

ANNUAL FINANCIAL REPORT  
OF THE  
CITY OF LAVON, TEXAS

Fiscal Year Ended September 30, 2014

*Mayor  
Charles Teske, Jr.*



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

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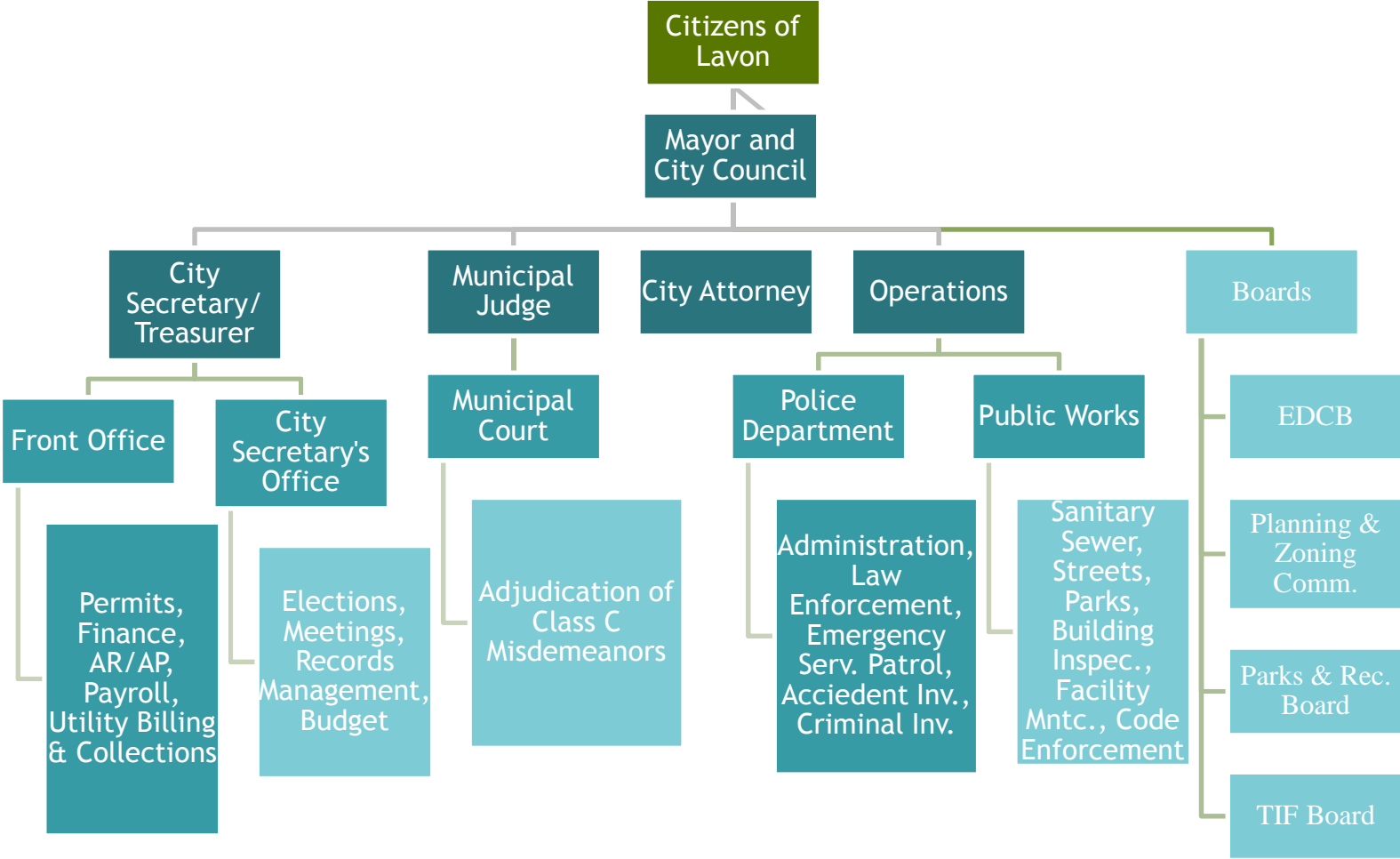
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## INTRODUCTORY SECTION



# City of Lavon Organization Chart



**City of Lavon, Texas  
Principal Officials  
September 30, 2014**

***City Council***

Charles Teske, Jr.	Mayor
Jorge Calderon	Council member
Melissa Stroop	Council member
Matt Childers	Council member
Chris Kane	Council member
Jenny Bodwell	Council member

## FINANCIAL SECTION





Michael Conway, CPA  
Neil Conway, CPA

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American Institute of CPAs  
Texas Society of CPAs

August 3, 2015

**Independent Auditor's Report**

Mayor and City Council  
City of Lavon  
PO Box 340  
Lavon, Texas 75166

Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavon, Texas ("City") 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 from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavon, 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 and the TMRS Funding Progress and Contributions on pages 7 - 18 and 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lavon, Texas' basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2015, on our consideration of the City of Lavon, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lavon, Texas' internal control over financial reporting and compliance.

Respectfully Submitted,

**CONWAY COMPANY CPAs, P.C.**

*Conway Company CPAs, P.C.*



## CITY OF LAVON, TEXAS

### MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2014

As management of the City of Lavon ("City"), we offer the readers of the City of Lavon's financial statements this narrative overview and analysis of the financial activities of the City of Lavon for the fiscal year ended September 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

#### Financial Highlights

- The assets of the City of Lavon exceeded its liabilities and deferred inflows at the close of the fiscal year by year by \$8,154,354 (net position). Of this amount, \$7,306,110, or 89.6% is investment in capital assets, \$46,662 or .57% is restricted for court and police use and \$345,885 or 4.24% is restricted for capital improvements. The remaining unrestricted net position of \$455,697 may be used to meet the City's ongoing obligations to its citizens and creditors in accordance with the City's fund designation and policies.
- The City's total net position increased \$176,464, excluding prior period adjustments.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$745,674. This represents an increase of \$215,328, excluding prior period adjustments, in net change in fund balance.
- As of the close of the current fiscal year, the unassigned fund balance for the General Fund was \$350,177 which was 21% of total General Fund expenditures.
- The City added two capital lease payables of \$91,830 for the purchase of vehicles for the police department. With these two lease payables and the payments applied to current note payable, total long-term debt increased \$6,618, or 1%.

#### Overview of the Financial Statements

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

**CITY OF LAVON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

**Basic Financial Statements**

The first two statements (pages 21-23) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 24-32) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the Governmental Fund financial statements, 2) the Proprietary Fund financial statements, and 3) the Fiduciary Fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (page 57) is provided to show details about the City's budgetary comparison for the General Fund and the City's pension plan. **Supplemental information** (pages 60-66) is also included to provide combining nonmajor fund financial statements for other major governmental funds and component unit information.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

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

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

Both the government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component unit activity. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The final category is the component unit. The City includes one separate legal entity in its report – City of Lavon Economic Development Corporation. Although legally separate, this "component unit" is important because the City is financial accountable for them.

The government-wide financial statements are on pages 21 - 23 of this report.

**Fund Financial Statements**

The fund financial statements provide a more detailed look at the City's most significant funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories as previously described.

**CITY OF LAVON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

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

Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps to determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Other Governmental Funds. Data from the other governmental funds is provided in the form of combining statements in the supplementary information. Governmental Fund financial statements can be found on pages 24 – 28 of this report.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

*Proprietary Funds* – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, such as cash flows. The City has only two proprietary funds, the Wastewater Utility Fund and the Solid Waste Utility Fund.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

*Fiduciary Funds* – Fiduciary Funds are used to account for amounts held on behalf of others by the City as a trustee, or fiduciary. The City is the trustee, or fiduciary, for certain amounts held on behalf of Collin County. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The activities of this fund are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

**CITY OF LAVON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

The fiduciary fund financial statement can be found on page 32.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 33-53 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund statements can be found on pages 60-66 of this report.

**New GASB pronouncements**

GASB Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62" will be implemented by the City as required by GASB during the fiscal year ending September 30, 2014. This statement improves financial reporting by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" by removing the provision that limits fund-based reporting of an entity's risk financial activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting and operating leases. The implementation of this statement will not result in any changes to the financial statements.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees" requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was implemented as required by GASB for period beginning after June 15, 2013. The implementation of this statement did not result in any changes to the financial statements.

GASB issued the following statements which will be effective in future years as described below:

GASB Statement No. 67, "Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25", will be implemented by the City as required by GASB during the fiscal year ending September 30, 2015. The objective of this statement is to improve financial reporting by state and local government pension plans. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27", will be implemented as required by GASB during the fiscal year September 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local government pensions and improve the decision-usefulness of information contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflow of resources, and expense/expenditures. Note disclosure and required supplementary information requirement about pensions also are addressed. This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The City

**CITY OF LAVON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations" establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement will be implemented as required by GASB for period beginning after December 15, 2013. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" (an amendment to GASB Statement No. 68) requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

**The City of Lavon Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 839,479	\$ 6,494,239	\$ 437,777	\$ 2,417,204	\$ 1,277,256	\$ 8,911,443
Capital assets	5,534,428	5,459,573	2,230,442	2,295,248	7,764,870	7,754,821
Total assets	6,373,907	11,953,812	2,668,219	4,712,452	9,042,126	16,666,264
Current liabilities	87,179	4,704,242	219,048	2,293,147	306,227	6,997,389
Long-term liabilities	400,764	6,362,500	84,000	2,180,646	484,764	8,543,146
Total liabilities	487,943	11,066,742	303,048	4,473,793	790,991	15,540,535
Deferred inflows of resources						
Unavailable revenues- advance lease receipts	-	-	96,781	-	96,781	-
Net position:						
Net investment in capital assets	5,159,668	373,559	2,146,442	114,602	7,306,110	488,161
Restricted	392,547	47,356	-	-	392,547	47,356
Unrestricted	333,749	441,155	121,948	124,057	455,697	565,212
Total net position	\$ 5,885,964	\$ 862,070	\$ 2,268,390	\$ 238,659	\$ 8,154,354	\$ 1,100,729

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The net position of the City exceeded liabilities by \$8,154,354 as of September 30, 2014. The City's net position increased by \$176,464, excluding prior period adjustments, for the fiscal year ended September 30, 2014.

*Net investment in capital assets:*

The City's net position of net investment in capital assets of, \$7,306,110, or 89.6%, reflects the City's investment in capital assets (e.g. land, buildings, infrastructure, and equipment) less any related debt still outstanding that was issued to acquire those items. The City began residential development of the Public Improvement District. Phase I of this development has been completed. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

*Restricted net position:*

The restricted net position of \$392,547, or 4.8%, of total net position represents resources that are subject to external restrictions on their use, or by enabling legislation. Restricted net position is comprised of state imposed restrictions for court use, \$45,161, or 11.5%, and \$1,501, or .4% for police use and \$345,885, or 88.1% for capital improvements.

*Unrestricted net position:*

Unrestricted net position of \$455,697 or, 5.6%, is available to fund the City programs and obligations to its citizens and creditors.

**CITY OF LAVON, TEXAS**  
**MANAGEMENT DISCUSSION AND ANALYSIS (continued)**  
**SEPTEMBER 30, 2014**

**The City of Lavon's Changes in Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues:						
Program revenues:						
Charges for services	\$ 446,359	\$ 435,511	\$ 897,672	\$ 792,735	\$ 1,344,031	\$ 1,228,246
Capital grants and contributions	69,326	49,000	-	-	69,326	49,000
Operating grants and contributions	2,625	2,500	-	-	2,625	2,500
General revenues:						
Property tax	798,636	794,929	-	-	798,636	794,929
Sales tax	123,665	102,586	-	-	123,665	102,586
Franchise tax	87,965	74,363	-	-	87,965	74,363
Investment income	1,183	1,271	54	58	1,237	1,329
Miscellaneous	9,786	15,521	-	100	9,786	15,621
Total revenues	<u>1,539,545</u>	<u>1,475,681</u>	<u>897,726</u>	<u>792,893</u>	<u>2,437,271</u>	<u>2,268,574</u>
Expenses:						
Program expenses						
General government	323,925	320,831	-	-	323,925	320,831
Public services	123,898	86,546	-	-	123,898	86,546
Public safety	614,469	607,640	-	-	614,469	607,640
Public works	339,725	315,514	-	-	339,725	315,514
Parks and recreation	1,080	-	-	-	1,080	-
Interest on long-term debt	8,383	19,874	-	-	8,383	19,874
Sewer and garbage	-	-	849,327	647,470	849,327	647,470
Total expenses	<u>1,411,480</u>	<u>1,350,405</u>	<u>849,327</u>	<u>647,470</u>	<u>2,260,807</u>	<u>1,997,875</u>
Change in net assets before other Financing Sources (Uses)	128,065	125,276	48,399	145,423	176,464	270,699
Other financing sources (uses):						
Transfers	239,498	394,544	(239,498)	(394,544)	-	-
Total other financing sources (uses)	<u>239,498</u>	<u>394,544</u>	<u>(239,498)</u>	<u>(394,544)</u>	<u>-</u>	<u>-</u>
Total change in net position	367,563	519,820	(191,099)	(249,121)	176,464	270,699
Net position - October 1	862,070	8,513,887	238,659	535,399	1,100,729	9,049,286
Prior period adjustments	4,656,331	(8,171,637)	2,220,830	(47,619)	6,877,161	(8,219,256)
Net position - September 30	<u>\$ 5,885,964</u>	<u>\$ 862,070</u>	<u>\$ 2,268,390</u>	<u>\$ 238,659</u>	<u>\$ 8,154,354</u>	<u>\$ 1,100,729</u>

Governmental activities increased net position, excluding prior period adjustments, by \$367,563. This is due, in large part, to the transfers from the Wastewater Fund and Solid Waste Fund.

Business-type activities decreased net position, excluding prior period adjustments, by (\$191,099). This is due to the significant increase in overall expenses.

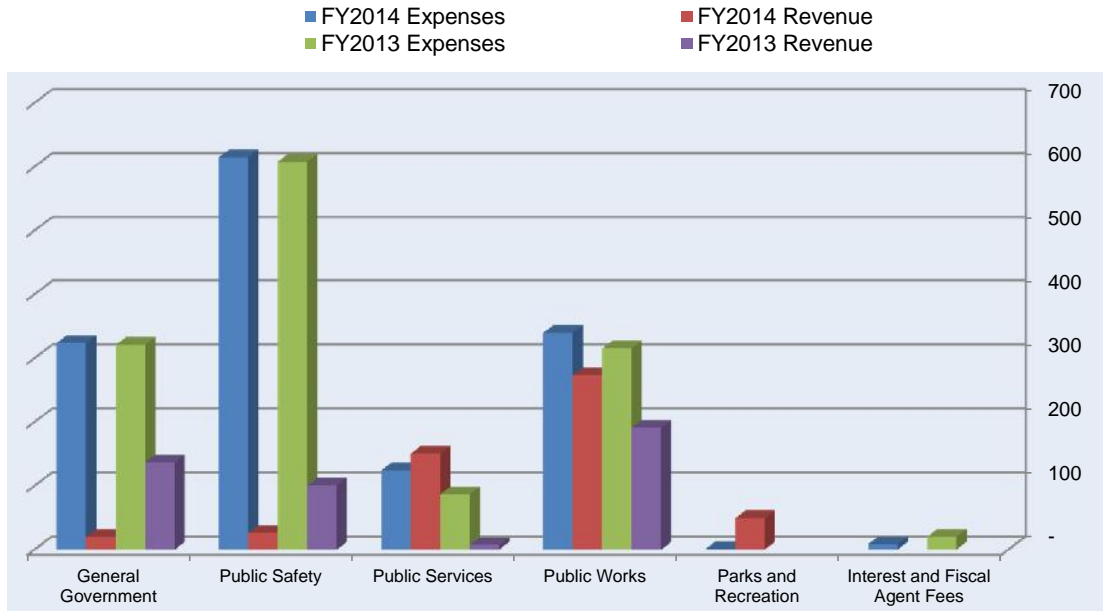
**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

**Governmental-type activities** - Governmental-type activities increased the City's net position by \$367,563, excluding prior period adjustments. Key elements of this increase are as follows:

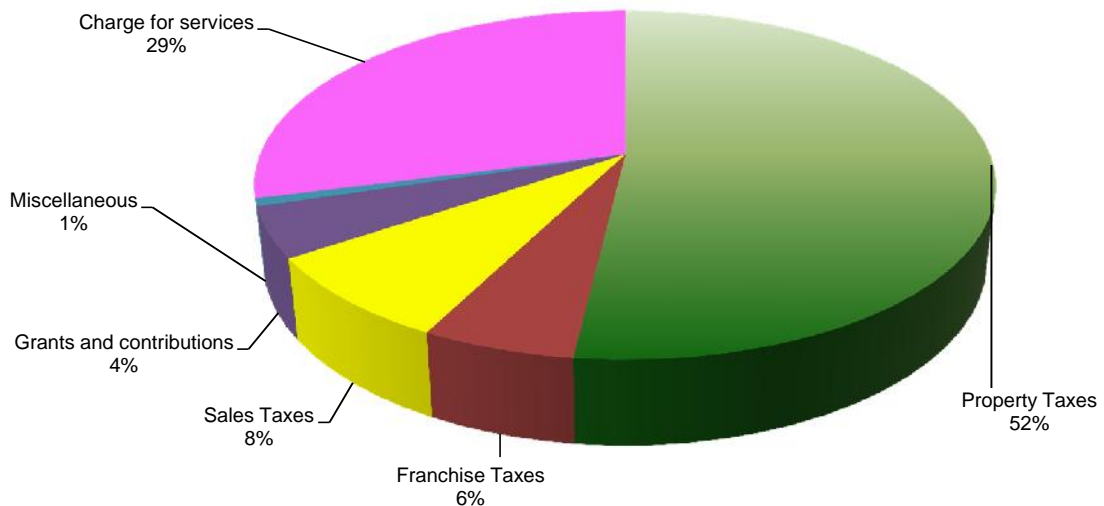
Overall revenues and expenditures remain consistent with the prior year activity. This accounts for \$128,065, or 34%, of the increase in net position. The remaining increase is due to transfers from the business-type funds of \$239,498 (a decrease of (\$155,046), or (39%)).

**Expenses and Program Revenues - Governmental Activities**

(amounts expressed in thousands)



**Revenues by Source - Governmental Activities**



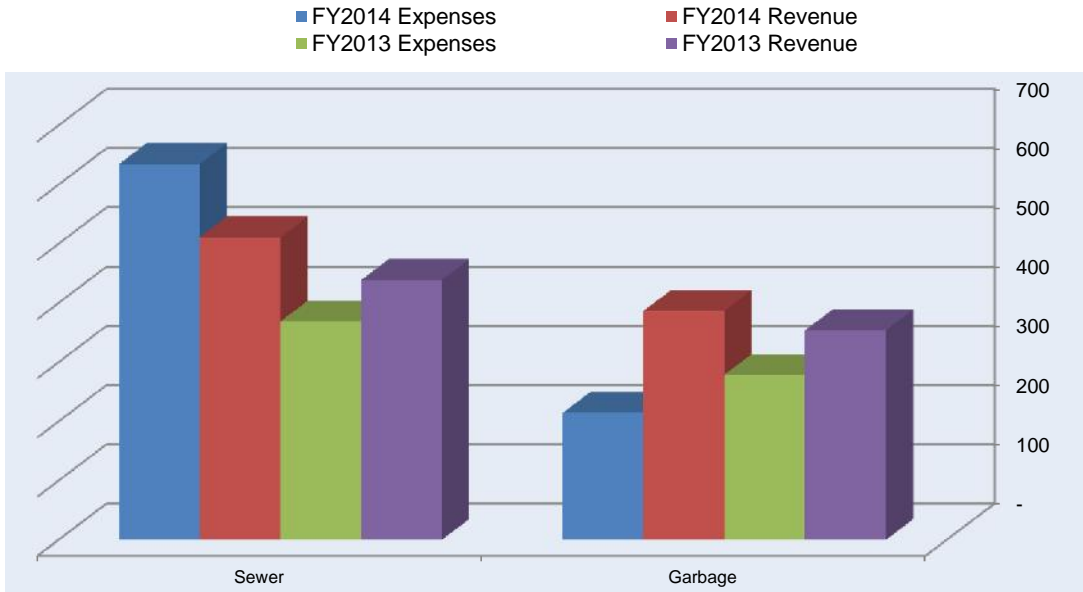
**CITY OF LAVON, TEXAS  
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
 SEPTEMBER 30, 2014**

**Business-type activities** - Business-type activities decreased the City's net position by (\$191,099), excluding prior period adjustments. Key elements of this decrease are as follows:

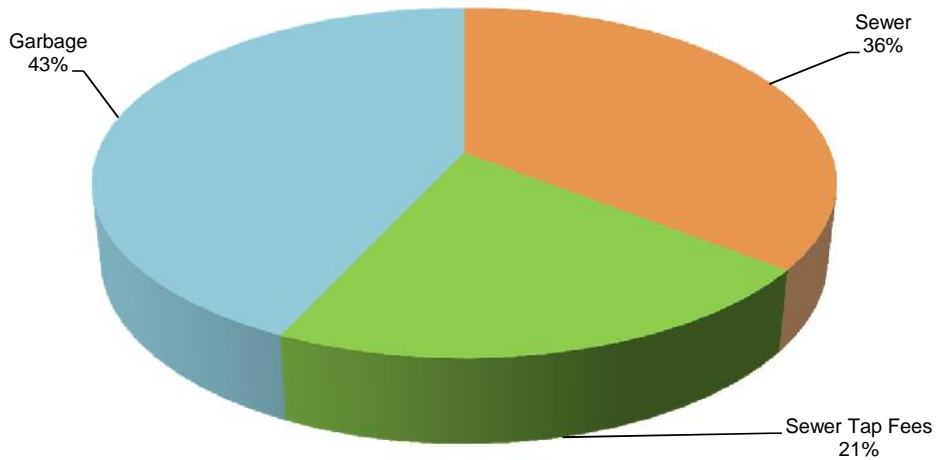
Contractual expense increased \$314,325. These are payments made for contractual obligations to the developer for maintenance of sewer system. This is offset by a slight increase in revenues of \$104,833, or 12%.

**Expenses and Program Revenues - Governmental Activities**

(amounts expressed in thousands)



**Revenues by Source - Governmental Activities**



**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

**Financial Analysis of the City's Funds**

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

**Governmental Funds** - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending as they represent the portion of fund balance which has not been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been granted authority to assign resources for a particular purpose for the City.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$350,177. This is a decrease of (\$1,013,037). This is due to a prior period adjustment to reverse bond costs for the special assessment bonds. See Note I and Note J of the notes to the financial statements for detailed information.

The total restricted fund balance of \$392,547, is to be used only for purposes as required by state law or other third party restrictions. The amount of \$45,161, or 11.5%, is for court use, \$1,501, or .4%, is for police use, and \$345,885, or 88.1%, is for capital improvements.

**General Fund Budgetary Highlights:** During the fiscal year, the City did make revisions to the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Overall, revenues were more than the budgeted amounts and expenditures were less than budget.

**Proprietary Funds** - The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$121,948.

**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2014**

**Capital Asset and Debt Administration**

**Capital assets** - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2014, totals \$7,764,870 (net of accumulated depreciation). These assets include land, buildings and improvements, infrastructure, vehicles and equipment.

Major capital asset transactions during the year include the following additions:

- Completion of City Hall/gym renovations
- Purchase of police vehicles

**Capital Assets  
September 30, 2014  
(net of accumulated depreciation)**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Land	\$ 1,496,119	\$ 1,496,119	\$ -	\$ -	\$ 1,496,119	\$ 1,496,119
Buildings & Improvements	671,388	449,462	-	-	671,388	449,462
Infrastructure	3,054,737	3,151,513	2,230,442	2,214,895	5,285,179	5,366,408
Machinery & Equipment	312,184	279,357	-	-	312,184	279,357
Construction in Progress	-	83,122	-	80,353	-	163,475
<b>Total</b>	<b>\$ 5,534,428</b>	<b>\$ 5,459,573</b>	<b>\$ 2,230,442</b>	<b>\$ 2,295,248</b>	<b>\$ 7,764,870</b>	<b>\$ 7,754,821</b>

More detailed information about the City's capital assets is presented in Note G to the financial statements.

**Long-Term Debt** - As of September 30, 2014, the City had outstanding long-term debt in the amount of \$458,760, an increase of \$6,618, or 1%.

**Outstanding Debt  
As of September 30, 2014**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Capital Leases Payable	\$ 242,010	\$ 223,402	\$ -	\$ -	\$ 242,010	\$ 223,402
Notes Payable	132,750	228,740	84,000	-	216,750	228,740
	<b>\$ 374,760</b>	<b>\$ 452,142</b>	<b>\$ 84,000</b>	<b>\$ -</b>	<b>\$ 458,760</b>	<b>\$ 452,142</b>

More detailed information about the City's long-term debt is presented in Note I to the financial statements. Also, See Note J for detailed information of the special assessment bonds.

**CITY OF LAVON, TEXAS  
MANAGEMENT DISCUSSION AND ANALYSIS (continued)  
SEPTEMBER 30, 2014**

**Economic Factors and Next Year's Budgets and Rates**

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration set the direction of the City, allocate its resources, and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2014, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2014-2015 will remain the same as the current year, a tax rate of \$0.4557 per \$100 valuation. Tax revenue is expected to increase due to new property being added to the tax roll.

**Requests for Information**

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Lavon, PO Box 340, Lavon, Texas 75166.

## BASIC FINANCIAL STATEMENTS



**CITY OF LAVON, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014**

	Primary Government		Total	Component Unit
	Governmental Activities	Business-type Activities		
<b>ASSETS</b>				
Cash and cash equivalents	\$ 409,647	\$ 286,462	\$ 696,109	\$ 244,962
Receivables (net of allowance for uncollectibles)	37,285	54,534	91,819	10,638
Note receivable	-	96,781	96,781	-
Prepaid items	-	-	-	20,000
Restricted assets:				
Cash and cash equivalents	392,547	-	392,547	-
Capital assets not being depreciated:				
Land	1,496,119	-	1,496,119	-
Construction in process	-	-	-	7,050
Capital assets net of accumulated depreciation:				
Building & improvements	671,388	-	671,388	-
Infrastructure & improvements	3,054,737	2,230,442	5,285,179	-
Machinery & equipment	312,184	-	312,184	-
<b>Total assets</b>	<b>6,373,907</b>	<b>2,668,219</b>	<b>9,042,126</b>	<b>282,650</b>
<b>LIABILITIES</b>				
Accounts payable	44,856	219,048	263,904	-
Payroll liabilities	17,178	-	17,178	-
Other liabilities	5,145	-	5,145	-
Unearned revenues	20,000	-	20,000	-
Non-current liabilities:				
Due within one year:				
Compensated absences	2,600	-	2,600	-
Capital lease payable	57,090	-	57,090	-
Note payable	32,186	11,000	43,186	14,234
Due in more than one year:				
Compensated absences	23,404	-	23,404	-
Capital lease payable	184,920	-	184,920	-
Note payable	100,564	73,000	173,564	82,547
<b>Total liabilities</b>	<b>487,943</b>	<b>303,048</b>	<b>790,991</b>	<b>96,781</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue-note receivable	-	96,781	96,781	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>96,781</b>	<b>96,781</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	5,159,668	2,146,442	7,306,110	-
Restricted for:				
Capital improvements	345,885	-	345,885	-
Court uses	45,161	-	45,161	-
Police	1,501	-	1,501	-
Unrestricted	333,749	121,948	455,697	185,869
<b>Total net position</b>	<b>\$ 5,885,964</b>	<b>\$ 2,268,390</b>	<b>\$ 8,154,354</b>	<b>\$ 185,869</b>

The notes to the financial statements are an integral part of this financial statement.

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

	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Capital Grants and Contributions</b>	<b>Operating Grants and Contributions</b>
<b>Function/Program Activities</b>				
<b>Primary Government</b>				
Governmental Activities:				
General government	\$ 323,925	\$ 19,629	\$ 150	\$ -
Public service	123,898	150,196	-	-
Public safety	614,469	3,444	22,068	625
Public works	339,725	273,090	-	-
Parks and recreation	1,080	-	47,108	2,000
Interest on long-term debt	8,383	-	-	-
<b>Total governmental activities</b>	<b>1,411,480</b>	<b>446,359</b>	<b>69,326</b>	<b>2,625</b>
Business-type Activities:				
Wastewater	634,755	510,970	-	-
Solid waste	214,572	386,702	-	-
<b>Total business-type activities</b>	<b>849,327</b>	<b>897,672</b>	<b>-</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 2,260,807</b>	<b>\$ 1,344,031</b>	<b>\$ 69,326</b>	<b>\$ 2,625</b>
<b>Component unit:</b>				
Economic Development Corporation	\$ 82,773	\$ -	\$ -	\$ -
<b>Total component unit:</b>	<b>\$ 82,773</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**General revenues:**

Property tax  
Sales & mixed beverage tax  
Franchise tax  
Investment income  
Miscellaneous  
Transfers  
Total general revenues  
Change in net position  
Net position - beginning  
Prior period adjustments  
Net position - ending

**Net (Expense) Revenue  
and Changes in Net Position**

<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Total</b>	
\$ (304,146)	\$ -	\$ (304,146)	\$ -
26,298	-	26,298	-
(588,332)	-	(588,332)	-
(66,635)	-	(66,635)	-
48,028	-	48,028	-
(8,383)	-	(8,383)	-
<u>(893,170)</u>	<u>-</u>	<u>(893,170)</u>	<u>-</u>
-	(123,785)	(123,785)	-
-	172,130	172,130	-
-	48,345	48,345	-
<u>\$ (893,170)</u>	<u>\$ 48,345</u>	<u>\$ (844,825)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82,773)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82,773)</u>
\$ 798,636	\$ -	\$ 798,636	\$ -
123,665	-	123,665	60,884
87,965	-	87,965	-
1,183	54	1,237	-
9,786	-	9,786	-
239,498	(239,498)	-	-
<u>1,260,733</u>	<u>(239,444)</u>	<u>1,021,289</u>	<u>60,884</u>
367,563	(191,099)	176,464	(21,889)
862,070	238,659	1,100,729	213,752
<u>4,656,331</u>	<u>2,220,830</u>	<u>6,877,161</u>	<u>(5,994)</u>
<u>\$ 5,885,964</u>	<u>\$ 2,268,390</u>	<u>\$ 8,154,354</u>	<u>\$ 185,869</u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LAVON, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 406,697	\$ 2,950	\$ 409,647
Receivables (net of allowance for uncollectibles)	37,285	-	37,285
Cash and cash equivalents - restricted	<u>345,885</u>	<u>46,662</u>	<u>392,547</u>
<b>Total assets</b>	<u><u>789,867</u></u>	<u><u>49,612</u></u>	<u><u>839,479</u></u>
<b>LIABILITIES</b>			
Accounts payable	44,856	-	44,856
Payroll accrual	17,178	-	17,178
Unearned revenues	20,000	-	20,000
Other liabilities	<u>5,145</u>	<u>-</u>	<u>5,145</u>
<b>Total liabilities</b>	<u><u>87,179</u></u>	<u><u>-</u></u>	<u><u>87,179</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property tax revenue	<u>6,626</u>	<u>-</u>	<u>6,626</u>
<b>Total deferred inflows of resources</b>	<u><u>6,626</u></u>	<u><u>-</u></u>	<u><u>6,626</u></u>
<b>FUND BALANCES</b>			
Restricted for:			
Capital improvements	345,885	-	345,885
Court use	-	45,161	45,161
Police	-	1,501	1,501
Designated for:			
Police	-	2,950	2,950
Unassigned	<u>350,177</u>	<u>-</u>	<u>350,177</u>
<b>Total fund balances</b>	<u><u>696,062</u></u>	<u><u>49,612</u></u>	<u><u>745,674</u></u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u><u>\$ 789,867</u></u>	<u><u>\$ 49,612</u></u>	<u><u>\$ 839,479</u></u>

The notes to the financial statements are an integral part of this financial statement.

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

<b>Total fund balances - governmental funds balance sheet</b>	<b>\$ 745,674</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,752,242
Accumulated depreciation has not been included in the governmental fund financial statements.	(1,217,814)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(26,004)
Revenue reported as deferred inflow of resources in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	6,626
Long-term liabilities, including notes payable and capital leases, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(374,760)</u>
<b>Net position of governmental activities - statement of net position</b>	<b><u>\$ 5,885,964</u></b>

The notes to the financial statements are an integral part of this financial statement.

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

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes:			
Property	\$ 798,636	\$ -	\$ 798,636
Sales	123,665	-	123,665
Franchise	87,965	-	87,965
Charge for services	19,628	-	19,628
Intergovernmental revenue - state and local	68,140	1,036	69,176
Licenses and permits	273,090	-	273,090
Fines and fees	144,606	5,591	150,197
Contributions and grants	2,000	-	2,000
Donations	775	-	775
Miscellaneous	9,786	-	9,786
Investment income	1,183	-	1,183
<b>Total revenues</b>	<u>1,529,474</u>	<u>6,627</u>	<u>1,536,101</u>
<b>EXPENDITURES</b>			
Current operating:			
General government	318,442	-	318,442
Public services	121,347	2,550	123,897
Public safety	537,733	1,728	539,461
Public works	226,150	-	226,150
Parks and recreation	1,081	-	1,081
Debt service:			
Principal retirement	169,211	-	169,211
Interest	15,173	-	15,173
Capital outlays			
General government	94,328	-	94,328
Public safety	91,830	-	91,830
Parks	75,972	-	75,972
<b>Total expenditures</b>	<u>1,651,267</u>	<u>4,278</u>	<u>1,655,545</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(121,793)	2,349	(119,444)
<b>Other revenues and financing sources (uses)</b>			
Transfers	239,498	-	239,498
Sale of assets	3,444	-	3,444
Note proceeds	91,830	-	91,830
<b>Total other financing sources (uses)</b>	<u>334,772</u>	<u>-</u>	<u>334,772</u>
<b>Net change in fund balances</b>	212,979	2,349	215,328
<b>Fund balances, October 1</b>	1,709,099	49,270	1,758,369
<b>Prior period adjustments</b>	(1,226,016)	(2,007)	(1,228,023)
<b>Fund balances, September 30</b>	<u>\$ 696,062</u>	<u>\$ 49,612</u>	<u>\$ 745,674</u>

The notes to the financial statements are an integral part of this financial statement.

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

**Net change in fund balances - statement of revenues, expenditures and  
changes in fund balances - governmental funds** \$ 215,328

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

Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2014 capital outlays is to increase net position. 262,130

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position. (187,276)

Current year long-term debt principal payments on contractual obligations, are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements. 169,211

In governmental fund financial statements the proceeds from notes payable are shown as other financing sources but are shown as an increase in liabilities in the government-wide statements. (91,830)

**Change in net position - statement of activities** \$ 367,563

**CITY OF LAVON, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Adopted</u>	<u>Amended</u>		
<b>REVENUES</b>				
Taxes:				
Property	\$ 800,000	\$ 800,000	\$ 798,636	\$ (1,364)
Sales	123,882	123,882	123,665	(217)
Franchise	87,000	87,000	87,965	965
Charge for services	17,400	17,400	19,628	2,228
Intergovernmental revenue	49,108	49,108	68,140	19,032
Licenses and permits	252,290	252,290	273,090	20,800
Fines and forfeitures	133,575	133,575	144,606	11,031
Contributions and grants	-	-	2,000	2,000
Donations	-	-	775	775
Investment income	1,726	1,726	1,183	(543)
Miscellaneous	8,813	8,813	9,786	973
<b>Total revenues</b>	<u>1,473,794</u>	<u>1,473,794</u>	<u>1,529,474</u>	<u>55,680</u>
<b>EXPENDITURES</b>				
Current operating:				
General government	804,256	804,256	318,442	485,814
Public works	239,642	239,642	226,150	13,492
Municipal court	107,582	107,582	121,347	(13,765)
Public safety	551,552	551,552	537,733	13,819
Parks and recreation	2,000	2,000	1,081	919
Debt service:				
Principal retirement	175,647	175,647	169,211	6,436
Interest	6,800	6,800	15,173	(8,373)
Capital outlays:				
General government	86,663	84,068	94,328	(10,260)
Public safety	-	-	91,830	(91,830)
Parks	75,972	75,972	75,972	-
<b>Total expenditures</b>	<u>2,050,114</u>	<u>2,047,519</u>	<u>1,651,267</u>	<u>396,252</u>
<b>Excess of revenues over expenditures</b>	(576,320)	(573,725)	(121,793)	451,932
<b>Other financing sources (uses)</b>				
Transfers	281,915	281,915	239,498	(42,417)
Sale of assets	25,344	25,344	3,444	(21,900)
Note proceeds	-	-	91,830	91,830
<b>Total other financing sources (uses)</b>	<u>307,259</u>	<u>307,259</u>	<u>334,772</u>	<u>27,513</u>
<b>Net change in fund balances</b>	(269,061)	(266,466)	212,979	479,445
<b>Fund balance, October 1</b>	1,709,099	1,709,099	1,709,099	
<b>Prior period adjustments</b>	(1,226,016)	(1,226,016)	(1,226,016)	
<b>Fund balance, September 30</b>	<u>\$ 214,022</u>	<u>\$ 216,617</u>	<u>\$ 696,062</u>	

The notes to the financial statements are an integral part of this financial statement.

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

	<u>Wastewater Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 286,462	\$ -	\$ 286,462
Receivables (net of allowance for uncollectibles)	27,044	27,490	54,534
Note receivable	96,781	-	96,781
Total current assets	<u>410,287</u>	<u>27,490</u>	<u>437,777</u>
Noncurrent assets:			
Capital assets:			
Infrastructure	2,592,222	-	2,592,222
Less: accumulated depreciation	<u>(361,780)</u>	<u>-</u>	<u>(361,780)</u>
Total capital assets (net of accumulated depreciation)	<u>2,230,442</u>	<u>-</u>	<u>2,230,442</u>
<b>Total assets</b>	<u><u>2,640,729</u></u>	<u><u>27,490</u></u>	<u><u>2,668,219</u></u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	219,048	-	219,048
Payables from restricted funds:			
Note payable	<u>11,000</u>	<u>-</u>	<u>11,000</u>
Total current liabilities	<u>230,048</u>	<u>-</u>	<u>230,048</u>
Noncurrent liabilities:			
Note payable	<u>73,000</u>	<u>-</u>	<u>73,000</u>
Total noncurrent liabilities	<u>73,000</u>	<u>-</u>	<u>73,000</u>
<b>Total liabilities</b>	<u>303,048</u>	<u>-</u>	<u>303,048</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue-note receivable	<u>96,781</u>	<u>-</u>	<u>96,781</u>
<b>Total deferred inflows of resources</b>	<u>96,781</u>	<u>-</u>	<u>96,781</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,146,442	-	2,146,442
Unrestricted	<u>94,458</u>	<u>27,490</u>	<u>121,948</u>
<b>Total net position</b>	<u><u>\$ 2,240,900</u></u>	<u><u>\$ 27,490</u></u>	<u><u>\$ 2,268,390</u></u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LAVON, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Wastewater Utility</u>	<u>Solid Waste Utility</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 510,970	\$ 386,702	\$ 897,672
<b>Total operating revenues</b>	<u>510,970</u>	<u>386,702</u>	<u>897,672</u>
<b>OPERATING EXPENSES:</b>			
Supplies and materials	-	9,444	9,444
Contractual services	-	205,129	205,129
Repairs and maintenance	459,727	-	459,727
Utilities	26,222	-	26,222
Other	2,999	-	2,999
Depreciation	64,806	-	64,806
<b>Total operating expenses</b>	<u>553,754</u>	<u>214,573</u>	<u>768,327</u>
<b>Operating income (loss)</b>	<u>(42,784)</u>	<u>172,129</u>	<u>129,345</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Investment income	54	-	54
Intergovernmental expense	(81,000)	-	(81,000)
Transfers	(139,583)	(99,915)	(239,498)
<b>Total non-operating revenues (expenses)</b>	<u>(220,529)</u>	<u>(99,915)</u>	<u>(320,444)</u>
<b>Change in net position</b>	(263,313)	72,214	(191,099)
<b>Net position, October 1</b>	262,023	(23,364)	238,659
<b>Prior period adjustments</b>	<u>2,242,190</u>	<u>(21,360)</u>	<u>2,220,830</u>
<b>Net position, September 30</b>	<u>\$ 2,240,900</u>	<u>\$ 27,490</u>	<u>\$ 2,268,390</u>

The notes to the financial statements are an integral part of this financial statement.

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

	<b>Wastewater Utility</b>	<b>Solid Waste Utility</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 499,910	\$ 376,626	\$ 876,536
Cash paid to suppliers	(280,078)	(276,711)	(556,789)
<b>Net cash provided by (used for) operating activities</b>	<u>219,832</u>	<u>99,915</u>	<u>319,747</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers to Other Funds	(139,583)	(99,915)	(239,498)
Due from LEDC	96,781		96,781
Intergovernmental expenses	(81,000)	-	(81,000)
<b>Net cash provided by (used for) noncapital financial activities</b>	<u>(123,802)</u>	<u>(99,915)</u>	<u>(223,717)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Issuance of note payable	84,000	-	84,000
Deferred revenue from LEDC	(96,781)	-	(96,781)
<b>Net cash provided by (used for) capital and related financing activities</b>	<u>(12,781)</u>	<u>-</u>	<u>(12,781)</u>
<b>Cash Flows from Investing Activities</b>			
Interest income	54	-	54
<b>Net cash provided by (used for) investing activities</b>	<u>54</u>	<u>-</u>	<u>54</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	83,303	-	83,303
<b>Cash and cash equivalents at beginning of year</b>	203,159	-	203,159
<b>Cash and cash equivalents at end of year</b>	<u>\$ 286,462</u>	<u>\$ -</u>	<u>\$ 286,462</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (42,784)	\$ 172,129	\$ 129,345
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation	64,806	-	64,806
Changes in assets and liabilities:			
(Decrease) increase in:			
Receivables	(11,060)	(10,076)	(21,136)
Increase (decrease) in:			
Accounts payable	208,870	(62,138)	146,732
Total adjustments	<u>262,616</u>	<u>(72,214)</u>	<u>190,402</u>
<b>Net cash provided by operating activities</b>	<u>\$ 219,832</u>	<u>\$ 99,915</u>	<u>\$ 319,747</u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LAVON, TEXAS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
SEPTEMBER 30, 2014**

	<u>Collin County TIF Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 195,813</u>
<b>Total assets</b>	<u><u>195,813</u></u>
<b>LIABILITIES</b>	
Other liabilities	<u>195,813</u>
<b>Total liabilities</b>	<u><u>\$ 195,813</u></u>

The notes to the financial statements are an integral part of this financial statement.

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Lavon, Texas ("City") was incorporated in 1888 and is currently governed by an elected mayor and five-member council and provides the following services to its citizens: Public Safety (Police and Fire), Public Works, Waste Water Utilities, Solid Waste Utilities and General Administrative Services.

The accounting reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards when applicable. The more significant accounting policies of the City are described below:

**1. Reporting Entity**

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39 "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable and all other 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 organization 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 unit may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component unit, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component unit, is entitled to, or has the ability to otherwise access, are significant to the primary government.

The financial statement of the following component unit has been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

The Lavon Economic Development Corporation ("EDC") is a discretely presented component unit of the City. The EDC is governed by a board of seven directors, all of whom are appointed by the City Council of the City and whom can be removed from office by the City Council at its will. The EDC was incorporated in the State of Texas in 2004. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financial statements to be misleading or incomplete. The EDC is legally separate, but due to the City appointing the voting majority of the EDC board, it is classified as a discretely presented component unit. The funding for the EDC occurs by the City transferring 1/3 of City sales tax collections to the EDC.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting Entity (continued)

The financial statements are formatted to allow the user to clearly distinguish between the primary government and the discretely presented component unit.

2. Basis of Presentation, Basis of Accounting

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented in the required supplementary section that compares the budget with actual results.

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City and its component unit, entities for which the City is considered to be financially accountable. The discretely presented component unit has been reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Fire, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. 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, b) grants and contributions that are restricted to meeting the capital requirements of a particular function or program, and c) grants and contributions that are restricted to meeting the operational requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenue. Internally dedicated resources are also reported as general revenues rather than as program revenues.

The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise fees, and interest income).

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the funds financial statements. The major governmental fund is the general fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

2. Basis of Presentation, Basis of Accounting (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are franchise fees and other charges between the government's wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 wastewater and solid waste funds are charges to customers for sales and services. The wastewater utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for business-type funds include the cost of sales and service and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The City's Fiduciary Fund is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

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 proprietary categories, as well as the fiduciary fund. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

3. Measurement Focus, 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 and fiduciary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

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 measureable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available when they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable shortly after year end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded 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 not measureable. Investment earnings are recorded as earned since they are measureable and available. In applying the susceptible to accrual concept to inter-governmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3. Measurement Focus, Basis of Accounting (continued)**

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

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The City reports the following major governmental fund:

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

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or purposes. The following are descriptions of the proprietary funds of the City:

The *Wastewater Utility Fund* accounts for the operation of the City's wastewater utility system, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in and outside of Lavon.

The *Solid Waste Fund* accounts for the operation of the City's solid waste collection activity. The City collects monthly user charges from subscribers and contracts with a third party for the collection of solid waste.

Agency funds account for amounts held on behalf of others by the City as a trustee, or fiduciary. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The activities of these funds are excluded from the City's other financial statements because the City cannot use them to finance its operations. The City is responsible for ensuring that the assets reported are used for their intended purpose. The following is a description of the fiduciary fund of the City:

The *Collin County TIF* is used to account for assets held by the City in an agency capacity for Collin County. This fiduciary fund records only assets and liabilities and therefore has no measurement focus.

**4. Financial Statement Amounts**

**a. Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**b. Prepaid Items**

Prepaid balances are for payments made by the City for which benefits extend beyond the fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures. Prepaid items are recorded using the consumption method.

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

4. Financial Statement Amounts (continued)

c. Receivable and Payable

Trade and property tax receivables are shown net of an allowance for uncollectible.

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

e. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles and infrastructure, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund type financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings, structures and improvements	5-40 years
Equipment, including vehicles	5-10 years
Infrastructure	20-40 years

f. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and overtime not paid (comp time). All vacation and comp time is accrued at the close of the fiscal year end in the government-wide and proprietary fund financial statements.

g. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed during the year they are incurred.

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

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

4. Financial Statement Amounts (continued)

h. 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 does not have any deferred outflows of resources for the current fiscal year.

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 a net position that applies to that time. The City has two items of deferred inflow. Property tax receivables and note receivable occurs in both the government-wide statements and the fund statements.

i. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

j. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by laws through constitutional provisions or enabling legislation that stipulates amounts can only be spent for specific purposes.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by a resolution of the City Council and remains binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* - amounts that are constrained by the City's intent to be used for specific purposes. Assignment of fund balance is much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum intended to be used.
- *Unassigned fund balance* - the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unassigned resources are available for use, it is the City's policy to use restricted resources first, followed by the committed, assigned and unassigned resources as they are needed.

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

4. Financial Statement Amounts (continued)

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City considers an unassigned fund balance of 10% of expenditures should be maintained. The City considers an unassigned fund balance of less than 5% of expenditures to be cause for concern and a plan to adjust budget resources in subsequent fiscal years will be done to restore the balance.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Compliance with the provisions of the policy shall be reviewed as part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures. The City is in compliance with the policy at the end of the current fiscal period.

k. Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

l. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at the fund level.

In Texas, county-wide 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 five years; however, the City may, at its own expense, require annual reviews of appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 in population limits the ad valorem tax rate to \$2.50 per \$100 assessed value. The City's property tax rate for the current fiscal year is \$0.455700 per \$100 assessed value.

m. Comparative Data/Reclassification

Comparative total data for the current year to budget for the General Fund have been presented in the required supplementary section of the financial statement in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

4. Financial Statement Amounts (continued)

n. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

o. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

p. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

q. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

**B. COMPLIANCE AND ACCOUNTABILITY**

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	N/A

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None	N/A

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**B. COMPLIANCE AND ACCOUNTABILITY (continued)**

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the fifteenth day of each August, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- The budget for the General Fund is legally adopted on a basis consistent with GAAP. The majority of the City's capital projects are budgeted on an annual basis.
- According to the City Charter, total estimated expenditures of the General Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Council is the only body that can change the budgeted amounts from one line account to another.

**C. CASH AND INVESTMENTS**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

*Cash Deposits*

At September 30, 2014, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$1,088,656 and the bank balance was \$1,282,947. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014, were covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. Cash and cash equivalents as of September 30, 2014 consist of and are classified in the accompanying financial statements as follows:

**Statement of net position:**

Primary Government	
Cash and cash equivalents	\$ 696,109
Restricted assets-cash and cash equivalents	<u>392,547</u>
Total cash and cash equivalents	<u><u>\$ 1,088,656</u></u>
Governmental - Restricted Cash	
TIF	\$ 345,885
Court use	45,161
Police Use	<u>1,501</u>
Total Restricted Cash	<u><u>\$ 392,547</u></u>

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by national recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**C. CASH AND INVESTMENTS (continued)**

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities.

*Concentration of Credit Risk*

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

*Interest Rate Risk*

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

*Foreign Currency Risk*

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

**D. TAX INCREMENT FINANCING**

The City established a Tax Increment Financing No. 1 ("TIF") in December, 2006 by Ordinance 2006-12-01 along with Collin County for project improvements within the City. Collin County signed the agreement to participate. Currently, the City collects all property tax revenues for the TIF. See pages 32 and 62 for information regarding the fiduciary account that maintains the County's portion of the TIF.

Tax Increment Financing is a tool that local governments can use to publicly finance needed structural improvements and enhanced infrastructure within a defined area. These improvements are associated with economic development and are governed by the statutes in Chapter 311 of the Texas Tax Code. TIF is based upon the pledge of future real property taxes generated by new development within that defined geographic area. The public improvements make development of the area possible, which in turn enhances the value of the property. The taxes generated as a result of the enhanced property values are used to fund the public improvements within the area and other incidental costs. In areas designated as TIF districts, tax-base increases are removed from the general tax rolls and the revenue from the 'captured' tax base is used to finance site improvements or other economic development costs.

**E. RECEIVABLES**

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

	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>
Receivables:			
Taxes	\$ 33,868	\$ -	\$ 33,868
Fees and Charges	173,131	59,783	232,914
Gross Receivables	<u>206,999</u>	<u>59,783</u>	<u>266,782</u>
Less: allowance for uncollectibles	<u>(169,714)</u>	<u>(5,249)</u>	<u>(174,963)</u>
Net Total Receivables	<u>\$ 37,285</u>	<u>\$ 54,534</u>	<u>\$ 91,819</u>

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**F. NOTE RECEIVABLE**

In June 2014, the Lavon Economic Development Corporation agreed to pay the costs of construction of sewer infrastructure for the Lavon Business Park that was financed from the proceeds of the City of Lavon's 2014 Tax Note by remitting to the City from the receipts of local sales and use taxes received by the Corporation to pay the principal and interest. Below is the detail on this note receivable.

	Beginning Balances	Issued	Decreases	Ending Balances	Receive in one year
Note receivable-EDC	\$ -	\$ 96,781	\$ -	\$ 96,781	\$ 14,234

Note receivable requirements are as follows:

Year ending September 30	Payment
2015	\$ 14,234
2016	13,731
2017	14,284
2018	13,815
2019	13,860
2020-2021	26,857
Total	\$ 96,781

**G. CAPITAL ASSETS**

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

	Beginning Balances	Additions	Decreases	Ending Balances
<b>Governmental Activities</b>				
Capital assets, not being depreciated				
Land	\$ 1,496,119	\$ -	\$ -	\$ 1,496,119
Construction in progress	83,122	170,300	(253,422)	-
Total capital assets, not being depreciated	1,579,241	170,300	(253,422)	1,496,119
Capital assets, being depreciated:				
Buildings & Improvements	642,690	253,422	-	896,112
Infrastructure	3,704,651	-	-	3,704,651
Machinery & Equipment	563,530	91,830	-	655,360
Total capital assets being depreciated	4,910,871	345,252	-	5,256,123
Less accumulated depreciation for:				
Buildings & Improvements	(193,228)	(31,496)	-	(224,724)
Infrastructure	(553,138)	(96,776)	-	(649,914)
Machinery & Equipment	(284,173)	(59,003)	-	(343,176)
Total accumulated depreciation	(1,030,539)	(187,275)	-	(1,217,814)
Total capital assets, being depreciated, net	3,880,332	157,977	-	4,038,309
Governmental activities capital assets, net	\$ 5,459,573	\$ 328,277	\$ (253,422)	\$ 5,534,428

**CITY OF LAVON, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**G. CAPITAL ASSETS (continued)**

	Beginning Balances	Additions	Decreases	Ending Balances
<b>Business-type Activities</b>				
Capital assets, not being depreciated				
Construction in progress	\$ 80,353	\$ -	\$ (80,353)	\$ -
Total capital assets, not being depreciated	<u>80,353</u>	<u>-</u>	<u>(80,353)</u>	<u>-</u>
Capital assets, being depreciated:				
Infrastructure	2,511,869	80,353	-	2,592,222
Total capital assets being depreciated	<u>2,511,869</u>	<u>80,353</u>	<u>-</u>	<u>2,592,222</u>
Less accumulated depreciation for:				
Infrastructure	(296,974)	(64,806)	-	(361,780)
Total accumulated depreciation	<u>(296,974)</u>	<u>(64,806)</u>	<u>-</u>	<u>(361,780)</u>
Total capital assets, being depreciated, net	<u>2,214,895</u>	<u>15,547</u>	<u>-</u>	<u>2,230,442</u>
Business-type activities capital assets, net	<u>\$ 2,295,248</u>	<u>\$ 15,547</u>	<u>\$ (80,353)</u>	<u>\$ 2,230,442</u>

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

Governmental activities:	
General government	\$ 5,483
Public safety	68,218
Public works	113,574
Total depreciation expense - governmental activities	<u>\$ 187,275</u>
Business-type activities:	
Wastewater services	<u>\$ 64,806</u>

**H. CONSTRUCTION COMMITMENTS**

No construction commitments at the end of the current fiscal year.

**I. LONG-TERM OBLIGATIONS**

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2014, is as follows:

	Beginning Balance	Prior Period Adjustment	Increase	Decrease	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Special Assessment Bonds	\$ 5,884,354	\$ (5,884,354)	\$ -	\$ -	\$ -	\$ -
Total bonds payable	5,884,354	(5,884,354)	-	-	-	-
Capital Leases Payable	223,401	-	91,830	(73,221)	242,010	57,090
Notes Payable	228,740	-	-	(95,990)	132,750	32,186
Compensated Absences	26,004	-	25,948	(25,948)	26,004	2,600
Governmental activity						
Total long-term liabilities	<u>\$ 6,362,499</u>	<u>\$ (5,884,354)</u>	<u>\$ 117,778</u>	<u>\$ (195,159)</u>	<u>\$ 400,764</u>	<u>\$ 91,876</u>

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**I. LONG-TERM OBLIGATIONS (continued)**

	Beginning Balance	Prior Period Adjustment	Increase	Decrease	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
Special Assessment Bonds	\$ 2,180,646	\$ (2,180,646)	\$ -	\$ -	\$ -	\$ -
Notes Payable	-	-	84,000	-	84,000	11,000
Business-type activity						
Total long-term liabilities	<u>\$ 2,180,646</u>	<u>\$ (2,180,646)</u>	<u>\$ 84,000</u>	<u>\$ -</u>	<u>\$ 84,000</u>	<u>\$ 11,000</u>

**Changes in Governmental Long-term Debt**

Description	Interest Rate Payable	Amounts Issued	Amounts Outstanding September 30, 2013	Prior Period Adjustment	Issued	Retired	Amounts Outstanding September 30, 2014
Special Assessment	4.00%	\$ 5,884,354	\$ 5,884,354	\$ (5,884,354)	\$ -	\$ -	\$ -
Interlocal Agreement	5.38%	180,129	64,909	-	-	(64,909)	-
Interlocal Agreement	3.50%	166,372	163,831	-	-	(31,081)	132,750
Total Bonds & Notes		6,230,855	6,113,094	(5,884,354)	-	(95,990)	132,750
CNH Capital	6.79%	84,000	8,768	-	-	(4,801)	3,967
Ford Motor Company	6.50%	45,980	-	-	45,980	(16,301)	29,679
Motorola Solutions	4.28%	30,010	15,633	-	-	(7,653)	7,980
Ford Motor Company	6.50%	45,850	-	-	45,850	(16,256)	29,594
Community FNB	3.56%	199,000	199,000	-	-	(28,210)	170,790
Total Long Term Obligations		<u>\$ 6,635,695</u>	<u>\$ 6,336,495</u>	<u>\$ (5,884,354)</u>	<u>\$ 91,830</u>	<u>\$ (169,211)</u>	<u>\$ 374,760</u>

	Due Within One Year
Interlocal Agreement-Note	\$ 32,186
CNH Capital	3,967
Motorola Solutions	7,981
Ford Motor Co	14,372
Ford Motor Co	14,332
Community FNB	16,438
Total Long Term Obligations	<u>\$ 89,276</u>

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2015	\$ 32,186	\$ 4,133	\$ 36,319
2016	33,331	2,988	36,319
2017	34,516	1,803	36,319
2018	32,717	575	33,292
Totals	<u>\$ 132,750</u>	<u>\$ 9,499</u>	<u>\$ 142,249</u>

**Notes Payable**

The City incurred a note payable with Collin County in the amount of \$180,129 for the reconstruction of Lake Road on April 6, 2010. This was paid in full in current fiscal year.

The City incurred a note payable with Collin County in the amount of \$166,372 for road improvements in the City of Lavon on February 19, 2013. This note is to be repaid over a period of five years with an interest rate of 3.50%.

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**I. LONG-TERM OBLIGATIONS (continued)**

*Capital Leases*

The City has the following lease agreements:

The City incurred a capital lease payable with CNH Capital in the amount of \$84,000 for the purchase of a tractor. The lease will be paid in full in FY2015

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$45,980 for the purchase of a vehicle for the police department. This lease is paid in annual installments over three years.

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$45,850 for the purchase of a vehicle for the police department. This lease is paid in annual installments over three years.

The City incurred a capital lease payable with Motorola Solutions, Inc. in the amount of \$30,010 for the purchase of a radio for the police department.

The City incurred a capital lease payable with Community First National Bank in the amount of \$199,000 for the purchase of a pumper truck for the fire department.

Capital lease requirements are as follows:

Year Ending September 30	Total Requirements
2015	\$ 68,760
2016	55,058
2017	22,501
2018	22,501
2019	22,501
2020-2023	<u>90,006</u>
Totals	281,327
Less: Amount Representing Interest	<u>(39,317)</u>
Present Value of Minimum Lease Payments	<u>\$ 242,010</u>

**Changes in Business-type Long-term Debt**

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30 2013	Prior Period Adjustment	Issued	Retired	Amounts Outstanding September 30, 2014
Special Assessment	4.00%	\$ 2,180,646	\$ 2,180,646	\$ (2,180,646)	\$ -	\$ -	\$ -
2014 Tax Note	4.00%	84,000	-	-	84,000	-	84,000
Total Long Term Obligations		<u>\$ 2,264,646</u>	<u>\$ 2,180,646</u>	<u>\$ (2,180,646)</u>	<u>\$ 84,000</u>	<u>\$ -</u>	<u>\$ 84,000</u>
				Due Within One Year			
			2014 Tax Note	<u>\$ 11,000</u>			

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**I. LONG-TERM OBLIGATIONS (continued)**

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2015	\$ 11,000	\$ 3,234	\$ 14,234
2016	11,000	2,731	13,731
2017	12,000	2,284	14,284
2018	12,000	1,815	13,815
2019	12,000	1,360	13,360
2020-2021	26,000	1,357	27,357
Totals	<u>\$ 84,000</u>	<u>\$ 447</u>	<u>\$ 96,781</u>

The City incurred a 2014 Tax Note in the amount of \$84,000 for the sewer infrastructure improvements in the Lavon Business Park.

**J. PUBLIC IMPROVEMENTS DISTRICT**

In September 2004, the City created a Public Improvement District ("PID") as authorized under Chapter 372 of the Texas Local Government Code. This PID was created for the benefit of Heritage Residential Development to be known as Heritage Public Improvement District No. 1. This PID was created for the acquisition, construction, and development of public improvements to include roads, drainage and storm water control system, sanitary sewage collection system, water supply and distribution system, other improvements and costs associated with the development and financing of these improvements. Utility Tax Services, Inc. is responsible for the billing and collection of the assessment property tax.

Utility Tax Services, Inc. collects the special assessment taxes for the debt issued and transfers money to Bank of New York Mellon who acts as the paying agent for the debt. The City does not have any direct or contingent liability or moral obligation for the payment of this debt. The outstanding balance for the special assessment bond at the end of the current fiscal year is as follows:

Heritage Public Improvement District #1 Special Assessment Revenue Bonds, Series 2013: \$ 8,065,000

**K. OPERATING LEASES**

The City rents property at 112 Forder for use by the Public Works department that began in June 2014. This lease is an annual lease. Total cost for the end of the current fiscal year was \$2,600. The City also leases storage space for records retention. The cost for the current fiscal years was \$1,401. The future minimum lease payments for these lease payments are as follows:

Year End:	General	Public Works	Total
Sept 30			
2015	\$ 1,284	\$ 7,800	\$ 9,084
2016	1,284	7,800	9,084
2017	1,284	7,800	9,084
2018	1,284	7,800	9,084
2019	1,284	7,800	9,084
	<u>\$ 6,420</u>	<u>\$ 39,000</u>	<u>\$ 45,420</u>

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**L. PENSION PLAN**

1. Plan Description

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

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

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

	Plan year 2013	Plan year 2014
Deposit Rate:	5%	5%
Matching Ratio (City to Employee):	2 to1	2 to1
A member is vested after	5 yrs	5 yrs
Service retirement eligibility	5 yrs/age 60, 20 yrs/any age	5 yrs/age 60, 20 yrs/any age
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

2. 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 if the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered services with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted overage of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) 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 at the basis of the rate and the calendar year when the rate goes into effect (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**L. PENSION PLAN (continued)**

3. Annual Pension Cost

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:

*Schedule of Actuarial Liabilities and Funding Progress (unaudited)*

Actuarial Valuation Date		12/31/11	12/31/12	12/31/13
Actuarial Value of Assets		\$ 452,161	\$ 519,869	\$ 599,148
Actuarial Accrued Liability		467,925	585,188	580,675
Percentage Funded		96.6%	88.8%	103.2%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)		15,764	65,319	(18,473)
Annual Covered Payroll		710,880	624,770	611,501
UAAL as a Percentage of Covered Payroll		2.2%	10.5%	-3.0%
Net Pension Obligation (NPO) at the Beginning of Period		-	-	-
Annual Pension Cost:				
Annual required contribution (ARC)	Plus	\$ 19,264	\$ 17,816	\$ 16,485
Contributions Made	Less	(19,264)	(17,816)	(16,485)
NPO at the end of the period		\$ -	\$ -	\$ -
		12/31/11	12/31/12	12/31/13
Actuarial Cost Method		Projected	Projected	Entry Age
		Unit Credit	Unit Credit	Normal
Amortization method		Level % of payroll	Level % of payroll	Level % of payroll
GASB 25 Equivalent Single Amortization Period		20.4 yrs-closed	19.3 yrs-closed	25.0 yrs-closed
Amortization Period for new Gains/Losses		19 years	19 years	25 years
Asset Valuation method		10-year	10-year	10-year
		Smoothed Market	Smoothed Market	Smoothed Market
Actuarial assumptions:				
Investment rate of return *		7.0%	7.0%	7.0%
Projected salary increase *		varies by age&svc	varies by age&svc	varies by age&svc
* Includes Inflation at		3.0%	3.0%	3.0%
Cost-of-living Adjustments		0.0%	0.0%	0.0%

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, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

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

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

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**L. PENSION PLAN (continued)**

4. Group-term Life Insurance

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund ("SDBF"). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

The City's contribution to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$580, \$780 and \$785, respectively.

**M. HEALTH CARE COVERAGE**

During the year ended September 30, 2014, employees of the City were covered by a health insurance plan with TML Intergovernmental Employee Benefits Pool-United Health Care Choice Plan Plus ("Plan"). The City contributed \$506 per month per employee and \$0 of the cost for dependent's. Employees, at their option, authorized payroll withholdings to pay contributions for dependents coverage. All contributions were paid to TML-IEBP. The Plan was authorized by article 3.51-2, Texas Insurance Code and is documented by contractual agreement.

**N. INSURANCE COVERAGE**

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2013, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

**O. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims an excess of acceptable risk levels; however, each category has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**P. SOLID WASTE DISPOSAL**

The City secures its sewer services from the North Texas Municipal Water District ("District"), a district authorized by the Texas Constitution, Article XVI, Section 59; created by the Texas Legislature, Article 8280-141; and authorized to act by the confirming vote of the majority of the qualified voters in each of the cities comprising the District. The City provides for the payment of its contractual obligations with the District from revenues generated by the Solid Waste Fund.

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**Q. LITIGATION**

Currently, management is unaware of significant pending litigation against the City of Lavon, Texas.

**R. TRANSFERS**

Funds	Transfers In	Transfers Out
General Fund	\$ 239,498	\$ -
Wastewater Utility Fund	-	(139,583)
Solid Waste Utility Fund	-	(99,915)
Total Funds Transfers	<u>\$ 239,498</u>	<u>\$ (239,498)</u>

Transfer from the business-type funds to the General Fund are made to pay for administrative costs.

**S. PRIOR PERIOD ADJUSTMENTS**

Several prior period adjustments were made for the governmental activities and business-type activities. Below is the detail of these transactions:

**Governmental activities:**

\$ (1,250,482)	To reverse bond costs of 2013 Special Assessment bonds
5,884,354	To reverse 2013 Special Assessment bond liability
22,459	To reconcile fund balances to PY audited financial statements
<u>\$ 4,656,331</u>	

**Business-type activities:**

\$ 2,180,646	To reverse 2013 Special Assessment bond liability
61,070	To reconcile payables
(20,886)	To reconcile fund balances to PY audited financial statements
<u>\$ 2,220,830</u>	

**T. SUBSEQUENT EVENTS**

In January, 2015, 17 acres of land was purchased for the purpose of construction of a sports complex. The cost of this land will be funded with Collin County Parks and Open Space Projecting Funding Assistance Program of \$125,000 and matching City funds.

In July 2014, a request for \$40,000 was authorized for assistance of constructing the Eagle Pond Walking Trails from Colling County Parks and Open Space Projecting Funding Assistance Program.

The City has evaluated all events or transactions that occurred after September 30, 2014 up through August 3, 2015, the date the financial statements were available to be issued. During this period, management was unaware of subsequent events requiring disclosure other than the purchase of land for the sports complex as noted above.

**CITY OF LAVON, TEXAS  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**U. LAVON ECONOMIC DEVELOPMENT CORPORATION**

The Lavon Economic Development Corporation ("LEDC") was incorporated December 20, 2004. The LEDC is a non-profit industrial development corporation formed under the Texas Revised Civil Statutes Development Corporation Act of 1979. The LEDC has no members and is a non-stock corporation.

In accordance with GASB Statement No. 14, the Financial Reporting Entity, as amended by GASB Statement No. 39, the LEDC is a discretely presented component unit on the combined financial statements. The funding for LEDC occurs by the City transferring 1/3 sales tax revenues collected by the City.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2013 consist of and are classified in the accompanying financial statements as follows:

Unrestricted Cash and Cash Equivalents	<u>\$ 244,962</u>
--	-------------------

*Credit Risk*

State law restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further required full insurance of collateralization from these depositories (banks only).

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The Public Funds Investment Act requires that a financial instruction secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

2. Receivables

Receivables at the year end for the LEDC were \$10,638. This is sales tax receivable due from the City. There is no allowance for uncollectible accounts.

3. Prepaid Items

Prepaid balances are for payments made by the LEDC for which benefits extend beyond September 30, 2014, and the related nonspendable fund balance amount has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. The cost of governmental fund type prepaid balances are recorded as an expenditure when consumed rather than when purchased.

4. Capital Assets

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

<b>Governmental Activities</b>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 7,050	\$ -	\$ 7,050

LEDC is paying for the sewer infrastructure at the Lavon Business Park. Once this project is complete, it will transfer to the City.

**CITY OF LAVON, TEXAS  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**U. LAVON ECONOMIC DEVELOPMENT CORPORATION (continued)**

5. Note Payable

Description	Amounts Issue	Amounts Outstanding September 30 2013	Additions	Decreases	Amounts Outstanding September 30 2014	Due within one year
Note Payable to City	\$ 96,781	\$ -	\$ 96,781	\$ -	\$ 96,781	\$ 14,234

Debt service requirements are as follows:

Year ending September 30	Total Requirements
2015	\$ 14,234
2016	13,731
2017	14,284
2018	13,815
2019	13,360
2020-2021	27,357
Total	\$ 96,781

LEDC signed an agreement in June 2014 to use sales tax funds to fund improvements for the City of Lavon's sewer infrastructure in the Lavon Business Park. The City issued a tax note in the amount of \$84,000 and LEDC will pay \$96,781 (including interest) over a period of 7 years.

6. Operating Lease

The LEDC has an operating lease with the City of Lavon to rent office space for \$5,000 annually beginning March 1, 2012 and ending in FY2019.

7. Litigation

Currently, management is unaware of significant pending litigation against the EDC.

8. Related Party

Pam Mundo, Executive Director for the LEDC, is also the president of Mundo & Associates, Inc. This firm is a consultant for LEDC for ongoing projects. Pam Mundo acts in an advisory capacity without any voting privileges nor does she have access to the bank account or signature authority.

9. Prior Period Adjustment

The LEDC has one prior period adjustment to reconcile sales tax receivable to actual: \$ (5,994)

10. Subsequent Events

The LEDC has evaluated all events or transactions that occurred after September 30, 2014 up through August 3, 2015, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.



## REQUIRED SUPPLEMENTARY INFORMATION



**CITY OF LAVON, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**TMRS FUNDING PROGRESS AND CONTRIBUTIONS  
 LAST EIGHT FISCAL YEARS (UNAUDITED)**

<b>Fiscal Year</b>	<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Actuarial Accrued Liability (AAL) -Unit Credit</b>	<b>(3) Unfunded Actuarial Accrued Liability UAAL (2)-(1)</b>	<b>(4) Funded Percent (1)/(2)</b>	<b>(5) Covered Payroll</b>	<b>(6) UAAL as Percent of Covered Payroll (3)/(5)</b>	<b>(7) Annual Required Contributions</b>	<b>(8) Actual Contributions</b>	<b>Percent Contributed (8)/(7)</b>
2007	12/31/2006	\$ 128,963	\$ 137,504	\$ 8,541	93.8%	\$ 505,769	1.7%	\$ 13,325	\$ 13,325	100%
2008	12/31/2007	172,399	188,658	16,259	91.4%	711,948	2.3%	17,288	17,288	100%
2009	12/31/2008	228,418	240,607	12,189	94.9%	753,591	1.6%	18,939	18,435	97%
2010	12/31/2009	276,767	355,220	78,453	77.9%	758,161	10.3%	23,078	23,078	100%
2011	12/31/2010	359,159	412,813	53,654	87.0%	791,339	6.8%	22,332	22,332	100%
2012	12/31/2011	452,161	467,925	15,764	96.6%	710,880	2.2%	19,264	19,264	100%
2013	12/31/2012	519,869	585,188	65,319	88.8%	624,770	10.5%	17,816	17,816	100%
2014	12/31/2013	599,148	580,675	(18,473)	103.2%	611,501	-3.0%	16,485	16,485	100%



## SUPPLEMENTARY INFORMATION

**CITY OF LAVON, TEXAS  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2014**

	<b>Municipal Court Tech Fund</b>	<b>Police TCLEOSE Fund</b>	<b>Police Seized Asset Fund</b>	<b>Municipal Court Security Fund</b>	<b>Court Funds</b>	<b>Total Other Governmental Funds</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ -	\$ 2,950	\$ -	\$ -	\$ -	\$ 2,950
Cash and cash equivalents - restricted	16,164	-	1,501	4,246	24,751	46,662
<b>Total assets</b>	<u>16,164</u>	<u>2,950</u>	<u>1,501</u>	<u>4,246</u>	<u>24,751</u>	<u>49,612</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Fund Balances:						
Restricted for:						
Court	16,164	-	-	4,246	24,751	45,161
Police	-	-	1,501	-	-	1,501
Designated for:						
Police	-	2,950	-	-	-	2,950
<b>Total fund balance</b>	<u>16,164</u>	<u>2,950</u>	<u>1,501</u>	<u>4,246</u>	<u>24,751</u>	<u>49,612</u>
<b>Total liabilities and fund balances</b>	<u>\$ 16,164</u>	<u>\$ 2,950</u>	<u>\$ 1,501</u>	<u>\$ 4,246</u>	<u>\$ 24,751</u>	<u>\$ 49,612</u>

**CITY OF LAVON, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Municipal Court Tech Fund</u>	<u>Police TCLEOSE Fund</u>	<u>Police Seized Asset Fund</u>	<u>Municipal Court Security Fund</u>	<u>Court Funds</u>	<u>Total Other Governmental Funds</u>
<b>REVENUES</b>						
Fines and forfeitures	\$ 2,826	\$ -	\$ -	\$ 2,388	\$ 377	\$ 5,591
Intergovernmental revenue - state and local	-	1,036	-	-	-	1,036
<b>Total Revenues</b>	<u>2,826</u>	<u>1,036</u>	<u>-</u>	<u>2,388</u>	<u>377</u>	<u>6,627</u>
<b>EXPENDITURES</b>						
Current:						
Court	1,901	-	-	612	37	2,550
Police	-	-	1,728	-	-	1,728
<b>Total Expenditures</b>	<u>1,901</u>	<u>-</u>	<u>1,728</u>	<u>612</u>	<u>37</u>	<u>4,278</u>
<b>Excess of revenues over expenditures</b>	925	1,036	(1,728)	1,776	340	2,349
<b>Fund Balances, October 1</b>	16,472	1,914	1,436	2,674	26,774	49,270
<b>Prior Period Adjustments</b>	(1,233)	-	1,793	(204)	(2,363)	(2,007)
<b>Fund Balances, September 30</b>	<u>\$ 16,164</u>	<u>\$ 2,950</u>	<u>\$ 1,501</u>	<u>\$ 4,246</u>	<u>\$ 24,751</u>	<u>\$ 49,612</u>

**CITY OF LAVON, TEXAS  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FIDUCIARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

<b>Collin County TIF</b>	<b>Balance September 30, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2014</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 134,166	\$ 61,647	\$ -	\$ 195,813
<b>Total Assets</b>	<u>134,166</u>	<u>61,647</u>	<u>-</u>	<u>195,813</u>
<b>LIABILITIES</b>				
Collin County TIF	134,166	61,647	-	195,813
<b>Total Liabilities</b>	<u>\$ 134,166</u>	<u>\$ 61,647</u>	<u>\$ -</u>	<u>\$ 195,813</u>

**CITY OF LAVON, TEXAS  
BALANCE SHEET - COMPONENT UNIT  
ECONOMIC DEVELOPMENT CORPORATION  
SEPTEMBER 30, 2014**

	<u>EDC</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 244,962
Receivable-sales tax	10,638
Prepaid Expenses	<u>20,000</u>
<b>Total assets</b>	<u><u>275,600</u></u>
<b>FUND BALANCE</b>	
Fund Balance:	
Nonspendable	20,000
Unassigned	<u>255,600</u>
<b>Total fund balance</b>	<u><u>275,600</u></u>
<b>Total liabilities and fund balance</b>	<u><u>\$ 275,600</u></u>

**CITY OF LAVON, TEXAS  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION-ECONOMIC DEVELOPMENT CORPORATION  
 SEPTEMBER 30, 2014**

**Total fund balances - governmental funds balance sheet** \$ 275,600

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 7,050

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. (96,781)

**Net position of governmental activities - statement of net position** \$ 185,869

**CITY OF LAVON, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE-COMPONENT UNIT  
 ECONOMIC DEVELOPMENT CORPORATION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>EDC</u>
<b>REVENUES</b>	
Sales tax	\$ 60,884
Intergovernmental revenue	<u>81,000</u>
<b>Total revenues</b>	<u>141,884</u>
<b>EXPENDITURES</b>	
Current operating:	
Advertising	3,728
Professional and legal	43,091
Contractual services	11,169
Dues and subscriptions	323
Office expenses	7,806
Travel and training	875
Capital outlays:	
Business park infrastructure	<u>7,050</u>
<b>Total expenditures</b>	<u>74,042</u>
<b>Net change in fund balance</b>	67,842
<b>Fund balance, October 1</b>	213,752
<b>Prior Period Adjustment</b>	<u>(5,994)</u>
<b>Fund balance, September 30</b>	<u>\$ 275,600</u>

**CITY OF LAVON, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES-COMPONENT UNIT  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**Net change in fund balances - statement of revenues, expenditures and  
changes in fund balances - governmental funds** \$ 67,842

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

Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2013 capital outlays is to increase net position. 7,050

In governmental fund financial statements, the expenditures that do not require the use of current financial resources; therefore, they are reported as expenditures in governmental funds. (96,781)

**Change in net position - statement of activities** \$ (21,889)