319.95)		(24,319.95)	
Public works - street department	100,625.57				(100,625.57)		(100,625.57)	
Park	52,322.23	10,584.31			(41,737.92)		(41,737.92)	
Library	133,043.27		7,377.00	1,258.00	(124,408.27)		(124,408.27)	
Interest on long-term debt	95,182.39				(95,182.39)		(95,182.39)	
Total Governmental Activities	2,335,015.82	380,122.32	95,717.00	1,258.00	(1,857,918.50)	-	(1,857,918.50)	-
Business-type Activities:								
Water, sewer and sanitation	1,975,971.71	1,946,510.73				(29,460.98)	(29,460.98)	
Total Business-type Activities	1,975,971.71	1,946,510.73	-	-	-	(29,460.98)	(29,460.98)	-
Total Primary Government	\$ 4,310,987.53	\$ 2,326,633.05	\$ 95,717.00	\$ 1,258.00	(1,857,918.50)	(29,460.98)	(1,887,379.48)	-
Component Unit:								
Wolfforth Economic Development	\$ 87,217.57	\$ -	\$ -	\$ -	-	-	-	(87,217.57)
Property taxes					1,572,613.43		1,572,613.43	
Sales tax					285,405.49		285,405.49	142,715.51
Franchise fees					277,261.16		277,261.16	
Interest income					9,968.51	4,730.72	14,699.23	5,269.90
Transfers					25,389.54	(25,389.54)	-	
Other					145,117.48	111,645.96	256,763.44	13,000.00
Total general revenues and transfers					2,315,755.61	90,987.14	2,406,742.75	160,985.41
Change in net position					457,837.11	61,526.16	519,363.27	73,767.84
Net position, October 1					3,169,001.84	3,138,591.09	6,307,592.93	569,253.39
Net position, September 30					\$ 3,626,838.95	\$ 3,200,117.25	\$ 6,826,956.20	\$ 643,021.23

The accompanying notes are an integral part of these financial statements.



**CITY OF WOLFFORTH, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**AS OF SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash in bank	\$ 119,565.54	\$	\$ 119,565.54
Cash in MMA	1,004,792.85		1,004,792.85
Cash in MMA - restricted		104,485.75	104,485.75
Receivables (net of allowance for uncollectibles)			
Taxes	37,425.07	8,298.59	45,723.66
Due from other governments	44,198.70		44,198.70
Miscellaneous sources	<u>22,464.89</u>		<u>22,464.89</u>
Total Assets	<u>\$ 1,228,447.05</u>	<u>\$ 112,784.34</u>	<u>\$ 1,341,231.39</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 43,667.04	\$	\$ 43,667.04
Accrued compensation payable	24,710.76		24,710.76
Deposits	<u>6,450.00</u>		<u>6,450.00</u>
Total Liabilities	74,827.80	-	74,827.80
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - property taxes	<u>36,425.07</u>	<u>8,298.59</u>	<u>44,723.66</u>
Total Deferred Inflows of Resources	36,425.07	8,298.59	44,723.66
<b>Fund Balance</b>			
Restricted for capital projects	175,801.78		175,801.78
Restricted for debt service		104,485.75	104,485.75
Unassigned	<u>941,392.40</u>		<u>941,392.40</u>
Total Fund Balance	<u>1,117,194.18</u>	<u>104,485.75</u>	<u>1,221,679.93</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,228,447.05</u>	<u>\$ 112,784.34</u>	<u>\$ 1,341,231.39</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF NET POSITION**  
**OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2014**

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

Total fund balance per balance sheet	\$ 1,221,679.93
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Capital assets used in the operation of governmental funds are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Construction in progress	44,070.98	
Land	403,537.07	
Buildings and improvements	3,949,122.53	
Streets and infrastructure	4,179,031.35	
Office furniture and equipment	186,814.27	
Vehicles, equipment and machinery	3,129,699.14	
Library books and equipment	212,455.85	
Accumulated depreciation	<u>(6,950,246.15)</u>	
		5,154,485.04

Other long-term assets are not available to pay for current period expenditures and are therefore unavailable in the funds and recognized as revenue in the statement of activities.

Unavailable property taxes	44,723.66
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Interest on refunding is reported as an expenditure in the governmental funds when first incurred, however, this amount is included as a deferred outflow of resources for the governmental activities in the statement of net position.	18,986.90
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Internal service funds are used by management to charge the cost of certain activities, such as the medical self-insurance program to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position (net of amount allocated to business-type activities of \$42,713.30).	54,822.63
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Long-term liabilities of governmental funds are not due and payable in the current period and therefore, are not reported in the funds. These consist of:

Accrued interest	11,653.95	
Accrued vacation payable	15,147.06	
Notes payable	5,598.20	
Tax notes payable	330,460.00	
Certificates of obligation payable	1,875,000.00	
Refunding bonds payable	<u>630,000.00</u>	
		<u>(2,867,859.21)</u>

Net position of governmental activities	<u>\$ 3,626,838.95</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	General Fund	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 1,179,682.71	\$ 371,873.04	\$ 1,551,555.75
Penalties and interest	10,806.79	3,237.99	14,044.78
Sales tax	285,405.49		285,405.49
Fire department revenue	66,631.00		66,631.00
Permits, licenses and fees	56,184.22		56,184.22
Municipal court revenue	112,263.06		112,263.06
Franchise fees	277,261.16		277,261.16
EMS revenue	246,722.79		246,722.79
EMS subsidy	88,340.00		88,340.00
Library revenue	11,207.85		11,207.85
Park revenue	10,584.31		10,584.31
Interest revenue	7,876.12	1,571.04	9,447.16
Grant proceeds	1,258.00		1,258.00
Miscellaneous	<u>33,843.46</u>		<u>33,843.46</u>
<b>Total Revenues</b>	<b>2,388,066.96</b>	<b>376,682.07</b>	<b>2,764,749.03</b>
<b>Expenditures</b>			
<b>Current--</b>			
City government	19,905.91		19,905.91
Municipal court	74,959.56		74,959.56
Financial administration	265,720.26	300.00	266,020.26
Building and grounds	85,732.85		85,732.85
Code enforcement	13,613.92		13,613.92
Public safety - police department	684,639.53		684,639.53
Public safety - fire and EMS	477,632.57		477,632.57
Miscellaneous public service	5,470.49		5,470.49
Emergency management	23,534.12		23,534.12
Public works - street department	8,762.47		8,762.47
Park	52,322.23		52,322.23
Library	123,872.18		123,872.18
Capital outlay	497,783.81		497,783.81
<b>Debt service --</b>			
Principal retirement		285,140.00	285,140.00
Interest		<u>95,003.89</u>	<u>95,003.89</u>
<b>Total Expenditures</b>	<b>2,333,949.90</b>	<b>380,443.89</b>	<b>2,714,393.79</b>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	54,117.06	(3,761.82)	50,355.24
<b>Other Financing Sources (Uses)</b>			
Proceeds from long-term debt	475,600.00		475,600.00
Payments on long-term debt	(46,130.36)		(46,130.36)
Transfers in		5,000.00	5,000.00
Transfers out	<u>(38,731.63)</u>	<u>-</u>	<u>(38,731.63)</u>
<b>Total Other Financing Sources and Uses</b>	<b>390,738.01</b>	<b>5,000.00</b>	<b>395,738.01</b>
<b>Net Change in Fund Balance</b>	<b>444,855.07</b>	<b>1,238.18</b>	<b>446,093.25</b>
Fund Balance, October 1	<u>672,339.11</u>	<u>103,247.57</u>	<u>775,586.68</u>
Fund Balance, September 30	<u><b>\$ 1,117,194.18</b></u>	<u><b>\$ 104,485.75</b></u>	<u><b>\$ 1,221,679.93</b></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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

Net change in fund balance -- total governmental funds	\$ 446,093.25
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	497,783.81	
Depreciation expense	<u>(396,998.99)</u>	
		100,784.82

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	7,012.90
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The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds of debt which increases long-term liabilities in the Statement of Net Position	(475,600.00)	
Repayment of debt which decreases long-term liabilities in the Statement of Net Position	<u>331,270.36</u>	
		(144,329.64)

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

Accrued interest	662.28	
Accrued vacation payable	(5,310.44)	
Amortization of deferred amount on refunding	<u>(1,898.69)</u>	
		(6,546.85)

Internal service funds are used by management to charge the costs of health claims to individual funds. The net revenue of the internal service fund is reported with governmental activities (net of amount allocated to business-type activities of \$42,713.30).

	<u>54,822.63</u>
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Change in net position of governmental activities	\$ <u>457,837.11</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**AS OF SEPTEMBER 30, 2014**

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash in bank	\$ 615,596.84	\$ 104,534.87
Cash equivalent - Texpool	1,490.42	
Receivables (net of allowance for uncollectibles)		
Customer accounts	<u>181,466.55</u>	<u>                    </u>
<b>Total Current Assets</b>	<b>798,553.81</b>	<b>104,534.87</b>
<b>Noncurrent Assets</b>		
Prepaid insurance	24,730.54	
<b>Restricted Assets</b>		
Cash and cash in bank	<u>2,553,734.50</u>	<u>                    </u>
<b>Total Noncurrent Assets</b>	<b>2,578,465.04</b>	<b>-</b>
<b>Capital Assets</b>		
Land	486,270.40	
Buildings	257,903.37	
Equipment and vehicles	500,213.84	
Water and sewer system	13,947,969.71	
Accumulated depreciation	<u>(4,878,745.13)</u>	<u>                    </u>
<b>Total Capital Assets</b>	<b>10,313,612.19</b>	<b>-</b>
<b>Total Non-current Assets</b>	<b>12,892,077.23</b>	<b>-</b>
<b>Total Assets</b>	<b><u>13,690,631.04</u></b>	<b><u>104,534.87</u></b>
<b>Deferred Outflows of Resources</b>		
Deferred interest on refunding	<u>52,898.91</u>	<u>                    </u>
<b>Total Deferred Outflows of Resources</b>	<b>\$ 52,898.91</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**AS OF SEPTEMBER 30, 2014**

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
<b>Liabilities</b>		
<b>Current Liabilities (payable from current assets)</b>		
Accounts payable	\$ 72,623.53	\$
Accrued compensation payable	18,402.68	
Accrued interest payable	37,554.88	
Claims payable		6,998.94
Utility deposits	108,702.64	
Notes payable, current	<u>2,459.00</u>	
<b>Total Current Liabilities (payable from     current assets)</b>	<b>239,742.73</b>	<b>6,998.94</b>
<b>Current Liabilities (payable from restricted assets)</b>		
Accrued interest payable		
General obligation refunding bonds, current	130,000.00	
Certificates of obligation	285,000.00	
Tax notes, current	<u>31,860.00</u>	
<b>Total Current Liabilities (payable from     restricted assets)</b>	<b>446,860.00</b>	<b>-</b>
<b>Non-current Liabilities</b>		
Unamortized premium on certificates of obligation	78,843.27	
Tax notes, non-current	40,680.00	
Certificates of obligation payable, non-current	8,175,000.00	
General obligation refunding bonds, non-current	<u>1,605,000.00</u>	
<b>Total Non-current Liabilities</b>	<b>9,899,523.27</b>	<b>-</b>
<b>Total Liabilities</b>	<b>10,586,126.00</b>	<b>6,998.94</b>
<b>Net Position</b>		
Net investment in capital assets	2,601,214.48	
Unrestricted	<u>556,189.47</u>	<u>97,535.93</u>
<b>Total Net Position</b>	<b>\$ 3,157,403.95</b>	<b>\$ 97,535.93</b>
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise fund over time	<u>42,713.30</u>	
Net position of business-type activities	<u><u>\$ 3,200,117.25</u></u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Revenues		
Water	\$ 1,022,922.53	\$
Water treatment	55,060.54	
Sewer	352,992.07	
Sanitation	413,854.18	
Penalty revenue	85,631.41	
Water and sewer taps	16,050.00	
Rent income	48,475.64	
Charges for insurance		198,616.58
Miscellaneous	<u>20,457.02</u>	
Total Operating Revenues	2,015,443.39	198,616.58
Operating Expenses		
Salaries and benefits	547,121.11	
Supplies	127,250.72	
Purchased and contracted services	248,094.65	
Operating expense	416,648.79	
Insurance premiums and claims paid		160,723.17
Depreciation	<u>469,565.71</u>	
Total Operating Expenses	<u>1,808,680.98</u>	<u>160,723.17</u>
Operating Income	206,762.41	37,893.41
Non-operating Revenue (Expense)		
Interest income	4,730.72	521.35
Interest expense	<u>(167,290.73)</u>	
Total Non-operating Revenue (Expense)	<u>(162,560.01)</u>	521.35
Income Before Operating Transfers	44,202.40	38,414.76
Operating transfers in	480.00	59,121.17
Operating transfers out	<u>(25,869.54)</u>	
Change in Net Position	18,812.86	97,535.93
Total Net Position, October 1	<u>3,138,591.09</u>	-
Total Net Position, September 30	<u>\$ 3,157,403.95</u>	<u>\$ 97,535.93</u>
Reconciliation to government-wide statement of net position:		
Change in net position	\$ 18,812.86	
Adjustment to reflect consolidation of internal service fund activities related to the enterprise fund	<u>42,713.30</u>	
Change in net position of business-type activities	<u>\$ 61,526.16</u>	

The accompanying notes are an integral part of these financial statements.

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

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 1,997,348.80	\$
Cash received for premiums and claims	-	198,616.58
Cash payments to suppliers	(760,678.05)	(153,724.23)
Cash payments to employees	(542,738.27)	
Net Cash Provided by Operating Activities	<u>693,932.48</u>	<u>44,892.35</u>
Cash Flows From Non-capital Financing Activities		
Operating transfers in	480.00	59,121.17
Operating transfers out	(25,869.54)	
Net Cash Provided By (Used For) Non-capital Financing Activities	<u>(25,389.54)</u>	<u>59,121.17</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds of long-term debt	104,400.00	
Acquisition and construction of capital assets	(3,711,125.16)	
Repayment of long-term debt	(424,051.00)	
Interest payment long-term debt	(332,068.07)	
Net Cash Provided By (Used For) Capital and Related Financing Activities	<u>(4,362,844.23)</u>	<u>-</u>
Cash Flows From Investing Activities		
Interest received	33,804.48	521.35
Net Cash Provided By Investing Activities	<u>33,804.48</u>	<u>521.35</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,660,496.81)	104,534.87
Cash and cash equivalents, October 1	6,831,318.57	
Cash and cash equivalents, September 30	<u>\$ 3,170,821.76</u>	<u>\$ 104,534.87</u>
Cash and cash in bank	\$ 615,596.84	\$ 104,534.87
Restricted cash in bank	2,553,734.50	
Cash equivalent - Texpool	1,490.42	
Total cash and cash equivalents	<u>\$ 3,170,821.76</u>	<u>\$ 104,534.87</u>

The accompanying notes are an integral part of these financial statements.



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

	Business-type Activities -- Enterprise <u>Fund</u>	Governmental Activities -- Internal Service <u>Fund</u>
Reconciliation of operating income to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 206,762.41	\$ 37,893.41
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	469,565.71	
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(26,094.59)	
(Increase) decrease in prepaid insurance	1,345.88	
Increase (decrease) in accounts payable	29,970.23	6,998.94
Increase (decrease) in accrued expenses	4,382.84	
Increase (decrease) in meter deposits	8,000.00	
Net cash provided by operating activities	<u>\$ 693,932.48</u>	<u>\$ 44,892.35</u>

The accompanying notes are an integral part of these financial statements.

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

#### 1. Summary of Significant Accounting Policies

The financial statements of the City of Wolfforth, Texas (the City) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The significant accounting and reporting policies and practices used by the City are described below.

##### A. Financial Reporting Entity

The City of Wolfforth, Texas was established in 1916 under the Constitution of the State of Texas (Home Rule Amendment). The City is a municipal corporation governed by an elected mayor and a five-member council form of government. The City provides the following services: Public Safety (Police, Fire, and Ambulance), Highways and Streets, Sanitation, Public Improvements (Water and Sewer Systems), Planning and Zoning, and General Administrative Services. Volunteers staff the fire department.

The City's financial statements include the accounts of all City operations. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Component units are organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organizations to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Wolfforth has a single component unit, the Wolfforth Economic Development Corporation (EDC). The EDC was formed to provide economic growth in the City. The governing board of the EDC is appointed by the City Council. The City has assigned one-third of its sales tax revenues to the EDC for future economic development of the City. The EDC is a discretely presented component unit which does not issue separate financial statements.

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

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#### B. Government-wide and Fund Financial Statements

Financial information of the City is presented as follows:

- *Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- *Basic Financial Statements*: The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.
- *Government-wide financial statements* consist of a statement of net position and a statement of activities. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. For the most part, the effect of Interfund activity has been removed from these statements.

These statements report all of the non-fiduciary activities of the government. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues where as business-type activities are normally supported by fees and charges from services and are usually intended by management to be financially self-sustaining.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including all taxes and other items, are presented as general revenues.

- *Fund Financial Statements* consist of a series of statements focusing on information about the City's major governmental and enterprise funds. Separate financial statements are presented for the governmental and enterprise funds.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model as defined by GASB Statement No. 34 the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity and 3) grants and contributions that are restricted to meeting the capital

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

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requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, sales tax, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund and the debt service fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The City has elected to present the debt service fund as a major fund. The nonmajor funds are combined in a column in the fund financial statements, if applicable.

The City has established an internal service fund for employee health insurance. The purpose of an internal service fund is "to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. The City's policy is to partially self-fund the health insurance program offered to City employees. The costs of the program are accounted for in the internal service fund and these services are billed to the funds benefiting from the service. The amounts billed to each fund are based on estimates of future claims and on the number of active employees who participate in the City health insurance program. If the fund incurs a deficit that is not expected to be eliminated over a reasonable period of time, additional premiums will be billed to the participating funds to cover the full cost of claims recognized as expenses. The amounts billed to the funds and the expense recognized by the internal service fund should be approximately the same over a reasonable period of time. The revenue of the internal service fund comes from the City's contribution for active employees and from active employees' contributions for dependent coverage through payroll deductions.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

#### C. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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 as soon as all eligibility requirements have been met.

Governmental fund level 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues availability period is generally considered to be one year. 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 the liability has matured and payment is due.

## CITY OF WOLFFORTH, TEXAS

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Ad valorem, franchise and sales tax revenues in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirement of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following major funds are used by the City:

1. Governmental Funds:

The following is a description of the Governmental Funds of the City:

- a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, General Administration, etc.) and is the primary operating unit of the City.
- b. Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
- c. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

2. Proprietary Funds:

The following is a description of the major Proprietary Funds of the City:

- a. The Enterprise Fund accounts for the operation of the City's water and sewer utility and trash collection and disposal. Activities of the fund include administration, operation and maintenance of the water and sewer system, solid waste pickup as well as billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.
- b. The Internal Service Fund was established to account for the resources utilized to provide limited self-insurance for the employee's health insurance. The fund receives monies

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

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from the general and enterprise funds to pay claims and premiums for the benefit of the employees.

#### 3. Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Position.

#### D. Encumbrances

The City does not use an encumbrance system of accounting.

#### E. Cash, Cash Equivalents and Investments

The City maintains pooled cash accounts that are shared by the General Fund, Debt Service Fund, and the Enterprise Fund. Each fund's portion of this pooled cash is allocated through its cash and cash in bank accounts on the balance sheet or statement of net position. The funds pool their operating cash for the purpose of cash management and to increase income through combined investment activities. In addition, non-pooled cash is separately held and reflected in each fund's balance sheet when applicable.

The cash and cash equivalents reflected in the statement of cash flows for the Proprietary Funds are made up of cash on hand, cash in the City's depository bank, and certificates of deposit and investments with a maturity of thirty days or less. Each fund whose monies are deposited in the pooled cash accounts has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. Cash deposits and investments are reported at carrying amount (cost), which equals fair value, in accordance with GASB Statement No. 31. The Texas Public Funds Investment Act governs items such as investment strategies and policies, training for investment officers, reporting requirements, and types of investments allowed. See Note 2.

#### F. Prepaid Items

Prepaid balances, if applicable, are for payments made by the City in the current year to provide services occurring in subsequent fiscal years.

#### G. Inventories

Inventories in Governmental and Proprietary Funds consist of expendable supplies. These amounts are not significant and thus no provision has been made for these amounts in the financial statements.

#### H. Interfund Receivables and Payables

Interfund receivables and payables are eliminated at the end of the fiscal year by reclassifying them as operating transfers if management does not expect the receiving fund to be able to repay the payable within a reasonable time. These transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

#### I. Capital Assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are carried at estimated fair market value on the date donated. Public domain (infrastructure) fixed assets consisting of roads, streets and sidewalks have been recorded at estimated historical cost. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Assets capitalized have an original cost of \$2,500 or more and a life expectancy of over three

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

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years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and land improvements	7 – 40 years
Streets	25 years
Water and sewer system	5 – 50 years
Vehicles, machinery and equipment	5 – 15 years

#### J. Compensated Absences

All regular full-time employees of the City are eligible to accrue paid vacation leave. After the completion of the first year of employment 80 hours of vacation leave are credited to the employee's account. Full-time employees continue to earn vacation leave at the rate of 80 hours per year through the first ten years of service. After 10 years of service the employee will earn 120 hours of vacation leave per year. Certified full-time police officers receive 84 hours of vacation leave annually. Upon separation of service from the City employees are paid for any unused vacation leave in his or her account.

Regular full-time employees are also entitled to paid sick leave. Full-time employees accrue sick leave at the rate of two hours per bi-weekly pay period. Sick leave not used by employees during the year in which it accrues, accumulates and is available for use in succeeding years up to a maximum of 720 hours. Annually, on the employee's anniversary date, any sick leave balance in excess of the maximum is reduced to the maximum without compensation. Employees who have in excess of 208 hours of accumulated sick leave on December 31 of each year, may, at their option, sell back to the City those hours in excess of 208 hours of accumulated sick leave not to exceed 52 hours each year. Unused sick leave is canceled upon termination of employment without compensation to the employee. Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### K. Restricted Assets

Certain resources of the City have been set aside for the repayment of debt or for capital improvements and are classified as restricted on the balance sheet or statement of net position. The City records these restrictions to indicate that a portion of cash and fund equity is legally segregated for a specific future use. At September 30, 2014 the governmental funds had \$104,485.75 restricted for debt service and \$175,801.78 restricted for capital improvements while the enterprise fund had \$2,553,734.50 restricted for capital improvement projects. When an expense is incurred for which both restricted and unrestricted net position are available it is the City's policy to first apply restricted resources to the expense.

#### L. Bond Issuance Costs

Bond and certificate of obligation issuance costs are expensed at the time of the bond or certificate of obligation issue with the exception of the cost of insurance on the issue. The insurance cost is recorded as prepaid insurance and amortized over the term of the respective bonds and certificates of obligation using the straight-line method.

#### M. Capitalized Interest

In conformity with Financial Accounting Standards No. 34, "Capitalization of Interest Cost," the City capitalized interest costs for business-type activities only, net of related interest earned, from the date of borrowing until the projects acquired with those funds are ready for their intended use. For the fiscal year ended September 30, 2014, the City had \$110,350.69 in capitalized interest costs.

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

#### N. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### O. Reclassifications

Certain reclassifications have been made to fiscal year 2013 amounts to conform to the fiscal year 2014 presentation.

#### P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has one item which qualifies for reporting in this category.

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

#### Q. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

*Fund Balance* – Generally, fund balance represents the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources under the current financial resources management focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by the City Council. Approval of a resolution after a formal vote of the City Council is required to establish a commitment of fund balance. Similarly, the City Council may only modify or rescind the commitment by formal vote and adoption of a subsequent resolution.



## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

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Assigned – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council, through City Ordinance, has expressly delegated to the City Administrator the authority to assign funds for particular purposes or through adoption or amendment of the budget as intended for a specific purpose.

Unassigned – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund.

Flow Assumptions – When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance as needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: (1) Committed, (2) Assigned, (3) Unassigned.

Net Position – Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in reporting which utilizes the economic resources measurement focus. In the government-wide financial statements, net position is classified in the following categories:

Net investment in capital assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduces this category.

Restricted net position - This category represents external restrictions imposed either: 1) by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This category represents the net position of the City which are not restricted for any project or other purpose.

Flow Assumptions – The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Proprietary fund equity is classified the same as in the government-wide statements.

#### R. Liability for Incurred Claims

The liability for incurred claims represents estimated claims incurred but unpaid for the employee's group medical insurance at September 30, 2014. The estimate includes claims reported as well as claims incurred but not reported at year end. The City bases its estimate on prior claims history. The year ended September 30, 2014 was the year of inception for the insurance fund.

## 2. Deposits and Investments

The City's cash and investments can be subject to six types of risk which are examined in more detail as follows:

CUSTODIAL CREDIT RISK OF BANK DEPOSITS – Custodial credit risk 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 obligations of the State of Texas and its agencies that have a market value of not less than the deposit amounts to prevent loss of public funds. At year-end, the carrying amount of the City's deposits was \$4,502,510.35 and the respective bank balances totaled \$4,699,607.01. The City's investments usually consist of certificates of deposit held by the City's depository and an investment in Texpool. The City's deposits and certificates of deposit were

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

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fully insured, up to \$252,483 by the Federal Deposit Insurance Corporation (FDIC), or collateralized by securities held by the pledging financial institution's agent as required by the state statutes at September 30, 2014.

**CUSTODIAL CREDIT RISK OF INVESTMENTS** – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's minimizes this risk by investing in certificates of deposit which are fully insured or collateralized and the Texpool investment which is rated AAAM by Standard & Poors.

**INTEREST RATE RISK** – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's certificates of deposit are not subject to interest rate risk and the Texpool investment minimizes this risk by investing in securities with short-term maturities.

**CREDIT RISK** – Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. The City's investment policy minimizes credit risk by limiting investments to the safest types of securities.

**CONCENTRATION OF CREDIT RISK** – Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. This type of risk is minimized by investing in certificates of deposit and the highly rated Texpool.

**FOREIGN CURRENCY RISK** – This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk because none of the investments were denominated in foreign currencies.

**Investments** - Texas statutes authorize the types of investments allowable by the City. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the State of Texas. The City is also authorized to invest in direct obligations of the State of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, reverse repurchase agreements, prime domestic bankers' acceptances, money market funds, and government pools.

The City pools cash resources of its various funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Amounts invested in the TexPool are recorded at cost which is also the fair market value. Government Pool investments are not categorized, in accordance with GASB No. 3, because they are not evidenced by securities that exist in physical or book entry form. At September 30, 2014 the City had \$1,490.42 invested in Texpool.

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

### 3. Property Taxes

Property taxes are levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by law. In Texas, central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. The Lubbock Central Appraisal District establishes appraised values at 100% of estimated fair market value for the City. The 2013 certified tax roll for the City was \$219,108,791 as adjusted.

Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31. Tax liens are automatic on January 1 of each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The 2013 tax rate was \$0.73400 per \$100 valuation. Current tax collections for the year ended September 30, 2014 were 98.94% of the tax levy.

Property taxes are recorded as receivables and unavailable tax revenue at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue.

### 4. Interfund Transfers

Interfund transfers during the year ended September 30, 2014 were as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Governmental Funds:		
General Fund	\$	\$ 38,731.83
Debt Service Fund	5,000.00	
Proprietary Funds:		
Enterprise Fund	480.00	25,869.54
Internal Service Fund	59,121.37	-
	<u>\$ 64,601.37</u>	<u>\$ 64,601.37</u>

Interfund transfers are made between funds to cover expenses in the receiving fund.

### 5. Debt

At September 30, 2014 outstanding debt consisted of the following individual issues:

#### Business-type Activities

Series 2006 Certificates of Obligation issued at variable interest rates ranging from 4.3% to 4.5%. Principal is due in annual payments on February 15 beginning in 2025 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2014 was \$2,090,000.

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

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Series 2006 General Obligation Refunding Bonds issued at variable interest rates ranging from 3.75% to 4.25%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2014 was \$1,735,000 of which \$130,000 is due within one year.

Series 2013 Certificates of Obligation issued at variable interest rates ranging from 1% to 3%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2014 was \$6,370,000 of which \$285,000 is due within one year.

Series 2013 Tax Notes issued at an interest rate of 1.69%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2014 was \$72,540 of which \$31,860 is due within one year.

A capital lease with payments being made to Lubbock National Bank dated April 20, 2011 bearing an interest rate of 4.6%. The lease is due in monthly installments of \$367.42 which includes principal and interest. The balance at September 30, 2014 was \$2,459.00 which is due within one year.

#### Governmental Activities

Series 2006 General Obligation Refunding Bonds issued at variable interest rates ranging from 3.75% to 4.25%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2014 was \$630,000 of which \$50,000 is due within one year.

Series 2010 Certificates of Obligation issued at variable interest rates ranging from 2.6% to 4.15%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2014 was \$1,875,000 of which \$100,000 is due within one year.

Series 2013 Tax Notes issued at an interest rate of 1.69%. Principal is due in annual payments on February 15 and interest is due in semi-annual payments on February 15 and August 15. The balance at September 30, 2014 was \$330,460 of which \$145,140 is due within one year.

A note payable to Peoples Bank dated November 15, 2009 bearing an interest rate of 4.0%. The note is due in monthly installments of \$1,395.65 which includes principal and interest. The balance at September 30, 2014 was \$2,704.56 which is due within one year.

A capital lease with payments being made to Lubbock National Bank dated April 20, 2011 bearing an interest rate of 4.6%. The lease is due in monthly installments of \$432.35 which includes principal and interest. The balance at September 30, 2014 was \$2,893.64 which is due within one year.

During the year ended September 30, 2006, the City issued \$3,305,000 in general obligation refunding bonds with interest rates ranging from 3.5% to 4.25% to advance refund \$1,640,000 Series 2000 Certificates of Obligation and \$1,500,000 Series 2004 Certificates of Obligation. The interest rates for the Series 2000 Certificates of Obligation ranged from 5.35% to 7.375%. The interest rates for the Series 2004 Certificates of Obligation ranged from 3.9% to 5.75%. The net proceeds of \$3,233,096.46 (after payment of \$167,319.70 in underwriting fees, insurance and other issuance costs) of the 2006 issue (which included \$94,416.16 from the City) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded certificates of obligation. As a result, the refunded certificates of obligation in the amount of \$1,955,000 which are outstanding at September 30, 2014 are considered to be defeased, and the liability for those certificates has been removed from the statement of net position.

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

The City advance refunded the certificates of obligation to reduce its total debt service payments for the next 14 years. The debt service will be greater for the last 5 years of the refunding issue beginning in 2021. The net effect will cost the City \$243,624.37 however the City obtained an economic gain (i.e., difference between the present values of the debt service payments on the old and new debt) of \$99,458.40.

### Interest Expense

Interest expense in the enterprise fund was \$167,290.73. Interest expense in the governmental activities was \$96,259.18. Of this amount \$95,182.39 was interest on tax notes and certificates of obligation and \$1,076.79 was interest on notes payable that was charged to expense in the various functions.

### Revenue Bonds

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system. The Revenue Bonds are collateralized by the revenue of the water and sewer system. The bond ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The City is in compliance with all significant financial requirements as of September 30, 2014.

### General Obligation Bonds

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity.

Certain General Obligation Certificates of Obligation are to be repaid by revenues of the Enterprise Fund. Enterprise Fund General Obligation Certificates of Obligation are secured both by a pledge of ad valorem taxes levied on all taxable property within the City and by a lien on and pledge of revenues to be generated by the Enterprise Fund.

### Changes in Outstanding Debt

Transactions for the year ended September 30, 2014 are summarized as follows:

	Balance 10/1/2013	Additions	Retirements	Balance 9/30/2014	Due Within One Year
<b><u>Business-type Activities</u></b>					
Notes Payable	\$ 6,650.00	\$	\$ (4,191.00)	\$ 2,459.00	\$ 2,459.00
Revenue Bonds	8,000.00		(8,000.00)	-	-
Certificates of Obligation	8,715,000.00		(255,000.00)	8,460,000.00	285,000.00
Refunding Bonds	1,860,000.00		(125,000.00)	1,735,000.00	130,000.00
Tax Notes	-	104,400.00	(31,860.00)	72,540.00	31,860.00
Total Enterprise Fund	<u>\$ 10,589,650.00</u>	<u>\$ 104,400.00</u>	<u>\$ (424,051.00)</u>	<u>\$ 10,269,999.00</u>	<u>\$ 449,319.00</u>
<b><u>Governmental Activities</u></b>					
Notes Payable	\$ 51,728.56		\$ (46,130.36)	\$ 5,598.20	\$ 5,598.20
Certificates of Obligation	1,970,000.00		(95,000.00)	1,875,000.00	100,000.00
Refunding Bonds	675,000.00		(45,000.00)	630,000.00	50,000.00
Tax Notes	-	475,600.00	(145,140.00)	330,460.00	145,140.00
Total Governmental Activities	<u>\$ 2,696,728.56</u>	<u>\$ 475,600.00</u>	<u>\$ (331,270.36)</u>	<u>\$ 2,841,058.20</u>	<u>\$ 300,738.20</u>

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS September 30, 2014

### Annual Requirements to Retire Debt Obligations

The annual aggregate maturities of bonds, certificates of obligation, notes and capital leases payable for the years subsequent to September 30, 2014 are as follows:

Year Ending	Governmental Activities		Business-type Activities		
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	300,738.20	89,704.39	449,319.00	296,291.58	1,136,053.17
2016	196,080.00	83,456.25	442,920.00	287,887.60	1,010,343.85
2017	206,080.00	77,784.71	452,920.00	279,295.54	1,016,080.25
2018	211,900.00	71,686.53	458,100.00	270,297.92	1,011,984.45
2019	222,720.00	65,140.67	468,280.00	260,509.83	1,016,650.50
2020-2024	1,063,540.00	220,560.12	2,483,460.00	1,126,335.53	4,893,895.65
2025-2029	310,000.00	92,481.50	3,220,000.00	694,576.25	4,317,057.75
2030-2033	330,000.00	27,110.00	2,295,000.00	129,262.50	2,781,372.50
	<u>\$ 2,841,058.20</u>	<u>\$ 727,924.17</u>	<u>\$ 10,269,999.00</u>	<u>\$ 3,344,456.75</u>	<u>\$ 17,183,438.12</u>

The general and debt service funds have been used in the past to liquidate long-term liabilities, including compensated absences.

### 6. Individual Fund Disclosures

The water and sewer system of the City services approximately 1,542 properties. During the year ended September 30, 2014 the City sold approximately 155,672,000 gallons of water.

The City provides solid waste pickup and disposal services for its citizens with revenues and expenses recorded in the enterprise fund. The City contracts with a private company for waste collection and disposal. This waste is disposed of at the City of Lubbock's regional landfill or a landfill owned by a private company where the City is charged a fee based on weight to dispose of its waste. These fees will cover the City's share of any post-closure expenses and thus no provision is made in the financial statements for future costs associated with the landfill. Citizens are charged a monthly fee to cover the costs of these services.

### 7. Retirement Benefits

#### A. Texas Municipal Retirement System

##### Plan Description

The City provides pension benefits for all of its full-time (and employees who work in excess of 1,000 hours per year) employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The City of Wolfforth is one of 850 municipalities having the benefit plan administered by TMRS. All assumptions for the December 31, 2013 valuations are contained in the 2013 TMRS Comprehensive Annual Financial Report. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. Each of the 849 municipalities has an annual, individual actuarial valuation performed that is included in the report. The report may be obtained from the TMRS website at [www.TMRS.com](http://www.TMRS.com).

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility		
(expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

### Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (over-funded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as updated service credits and annuity increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2013 valuation will determine the contribution rate beginning January 2015). The annual pension cost and net pension obligation/ (asset) are as follows:

	<u>9/30/2012</u>	<u>9/30/2013</u>	<u>9/30/2014</u>
Annual required contribution (ARC)	\$ 74,040.96	\$ 81,949.44	\$ 82,716.18
Interest on net pension obligation	3,031.65	3,389.82	3,560.54
Adjustment to the ARC	<u>(2,606.01)</u>	<u>(2,978.23)</u>	<u>(3,201.67)</u>
Annual pension cost (APC)	74,466.60	82,361.03	83,075.05
Contributions made	<u>(69,349.96)</u>	<u>(79,922.07)</u>	<u>(82,122.91)</u>
Increase in net pension	5,116.64	2,438.96	952.14
Net pension obligation beginning of year	<u>43,309.29</u>	<u>48,425.93</u>	<u>50,864.89</u>
Net pension obligation end of year	<u>\$ 48,425.93</u>	<u>\$ 50,864.89</u>	<u>\$ 51,817.03</u>

Three year trend information is as follows:

Three-Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Net Pension Obligation / (Asset)
September 30, 2012	74,467	69,350	93%	48,426
September 30, 2013	82,361	79,922	97%	50,865
September 30, 2014	83,075	82,123	99%	51,817

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.3 years; closed period	25.4 years; closed period	27.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age & service	Varies by age & service	Varies by age & service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

### Funded Status and Funding Progress

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

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

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2013	\$ 1,982,629	\$ 2,476,215	80.1%	\$ 493,586	\$ 1,033,515	47.8%

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



## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

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

#### Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the inception of the City's plan, the City granted monetary credits for service rendered before the plan began of a percentage, adopted by the City, of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming the current member deposit rate of the City (3%, 5%, 6% or 7%) has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year (not the actual interest credited to member accounts in previous years), and increased by the City match currently in effect (100%, 150% or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual City match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or updated service credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted.

At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three survivor lifetime options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City may adopt annuity increases at a rate equal to either 30%, 50% or 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan also provides death benefits and disability benefits. Members are vested after 5 years. Members may work for more than one TMRS city during their career with their individual account balances transferring between member cities.

#### B. Texas Emergency Services Retirement System

The City provides volunteer firefighters with pension coverage through the Texas Emergency Services Retirement System (TESRS). The contribution to this fund during the years ended September 30, 2014, 2013 and 2012, were \$11,772.00, \$12,096.00 and \$12,780.00, respectively.

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

The fund was created by the State of Texas in 1977 to finance a pension system for volunteer firefighters. The system is administered by the State of Texas through the Office of the Firefighters' Pension Commissioner (FFPC) and is overseen by a state board of trustees. Over 216 departments around the state currently participate in the fund. The agency administers the Texas Emergency Services Retirement System under the authority of the Title 8, Government Code, Subtitle H, Texas Emergency Services Retirement System. The System provides a cost-effective means for small volunteer departments to belong to a professionally managed fund for the benefit of their local volunteer fire and EMS personnel. As the administrator of the system, the FFPC collects contributions of participating department members, invests the proceeds, calculates benefits, and issues payments to retirees and their beneficiaries.

#### Plan Description

The Fire Fighter's Pension Commissioner (FFPC) is the administrator of the Texas Emergency Services Retirement System (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 significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2013 (the latest report available), there were 216 member fire or emergency services departments actively participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2013, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,542
Terminated members entitled to benefits but not yet receiving them	2,181
Active participants (vested and nonvested)	4,119

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> 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. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five 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 six 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 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.

#### Funding Policy

Contribution provisions were established by S.B. 411, 65<sup>th</sup> Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month (\$36) for each active member and may contribute more. Additional contributions may be made by a 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 to a limited amount to make TESRS actuarially sound.

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

### Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2013 total contributions (dues and prior service, and interest on financing of prior service) of \$4,670,714 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State did not appropriate any state contribution for the fiscal year ending August 31, 2013.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. Actuarial assumptions made include level dollar, open amortization method, and a 30 year amortization period. Relating to the actuarial value of assets – all assets are valued at market value as determined by the system board of trustees, with an adjustment made to uniformly spread the recognition of actuarial gains or losses (as measured by actual market value investment return vs. assumed market value investment return) over a five-year period. The total adjustment amount shall be limited as necessary such that the actuarial value of assets shall not be less than 80% of market value nor greater than 120% of market value.

The actuarial valuation as of August 31, 2012 stated that TERS has an inadequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$530,000 each year to pay for part of the System's administrative expenses. On August 31, 2012 the actuarial liabilities exceeded the actuarial assets by \$33,868,555.

The actuary does not prepare information for each of the 216 member departments within the TESRS. The required supplementary information on page 48 is for the TESRS as a whole, which includes the Wolfforth Volunteer Fire Department. The following is a schedule of contributions from the employers and other contributing entities:

Fiscal Year Ending	Three-Year Trend Information		
	Annual Required Contributions (ARC)	Actual Contributions	Percentage Contributed
August 31, 2010	2,875,103.00	2,875,103.00	100%
August 31, 2011	3,125,329.00	3,125,329.00	100%
August 31, 2012	4,423,898.00	3,517,455.00	80%

The schedule of funding progress for TESRS as a whole is shown in the table below as of the latest actuarial valuation completed:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/2012	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Actuarial assumptions and methods as of the latest actuarial valuation follows:

### Actuarial Assumptions

Valuation Date	August 31, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	Infinity
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Investment Rate of Return	7.75% per year, net of investment expenses
Projected Salary Increases	N/A
Includes Inflation at	3.50%
Cost-of-Living Adjustments	None

### C. Supplemental Death Benefits Plan

#### Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected by ordinance to provide group-term life insurance coverage to both current and retired employees. Although it has no plans to do so, the City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The following summarizes the SDBF coverage provided by the City for the prior two years:

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Active Employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

#### Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

Contributions are made monthly to the SDBF based on the covered payroll of the City. The City's contribution to the TMRS SDBF for the years ended September 30, 2014, 2013 and 2012 were \$1,313, \$1,189, and \$1,126, respectfully, which equaled the required contributions each year.

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

### Schedule of Contribution Rates (Retiree-only portion of the rate)

Plan/Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.02%	0.02%	100%
2012	0.02%	0.02%	100%
2013	0.02%	0.02%	100%

### Benefits

Payments from the SDBF are similar to group-term life insurance benefits. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

### **8. Accounts Receivable and Due From Other Governments**

Accounts receivable for the City's governmental and business-type activities, including the applicable allowance for uncollectible accounts at September 30, 2014 are as follows:

	General Fund	Debt Service Fund	Enterprise Fund	Total
<b>Receivables:</b>				
Property taxes	\$ 42,709.56	\$ 9,059.30	\$	\$ 51,768.86
Customers			480,839.77	480,839.77
Franchise fees	7,351.85			7,351.85
Other governments	44,198.70			44,198.70
Other	19,475.11			19,475.11
Gross receivables	113,735.22	9,059.30	480,839.77	603,634.29
Less: Allowance for uncollectibles	(9,646.56)	(760.71)	(299,373.22)	(309,780.49)
Net total receivables	<u>\$ 104,088.66</u>	<u>\$ 8,298.59</u>	<u>\$ 181,466.55</u>	<u>\$ 293,853.80</u>

Due from other governments for the City's governmental activities at September 30, 2014 are as follows:

State of Texas -- sales tax	\$ 35,941.19
Lubbock Central Appraisal District	197.51
Lubbock County -- UMC Health System	8,060.00
Total due from other governments	<u>\$ 44,198.70</u>

The property taxes receivable account represents the current and past years uncollected tax levies on real property. Customer accounts receivable consists of amounts owed from organizations or private individuals for good or services. Receivables from other governments consist primarily of sales tax owed to the City by the State of Texas.

## CITY OF WOLFFORTH, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

#### 9. Risk Management

The City manages risk by purchasing property, liability, and workers compensation insurance through the Texas Municipal League Intergovernmental Risk Pool (the Pool). The Pool's mission is to provide Texas municipalities and other units of local government with a stable source of risk financing and loss prevention services at the lowest cost consistent with sound business practices. The Pool provides property, liability and workers' compensation coverage for certain governmental entities of the State of Texas. Member entities include municipalities, housing authorities, councils of governments, hospital districts, water districts and tax appraisal districts. The Pool consists of separate funds: the Workers' Compensation Fund, the Liability Fund, the Property Fund, the Reinsurance Fund, the Stability Fund, the Large Loss Fund, Property Improvements Fund, and the Lifetime Benefits Fund. The financial results of these coverages are accounted for in separate funds by the Pool.

The Texas Workers' Compensation Joint Insurance Fund (the Workers' Compensation Fund) was created in 1974 by the Texas Municipal League. This Fund provides coverage that conforms to the workers' compensation law of Texas. The Texas Municipal League Joint-Self Insurance Liability and Property Funds (the Liability Fund and Property Fund) were created in October 1981 by TML. The coverages provided by these Funds include comprehensive general liability, comprehensive automobile liability, automobile physical damage, law enforcement liability, public officials' errors and omissions, hangar-keepers liability, chartered aircraft and airport liability, real and personal property, mobile equipment and boiler and machinery. As part of the coverage, the Pool provides risk management services with emphasis on loss control.

On August 26, 1990, the Board of Trustees of the Pool (the Board) created the Texas Municipal League Intergovernmental Risk Pool Stability Fund (the Stability Fund). The Stability Fund provides protection for the Workers' Compensation Fund, the Liability Fund and Property Fund for each program year to offset cash short falls due to unexpected and/or catastrophic loss experience. Payments from each fund were based on 2% of each Fund's member contributions from inception of the respective fund. On January 23, 1994, the Board reduced the payments from each fund to 1% effective October 1, 1993. On July 30, 1994, the Board again reduced the payments from each fund to ½% effective October 1, 1994. Distributions from the Stability Fund are only made upon Board authorization and are limited to the Stability Fund's assets. Contributions to the Stability Fund will be accumulated until such accumulated equity equals one third of contributions for all members for all related programs for the most recent completed fiscal year. Equity in the Stability Fund shall not be considered excessive unless the equity in the Stability Fund exceeds ½ of total contributions for the last completed fiscal year of the Workers' Compensation, Liability and Property Funds.

On August 26, 1990 the Board also agreed to establish the Reinsurance Fund. The purpose of the Reinsurance Fund is to provide additional self-funded layers of risk. The initial amounts of member's equity classified for the Reinsurance Fund are based upon a special allocation of contributions for years 1985-86 through 1988-89. Equity in the Reinsurance Fund shall be used solely for reinsurance protection for coverages provided by the Pool. If the Board determines that excess equity exists in the Reinsurance Fund, such excess equity will be returned to the participating Funds on a percentage basis of all contributions paid to the Reinsurance Fund or on any other basis determined by the Board to be equitable. On July 19, 2003 the Board authorized the separation of the Large Loss Fund from the Reinsurance Fund and established it as a separate fund effective September 30, 2003. The Large Loss Fund was created to provide additional protection against large losses. Utilizing the Pool's Reinsurance Fund and Large Loss Fund, the Pool purchased reinsurance protection from its own Funds. The use of these funds, combined with the increased level of retention that the Funds are accepting has allowed the Pool to reduce the amount of reinsurance that the Pool needs to purchase from outside sources. By accepting more risk, the Pool has been able to pass these savings on to its members.

The Pool purchases excess insurance to protect against catastrophic losses that exceed the Pool's self-insurance retention. This excess insurance is purchased from domestic A-rated companies.

# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

The City carried property insurance through the Pool in the amount of \$13,094,579 and liability insurance in the amount of \$1,000,000 or \$2,000,000 depending on the policy area covered for the fiscal year ended September 30, 2014. The City's coverage includes fire and windstorm with flood and earthquake coverage excluded. The premiums paid for Workers' Compensation Coverage are based on estimated payroll amounts and are subject to fluctuations based upon an audit of payroll costs by the insurer. Any increase or decrease is not expected to be material to the financial statements.

There have been no significant reductions in insurance coverage during the fiscal year ended September 30, 2014. Settled claims have not exceeded coverage in any of the past three years.

### 10. Related Parties

The City from time to time purchases services from related parties in arms-length transactions. During the fiscal year ended September 30, 2014 these related party transactions totaled \$36,931.55.

### 11. Capital Assets

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

	Balance <u>10/1/2013</u>	Transfers and <u>Additions</u>	Transfers and <u>Retirements</u>	Balance <u>9/30/2014</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 403,537.07	\$	\$	\$ 403,537.07
Construction in progress	<u>44,070.98</u>	<u>                    </u>	<u>                    </u>	<u>44,070.98</u>
Total capital assets, not being depreciated	447,608.05	-	-	447,608.05
Capital assets, being depreciated				
Buildings and improvements	3,949,122.53			3,949,122.53
Streets and infrastructure	3,971,887.85	207,143.50		4,179,031.35
Office furniture and equipment	186,814.27			186,814.27
Vehicles, equipment and machinery	2,960,512.17	273,740.97	(104,554.00)	3,129,699.14
Library books and equipment	<u>195,556.51</u>	<u>16,899.34</u>	<u>                    </u>	<u>212,455.85</u>
Total capital assets, being depreciated	<u>11,263,893.33</u>	<u>497,783.81</u>	<u>(104,554.00)</u>	<u>11,657,123.14</u>
Less accumulated depreciation for:				
Buildings and improvements	1,014,175.50	110,468.47		1,124,643.97
Streets and infrastructure	3,212,468.44	87,534.66		3,300,003.10
Office furniture and equipment	153,295.44	8,623.22		161,918.66
Vehicles, equipment and machinery	2,109,515.13	181,546.02	(104,554.00)	2,186,507.15
Library books and equipment	<u>168,346.65</u>	<u>8,826.62</u>	<u>                    </u>	<u>177,173.27</u>
Total accumulated depreciation	<u>6,657,801.16</u>	<u>396,998.99</u>	<u>(104,554.00)</u>	<u>6,950,246.15</u>
Total capital assets, being depreciated, net	<u>4,606,092.17</u>	<u>100,784.82</u>	<u>-</u>	<u>4,706,876.99</u>
Governmental activities capital assets, net	<u>\$ 5,053,700.22</u>	<u>\$ 100,784.82</u>	<u>\$ -</u>	<u>\$ 5,154,485.04</u>

**CITY OF WOLFFORTH, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2014

	<u>Balance</u> <u>10/1/2013</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Retirements</u>	<u>Balance</u> <u>9/30/2014</u>
<b>Business-type Activities</b>				
Capital assets, not being depreciated				
Land	\$ 486,270.40	\$	\$	\$ 486,270.40
Total capital assets, not being depreciated	<u>486,270.40</u>	<u>-</u>	<u>-</u>	<u>486,270.40</u>
Capital assets, being depreciated				
Buildings	255,580.37	2,323.00		257,903.37
Water and sewer system	10,223,426.15	3,724,543.56		13,947,969.71
Vehicles, equipment and machinery	<u>405,604.55</u>	<u>94,609.29</u>		<u>500,213.84</u>
Total capital assets, being depreciated	10,884,611.07	3,821,475.85	-	14,706,086.92
Less accumulated depreciation for:				
Buildings	168,580.80	7,521.55		176,102.35
Water and sewer system	3,889,049.09	442,142.06		4,331,191.15
Vehicles, equipment and machinery	<u>351,549.53</u>	<u>19,902.10</u>		<u>371,451.63</u>
Total accumulated depreciation	<u>4,409,179.42</u>	<u>469,565.71</u>	<u>-</u>	<u>4,878,745.13</u>
Total capital assets, being depreciated, net	<u>6,475,431.65</u>	<u>3,351,910.14</u>	<u>-</u>	<u>9,827,341.79</u>
Enterprise fund assets, net	<u>\$ 6,961,702.05</u>	<u>\$ 3,351,910.14</u>	<u>\$ -</u>	<u>\$ 10,313,612.19</u>

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

<b>Governmental activities:</b>	
Financial administration	\$ 8,623.22
Building and grounds	110,468.47
Public safety - police department	58,632.13
Public safety - fire and EMS	117,799.62
Public works - street department	91,863.10
Emergency management	785.83
Library	<u>8,826.62</u>
Total depreciation expense -- governmental activities	<u>\$ 396,998.99</u>
<b>Business-type activities:</b>	
Buildings	\$ 7,521.55
Water and sewer system	442,142.06
Vehicles, equipment and machinery	<u>19,902.10</u>
Total depreciation expense -- business-type activities	<u>\$ 469,565.71</u>

**11. Leases and Lease Purchase Agreements**

The City is currently entered into a lease purchase agreement. The agreement is being accounted for as capital asset purchase with the liability as a note payable in the statement of net position. Applicable depreciation has been recorded on the assets. See Note 3 for the terms of the notes to Lubbock National Bank. The purchased equipment is collateral for the notes and the payee holds a lien against the equipment. A description of the assets and details relating to the note payments follows:



# CITY OF WOLFFORTH, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

	<u>Cost</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>
Computers	\$ 31,539.72	\$ 6,307.80	\$ 21,026.33

Note payments relating to the capital leases are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
09/30/15	\$ 5,352.64	\$ 80.00	\$ 5,432.64

The City has leased administration offices and two buildings to the Texas Forest Service. The expected rental receipts for these leases which expire June 30, 2019 are as follows:

FYE 9/30/2015	\$ 45,200.04
FYE 9/30/2016	45,200.04
FYE 9/30/2017	45,200.04
FYE 9/30/2018	45,200.04
FYE 9/30/2019	33,900.03
	<u>\$ 214,700.19</u>

The City has also leased office space to two businesses that are currently on month to month leases with no future commitments.

### 12. Commitments and Contingencies

#### Grant Audits

In the normal course of operations, the City receives grant funds from various Federal and State agencies as well as private foundations. These grant programs are subject to compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be significant.

#### Litigation

From time to time the City is party to various legal proceedings which normally occur in governmental operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of City management, after consultation with legal counsel, these legal proceedings are not likely to have a significant adverse impact on the affected funds of the City.

#### Construction Commitments

The City has active construction projects as of September 30, 2014. The projects include construction projects in the general fund and enterprise fund. The City has issued Certificates of Obligation to fund these projects and estimated the following amounts to be expensed on each project. The year end commitments are as follows:

	<u>Remaining Commitment</u>
Construction projects	\$ 2,553,734.50

## **Supplementary Information**

**CITY OF WOLFFORTH, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Budgeted Amounts		Actual Amounts		Variance With
				Adjustments to Budgetary Basis	Final Budget Positive (Negative)
	Original	Final	Actual	Actual on Budgetary Total	
Revenues					
Property taxes	\$ 1,179,543.00	\$ 1,179,543.00	\$ 1,179,682.71	\$	\$ 139.71
Penalties and interest	17,000.00	10,800.00	10,806.79		6.79
Sales tax	256,020.00	284,020.00	285,405.49		1,385.49
Fire department revenue	65,400.00	66,600.00	66,631.00		31.00
Permits and licenses	46,800.00	55,750.00	56,184.22		434.22
Municipal court revenue	136,500.00	112,000.00	112,263.06		263.06
Franchise fees	152,000.00	267,000.00	277,261.16		10,261.16
EMS revenue	183,000.00	253,000.00	246,722.79		(6,277.21)
EMS subsidy	85,000.00	78,900.00	88,340.00		9,440.00
Library revenue	10,527.00	11,102.00	11,207.85		105.85
Park revenue	10,000.00	10,000.00	10,584.31		584.31
Interest revenue	10,030.00	7,830.00	7,876.12		46.12
Grant proceeds	-	1,200.00	1,258.00		58.00
Miscellaneous	24,450.00	33,130.00	33,843.46		713.46
Total Revenues	2,176,270.00	2,370,875.00	2,388,066.96	-	17,191.96
Expenditures					
Current--					
City government	36,300.00	19,970.00	19,905.91		64.09
Municipal court	88,650.00	75,800.00	74,959.56		840.44
Financial administration	264,602.00	269,552.00	265,720.26		3,831.74
Building and grounds	100,700.00	84,950.00	85,732.85		(782.85)
Code enforcement	11,500.00	13,800.00	13,613.92		186.08
Public safety - police department	663,064.00	698,434.00	684,639.53		13,794.47
Public safety - fire department & EMS	581,803.00	485,028.00	477,632.57		7,395.43
Miscellaneous public service	6,000.00	5,500.00	5,470.49		29.51
Emergency management	19,921.00	24,976.00	23,534.12		1,441.88
Public works - street department	12,000.00	10,450.00	8,762.47		1,687.53
Park	37,100.00	52,600.00	52,322.23		277.77
Library	114,308.00	125,003.00	123,872.18		1,130.82
Capital outlay	169,945.00	478,195.00	497,783.81		(19,588.81)
Debt service --					
Principal retirement	134,405.00				-
Interest	2,491.00	4,981.00			4,981.00
Total Expenditures	2,242,789.00	2,349,239.00	2,333,949.90	-	15,289.10
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(66,519.00)	21,636.00	54,117.06	-	32,481.06
Other Financing Sources (Uses)					
Proceeds of long-term debt		475,600.00	475,600.00		-
Payments on long-term debt	(44,258.00)	(43,508.00)	(46,130.36)		(2,622.36)
Transfers in	3,000.00	500.00			(500.00)
Transfers out	-	(463,000.00)	(38,731.63)		424,268.37
Total Other Financing Sources and Uses	(41,258.00)	(30,408.00)	390,738.01	-	421,146.01
Net Change in Fund Balance	(107,777.00)	(8,772.00)	444,855.07	-	453,627.07
Fund Balance, October 1	672,339.11	672,339.11	672,339.11	-	-
Fund Balance, September 30	\$ 564,562.11	\$ 663,567.11	\$ 1,117,194.18	\$ -	\$ 453,627.07

The accompanying notes are an integral part of these financial statements.

**CITY OF WOLFFORTH, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
*(unaudited)*

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1)/(2)	Unfunded AAL (UAAL) (4) (2)-(1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4)/(5)
12/31/2011	1,667,030	2,092,816	79.7%	425,786	1,004,497	42.4%
12/31/2012	1,821,847	2,162,531	84.2%	340,684	972,849	35.0%
12/31/2013	1,982,629	2,476,215	80.1%	493,586	1,033,515	47.8%

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
*(unaudited latest available data)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL Per Member Covered (b-a)/(c)
8/31/2008	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/2010	64,113,803	81,264,230	17,150,427	78.9%	8,644	1,984
8/31/2012	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585

The accompanying notes are an integral part of these financial statements.

## CITY OF WOLFFORTH, TEXAS

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2014

#### Budgetary Control - Policy and Practice

The City operates on a twelve-month fiscal year which begins on October 1. The City Manager is the budget officer and submits a budget of estimated revenues and expenditures to the City Council. Upon receipt of the budget estimates the City Council holds a budget workshop and a public budget hearing. Prior to October 1, the budget is legally enacted through approval by the City Council. Once approved, the Council may amend the legally adopted budget by a majority vote when unexpected modifications are required in estimated revenues and appropriations. In addition to the legally adopted budget the Council approves payment of expenditures at each monthly Council meeting. Unused appropriations for all annually budgeted funds lapse at the end of the fiscal year. Budgets are prepared on the accrual basis of accounting and include debt principal retirements and capital outlays as expenses.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. The legal level of control is the total expenditures of the budgeted funds. Expenditures may not exceed appropriations at the total levels. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations between line items without Council approval.

The Budgetary Comparison Schedule, included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results.

In the originally adopted budget expenditures exceeded revenues by \$66,519. When the budget was amended at the end of the fiscal year the budgeted revenues exceeded expenditures by \$21,636.