

ANNUAL FINANCIAL REPORT

of the

**CITY OF
JACINTO CITY, TEXAS**

For the Year Ended
September 30, 2013

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CITY OF JACINTO CITY, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Jacinto City, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jacinto City, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of September 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedules of funding progress, identified as Required Supplementary Information on the table of contents, 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's basic financial statements. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 4, 2014

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

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 – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police, fire, EMS), community services (building permits/inspection), public works, and general government (City Administrator, City Secretary, Finance, Human Resources, Information Technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services where a fee is paid for those services are reported here. These services include the City's water, wastewater, and sanitation services.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 two 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 the debt service fund, which are considered to be major funds for reporting purposes.

The City adopts annual appropriated budgets for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with these budgets.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund, to account for all “business-like” activities. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the enterprise fund.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of funding progress for the Texas Municipal Retirement System and other post employment healthcare benefits. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City’s financial position. For the City, assets and deferred outflows of resources exceed liabilities by \$27,857,285 as of year end.

A large portion of the City’s net position, 74 percent, reflects its investments in capital assets (e.g., land, City hall, police station, fleet equipment, drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Statement of Net Position:

The following table provides a condensed Statement of Net Position:

	2013				2012			
	Governmental Activities	Business-Type Activities	Reconciliation	Total	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 10,036,402	\$ 2,057,309	\$ -	\$ 12,093,711	\$ 10,050,129	\$ 3,160,967	\$ -	\$ 13,211,096
Capital assets, net	5,263,284	15,470,332	-	20,733,616	5,353,903	14,740,861	-	20,094,764
Total Assets	15,299,686	17,527,641	-	32,827,327	15,404,032	17,901,828	-	33,305,860
Deferred outflow of resources	35,768	-	-	35,768	-	-	-	-
	35,768	-	-	35,768	-	-	-	-
Long-term liabilities	4,383,219	122,981	-	4,506,200	5,535,099	90,152	-	5,625,251
Other liabilities	257,162	242,448	-	499,610	256,358	1,116,843	-	1,373,201
Total Liabilities	4,640,381	365,429	-	5,005,810	5,791,457	1,206,995	-	6,998,452
Net Position:								
Net investment in capital assets	5,237,883	15,433,627	(3,840,000)	16,831,510	5,323,188	14,720,654	(5,230,000)	14,813,842
Restricted	539,474	-	-	539,474	1,166,548	-	-	1,166,548
Unrestricted	4,917,716	1,728,585	3,840,000	10,486,301	3,122,839	1,974,179	5,230,000	10,327,018
Total Net Position	\$ 10,695,073	\$ 17,162,212	\$ -	\$ 27,857,285	\$ 9,612,575	\$ 16,694,833	\$ -	\$ 26,307,408

A portion of the primary government's net position, two percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$10,486,301, may be used to meet the City's ongoing obligation to citizens and creditors.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$3,840,000 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Statement of Activities:

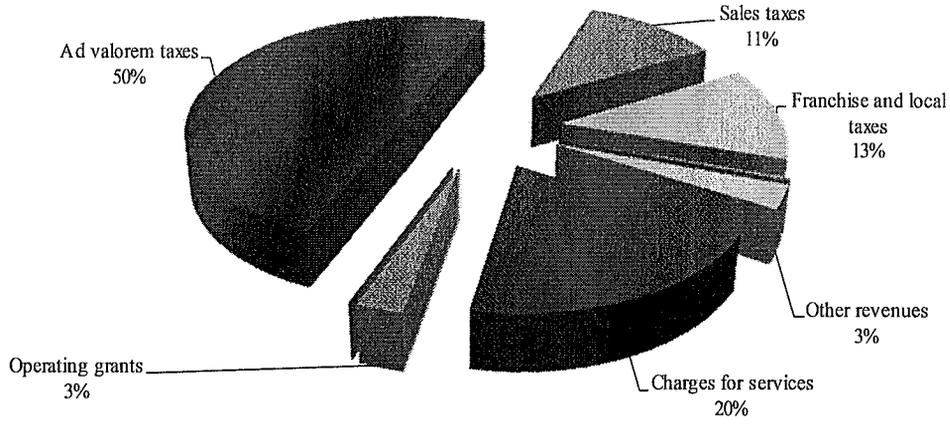
The following table provides a summary of the City's changes in net position:

	2013			2012		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,130,441	\$ 2,567,669	\$ 3,698,110	\$ 1,079,896	\$ 2,771,871	\$ 3,851,767
Operating grants	161,225	-	161,225	71,859	-	71,859
Capital grants	-	1,082,587	1,082,587	-	2,699,321	2,699,321
General revenues:						
Ad valorem taxes	2,842,090	-	2,842,090	2,701,084	-	2,701,084
Sales taxes	653,167	-	653,167	615,069	-	615,069
Franchise and local taxes	738,800	-	738,800	723,070	-	723,070
Investment income	17,234	1,354	18,588	6,485	1,225	7,710
Other revenues	180,962	-	180,962	214,517	21,886	236,403
Total Revenues	5,723,919	3,651,610	9,375,529	5,411,980	5,494,303	10,906,283
Expenses						
General government	465,992	-	465,992	679,816	-	679,816
Public safety	2,662,739	-	2,662,739	2,630,870	-	2,630,870
Public works	742,106	-	742,106	734,632	-	734,632
Community services	723,701	-	723,701	673,981	-	673,981
Interest and fees on debt	249,169	-	249,169	2,689	-	2,689
Public utilities	-	2,981,945	2,981,945	-	3,125,190	3,125,190
Total Expenses	4,843,707	2,981,945	7,825,652	4,721,988	3,125,190	7,847,178
Increase in Net Position						
Before Transfers	880,212	669,665	1,549,877	689,992	2,369,113	3,059,105
Transfers	202,286	(202,286)	-	(319,868)	319,868	-
Change in Net Position	1,082,498	467,379	1,549,877	370,124	2,688,981	3,059,105
Beginning net position	9,612,575	16,694,833	26,307,408	9,242,451	14,005,852	23,248,303
Ending Net Position	\$ 10,695,073	\$ 17,162,212	\$ 27,857,285	\$ 9,612,575	\$ 16,694,833	\$ 26,307,408

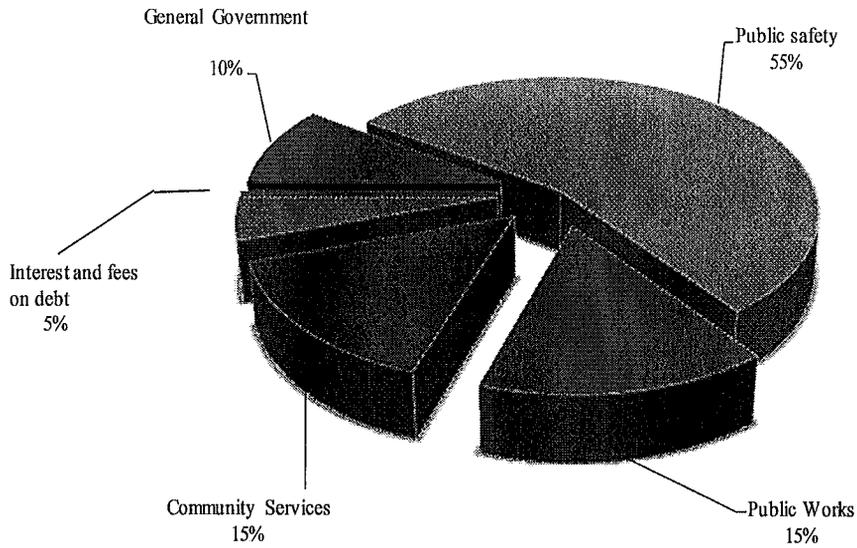
The City's net position increased by \$1,549,877 during the current fiscal year. This net change can be attributed to several factors. Total revenues decreased by \$1,530,754 primarily due to a decrease in capital grant revenue in the water and sewer fund. Total expenses were comparable to the prior year.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
 For the Year Ended September 30, 2013

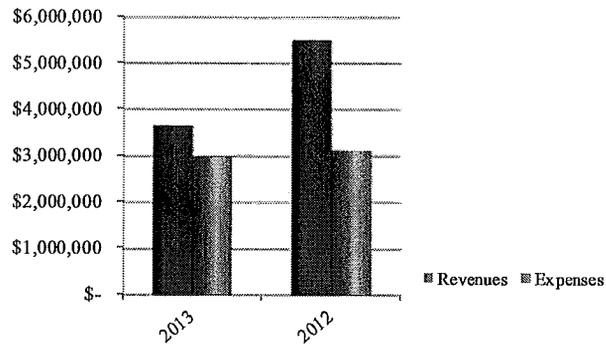
Governmental Revenues



Governmental Expenses



**Business-Type Activities
Revenues and Expenses**



CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Governmental Activities

Total revenues for the governmental activities have increased by six percent when compared to the previous year. This increase is attributable to an increase in charges for services, operating grants, and property and sales tax revenue. Expenses increased three percent compared to the previous year as a result of increased spending on public safety, public works, and interest and fees on debt. This is due to a slight increase in services for these functions as compared to the prior year, as well as an increase in debt service activity.

Business-Type Activities

Overall, revenues decreased by \$1,842,693 when compared to the previous year. This decrease in revenue is largely attributable to capital grant revenue the City received for various construction projects in the prior year that were completed in the current year, including water delivery and fire protection improvements, Market Street water plant rehabilitation, and waste water treatment plant upgrades. Expenses decreased \$143,245 when compared to the previous year. The money expended for the various construction projects has been accounted for in the City's capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The City's governmental funds reflect a combined fund balance of \$9,039,688. Of this, \$540,080 is restricted for various purposes. There was a decrease in the combined fund balance of \$151,797 from the prior year.

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 \$8,826,815. As a measure of the general fund's liquidity, it may be useful to compare both unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 196 percent of the total general fund expenditures, while total fund balance represents 208 percent of that same amount.

The fund balance increased by \$851,357 in the general fund for a total of \$9,366,895 at year end due to an increase in sales tax and intergovernmental revenues, as well as decreases in general government expenditures.

The debt service fund balance was a deficit of \$327,207 as of year end, a decrease of \$1,003,154 from the previous year. The decrease is due to the City's payment to retire debt.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City had a total positive net budget variance of \$441,375 for the general fund. The majority of the variance was due to expenditures of \$450,546 less than budgeted expenditures.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$5,263,284 in a variety of capital assets and infrastructure.

The significant capital asset acquisitions during the current year included the following:

- Construction in progress for various projects: \$338,453
- Belt Press: \$672,389
- Gateway Monument: \$90,934
- Police vehicles: \$50,387
- Pickup trucks: \$59,284
- Shuttle Bus: \$58,554

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had general obligation debt of \$3,840,000 and capital leases of \$97,874.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's budgeted expenditures for fiscal year 2014 total \$5,489,840 in the general fund and \$488,690 in the debt service fund. The City Council adopted a 2014 tax rate of \$0.799907 per \$100 valuation.

The City continues to face challenges normal for a city environment and is seeking to provide the best services possible to its residents.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to Jack D. Maner, City Manager, City of Jacinto City, 1301 Mercury St., Jacinto City, Texas, 77029.

FINANCIAL STATEMENTS

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CITY OF JACINTO CITY, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Current assets:				
Cash - unrestricted	\$ 6,529,405	\$ 1,026,811	\$ -	\$ 7,556,216
Investments	2,498,519	755,467	-	3,253,986
Receivables, net	952,785	261,601	-	1,214,386
Internal balances	(13,430)	13,430	-	-
Cash - restricted	69,123	-	-	69,123
	10,036,402	2,057,309	-	12,093,711
Capital assets:				
Non-depreciable	37,084	612,420	-	649,504
Net depreciable capital assets	5,226,200	14,857,912	-	20,084,112
	5,263,284	15,470,332	-	20,733,616
Total Assets	15,299,686	17,527,641	-	32,827,327
<u>Deferred Outflow of Resources</u>				
Deferred charge on refunding	35,768	-	-	35,768
	35,768	-	-	35,768
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	257,162	50,712	-	307,874
Customer deposits	-	191,736	-	191,736
	257,162	242,448	-	499,610
Noncurrent liabilities:				
Due within one year	488,257	22,673	-	510,930
Due in more than one year	3,894,962	100,308	-	3,995,270
	4,383,219	122,981	-	4,506,200
Total Liabilities	4,640,381	365,429	-	5,005,810
<u>Net Position</u>				
Net investment in capital assets	5,237,883	15,433,627	(3,840,000)	16,831,510
Restricted for:				
Child safety	153,847	-	-	153,847
Court technology	172,892	-	-	172,892
Police equipment	181,617	-	-	181,617
Governmental programming	31,118	-	-	31,118
Unrestricted	4,917,716	1,728,585	3,840,000	10,486,301
Total Net Position	\$ 10,695,073	\$ 17,162,212	\$ -	\$ 27,857,285

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 465,992	\$ -	\$ -	\$ -
Public safety	2,662,739	1,073,347	-	-
Public works	742,106	57,094	-	-
Community services	723,701	-	161,225	-
Interest and fees on debt	249,169	-	-	-
Total Governmental Activities	4,843,707	1,130,441	161,225	-
Business-Type Activities				
Public utilities	2,981,945	2,567,669	-	1,082,587
Total Business-Type Activities	2,981,945	2,567,669	-	1,082,587
Total Primary Government	\$ 7,825,652	\$ 3,698,110	\$ 161,225	\$ 1,082,587

General Revenues:

- Taxes
 - Ad valorem taxes
 - Sales taxes
 - Franchise and local taxes
- Investment income
- Other revenues
- Transfers

**Total General Revenues and Transfers
Change in Net Position**

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (465,992)	\$ -	\$ (465,992)
(1,589,392)	-	(1,589,392)
(685,012)	-	(685,012)
(562,476)	-	(562,476)
(249,169)	-	(249,169)
<u>(3,552,041)</u>	<u>-</u>	<u>(3,552,041)</u>
-	668,311	668,311
-	668,311	668,311
<u>(3,552,041)</u>	<u>668,311</u>	<u>(2,883,730)</u>
2,842,090	-	2,842,090
653,167	-	653,167
738,800	-	738,800
17,234	1,354	18,588
180,962	-	180,962
202,286	(202,286)	-
<u>4,634,539</u>	<u>(200,932)</u>	<u>4,433,607</u>
1,082,498	467,379	1,549,877
9,612,575	16,694,833	26,307,408
<u>\$ 10,695,073</u>	<u>\$ 17,162,212</u>	<u>\$ 27,857,285</u>

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CITY OF JACINTO CITY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2013

	General	Debt Service	Total Governmental Funds
<u>Assets</u>			
Cash - unrestricted	\$ 6,097,436	\$ 431,969	\$ 6,529,405
Investments	2,498,519	-	2,498,519
Receivables, net	861,961	90,824	952,785
Cash - restricted	69,123	-	69,123
Due from other funds	760,076	-	760,076
Total Assets	\$ 10,287,115	\$ 522,793	\$ 10,809,908
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 235,374	\$ -	\$ 235,374
Due to other funds	13,430	760,076	773,506
Total Liabilities	248,804	760,076	1,008,880
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - EMS services	262,168	-	262,168
Unavailable revenue - property taxes	409,248	89,924	499,172
	671,416	89,924	761,340
<u>Fund Balances</u>			
Restricted			
Child safety	153,847	-	153,847
Court technology	172,892	-	172,892
Donate a brick program	606	-	606
Police equipment	181,617	-	181,617
Governmental programming	31,118	-	31,118
Unassigned	8,826,815	(327,207)	8,499,608
Total Fund Balances	9,366,895	(327,207)	9,039,688
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 10,287,115	\$ 522,793	
Adjustments for the Statement of Net Position:			
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.			
Capital assets - non-depreciable			37,084
Capital assets - net depreciable			5,226,200
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
			761,340
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.			
Accrued interest payable			(21,788)
Deferred charge on refunding			35,768
Non-current liabilities due within one year			(488,257)
Non-current liabilities due in more than one year			(3,894,962)
Net Position of Governmental Activities			\$ 10,695,073

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	General	Debt Service	Total Governmental Funds
Revenues			
Ad valorem taxes	\$ 2,305,531	\$ 528,164	\$ 2,833,695
Sales taxes	653,167	-	653,167
Franchise and local taxes	738,800	-	738,800
Licenses and permits	57,094	-	57,094
Fines and forfeitures	676,090	-	676,090
Charges for services	309,285	-	309,285
Intergovernmental	161,225	-	161,225
Investment income	7,580	9,654	17,234
Other revenue	166,910	14,052	180,962
Total Revenues	5,075,682	551,870	5,627,552
Expenditures			
Current:			
General government	560,240	-	560,240
Public safety	2,490,494	-	2,490,494
Public works	688,352	-	688,352
Community services	715,827	-	715,827
Debt service:			
Principal	44,017	370,000	414,017
Interest and fiscal charges	2,152	151,768	153,920
Bond issuance costs	-	136,148	136,148
Advance refunding escrow	-	1,035,500	1,035,500
Payment to refunded bond escrow agent	-	3,860,268	3,860,268
Total Expenditures	4,501,082	5,553,684	10,054,766
Excess (Deficiency) of Revenues Over (Under) Expenditures	574,600	(5,001,814)	(4,427,214)
Other Financing Sources (Uses)			
Bonds issued	-	3,840,000	3,840,000
Premium on debt	-	158,660	158,660
Transfers in	202,286	-	202,286
Capital lease	74,471	-	74,471
Total Other Financing Sources	276,757	3,998,660	4,275,417
Net Change in Fund Balances	851,357	(1,003,154)	(151,797)
Beginning fund balances	8,515,538	675,947	9,191,485
Ending Fund Balances	\$ 9,366,895	\$ (327,207)	\$ 9,039,688

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

Net changes in fund balances - total governmental funds \$ (151,797)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	259,423
Depreciation expense	(350,042)

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

Deferred property tax revenue	8,395
Deferred emergency services revenue	87,972

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Bonds issued	(3,840,000)
Principal expenditures	370,000
Payment to refunded bond escrow agent	4,895,768
Accrued interest payable	40,899
Premium	(158,660)
Compensated absences	(1,209)
Net pension obligation	(297)
Net OPEB obligation	(47,500)
Capital lease proceeds	(74,471)
Capital lease payments	44,017

Change in Net Position of Governmental Activities	\$ <u>1,082,498</u>
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See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2013

	<u>Enterprise</u>
<u>Assets</u>	
Current Assets	
Cash, unrestricted	\$ 1,026,811
Investments	755,467
Receivables, net	261,601
Due from other funds	13,430
Total Current Assets	<u>2,057,309</u>
Noncurrent Assets	
Capital assets:	
Non-depreciable	612,420
Net depreciable capital assets	14,857,912
Total Noncurrent Assets	<u>15,470,332</u>
Total Assets	<u>17,527,641</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	50,712
Customer deposits	191,736
Total Current Liabilities	<u>242,448</u>
Noncurrent Liabilities	
Due within one year	22,673
Due in more than one year	100,308
Total Noncurrent Liabilities	<u>122,981</u>
Total Liabilities	<u>365,429</u>
<u>Net Position</u>	
Net investment in capital assets	15,433,627
Unrestricted	1,728,585
Total Net Position	<u>\$ 17,162,212</u>

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2013

	Enterprise
<u>Operating Revenues</u>	
Water charges	\$ 1,494,651
Sewer charges	704,972
Sanitation	283,458
Other services	84,588
Total Operating Revenues	2,567,669
 <u>Operating Expenses</u>	
Costs of sales and services	1,944,656
Administration	643,017
Depreciation	391,425
Total Operating Expenses	2,979,098
Operating (Loss)	(411,429)
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	1,354
Interest expense	(2,847)
Intergovernmental revenue	1,082,587
Total Nonoperating Revenues	1,081,094
Income Before Operating Transfers	669,665
Transfers (net)	(202,286)
Change in Net Position	467,379
Beginning net position	16,694,833
Ending Net Position	\$ 17,162,212

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2013

	<u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 3,436,616
Payments to suppliers	(2,822,057)
Payments to employees	(626,686)
Net Cash (Used) by Operating Activities	<u>(12,127)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Intergovernmental revenue	1,082,587
Net transfer from and to other funds	(202,286)
Net Cash Provided by Noncapital Financing Activities	<u>880,301</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(1,120,896)
Proceeds on capital lease	35,201
Principal paid on capital lease	(18,703)
Interest paid on capital debt	(2,847)
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,107,245)</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	(1,355)
Interest on investments	1,354
Net Cash (Used) by Investing Activities	<u>(1)</u>
Net Decrease in Cash and Cash Equivalents	<u>(239,072)</u>
Beginning cash and cash equivalents	<u>1,265,883</u>
Ending Cash and Cash Equivalents	<u><u>\$ 1,026,811</u></u>

CITY OF JACINTO CITY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2013

	<u>Enterprise</u>
Reconciliation of Operating Income (Loss)	
to Net Cash (Used) by Operating Activities	
Operating (loss)	\$ (411,429)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:	
Depreciation	391,425
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	865,941
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(877,401)
Customer deposits	3,006
Compensated absences	107
TMRS obligation	818
OPEB obligation	15,406
Net Cash (Used) by Operating Activities	<u><u>\$ (12,127)</u></u>

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Jacinto City, Texas, (the “City”) was incorporated under the laws of the State of Texas in 1946. The City has operated under a “Home Rule Charter” which provides for a “Council-Manager” form of government since January 17, 1981.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety including police, fire, and emergency medical services; parks; streets; sanitation; water and sewer services; recreation; public improvements; and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the City’s financial reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, public works, and community services. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The City reports the following enterprise fund:

Enterprise Fund

The enterprise fund is used to account for the operations that provide water, sewer, and sanitation services. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. 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. For the purpose of the statement of cash flows, the proprietary fund type considers temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflecting costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Useful Life</u>
Vehicles	10 to 15 years
Equipment	3 to 25 years
Infrastructure	25 to 60 years
Improvements other than buildings	15 years
Buildings	15 to 40 years

5. 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 only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

6. Compensated Employee Absences

Employees earn vacation time based on years of service with the City, up to a maximum of 25 days per year. Employees must take vacation time during the year they earn it.

Sick leave accrues on the basis of one day per month of employment. Employees are granted sick pay only for actual sick time. Effective January 1, 1992, employees are no longer paid for unused sick time upon termination. However, employees who have unused sick time which accumulated prior to January 1, 1992, may be paid for any of this unused sick time when their employment with the City terminates. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the general fund and enterprise fund. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities on the Statement of Net Position. The long-term debt consists primarily of bonds payable, capital leases payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

8. 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.

9. Fund Balance Flow Assumptions

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

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

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.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Estimates

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

G. Revenues and Expenditures/Expenses

1. 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at one percent per month, but the penalty remains at a maximum of 12 percent until paid.

A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 20 percent is added in July for attorney costs. There are no discounts allowed on taxes.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise 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 the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital project funds, which adopted project length budgets. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made during the year.

A. Deficit Fund Balance

At September 30, 2013, the debt service fund, a major fund, reported a deficit fund balance of \$327,207. The reason for the deficit is that the City had increased debt service expenditures related to early retirement of outstanding certificates of obligation. The City plans to transfer money from the general fund to offset the deficit in fiscal year 2014.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and temporary investments include petty cash on hand in various departments, certificates of deposit, and demand deposit accounts. As of year end, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 3,253,986	0.29

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 180 days or less.

Credit risk. State law and the City’s investment policy limit investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent.

Concentration of credit risk. With the exception of U.S. Treasury securities and authorized pools, the City’s investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio’s total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2013, market values of pledged securities and FDIC insurance exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Enterprise	Total
Accounts	\$ -	\$ -	\$ 455,646	\$ 455,646
Ad valorem	417,881	94,625	-	512,506
Sales taxes	110,435	-	-	110,435
Other	717,036	-	-	717,036
Less allowance	(383,391)	(3,801)	(194,045)	(581,237)
Totals	\$ 861,961	\$ 90,824	\$ 261,601	\$ 1,214,386

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 37,084	\$ -	\$ -	\$ 37,084
Total capital assets, not being depreciated	<u>37,084</u>	<u>-</u>	<u>-</u>	<u>37,084</u>
Capital assets, being depreciated:				
Buildings	6,148,459	-	-	6,148,459
Improvements other than buildings	482,134	-	-	482,134
Infrastructure	2,416,761	90,934	-	2,507,695
Equipment	1,094,859	35,465	-	1,130,324
Vehicles	1,711,935	133,024	-	1,844,959
Total capital assets being depreciated	<u>11,854,148</u>	<u>259,423</u>	<u>-</u>	<u>12,113,571</u>
Less accumulated depreciation for:				
Buildings	(2,198,045)	(150,376)	-	(2,348,421)
Improvements other than buildings	(324,149)	(17,017)	-	(341,166)
Infrastructure	(1,892,873)	(11,088)	-	(1,903,961)
Equipment	(903,104)	(66,487)	-	(969,591)
Vehicles	(1,219,158)	(105,074)	-	(1,324,232)
Total accumulated depreciation	<u>(6,537,329)</u>	<u>(350,042)</u>	<u>-</u>	<u>(6,887,371)</u>
Total capital assets, being depreciated, net	<u>5,316,819</u>	<u>(90,619)</u>	<u>-</u>	<u>5,226,200</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,353,903</u>	<u>\$ (90,619)</u>	<u>\$ -</u>	<u>5,263,284</u>
			Less associated debt	(61,169)
			Plus deferred charge on refunding	35,768
			Net Investment in Capital Assets	<u>\$ 5,237,883</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 68,078
Public safety	144,848
Public works	<u>137,116</u>
Total Governmental Activities Depreciation Expense	<u>\$ 350,042</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The following is a summary of changes in capital assets for business-type activities for the year ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 7,953	\$ -	\$ -	\$ 7,953
Construction in progress	2,502,036	338,454	(2,236,023)	604,467
Total capital assets, not being depreciated	<u>2,509,989</u>	<u>338,454</u>	<u>(2,236,023)</u>	<u>612,420</u>
Capital assets, being depreciated:				
Infrastructure	16,265,561	2,983,264	-	19,248,825
Equipment	142,555	-	-	142,555
Vehicles	198,449	35,201	-	233,650
Total capital assets being depreciated	<u>16,606,565</u>	<u>3,018,465</u>	<u>-</u>	<u>19,625,030</u>
Less accumulated depreciation for:				
Infrastructure	(4,091,612)	(375,922)	-	(4,467,534)
Equipment	(120,067)	(4,504)	-	(124,571)
Vehicles	(164,014)	(10,999)	-	(175,013)
Total accumulated depreciation	<u>(4,375,693)</u>	<u>(391,425)</u>	<u>-</u>	<u>(4,767,118)</u>
Total capital assets, being depreciated, net	12,230,872	2,627,040	-	14,857,912
Business-Type Activities Capital Assets, Net	<u>\$ 14,740,861</u>	<u>\$ 2,965,494</u>	<u>\$ (2,236,023)</u>	<u>15,470,332</u>
			Less associated debt	<u>(36,705)</u>
			Net Investment in Capital Assets	<u>\$ 15,433,627</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year ended. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

Governmental Activities:	Beginning Balance*	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 5,230,000	\$ 3,840,000	\$ 5,230,000	\$ 3,840,000	\$ 405,000
Capital leases	30,715	74,471	44,017	61,169 *	41,941
Compensated absences	44,698	1,209	-	45,907	41,316
TMRS obligation	99,530	297	-	99,827	-
OPEB obligation	130,156	47,500	-	177,656	-
Premium on debt	-	158,660	-	158,660	-
Total Governmental Activities	\$ 5,535,099	\$ 4,122,137	\$ 5,274,017	\$ 4,383,219	\$ 488,257

Long-term liabilities due in more than one year \$ 3,894,962

* Debt associated with capital assets \$ 61,169

Business-Type Activities:	Beginning Balance*	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 20,207	\$ 35,201	\$ 18,703	\$ 36,705 *	\$ 17,782
Compensated absences	5,328	107	-	5,435	4,891
TMRS obligation	31,558	818	-	32,376	-
OPEB obligation	33,059	15,406	-	48,465	-
Total Business-Type Activities	\$ 90,152	\$ 51,532	\$ 18,703	\$ 122,981	\$ 22,673

Long-term liabilities due in more than one year \$ 100,308

*Debt associated with capital assets \$ 36,705

*Beginning balances have been restated

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Current Refunding

The City issued \$3,840,000 of general obligation refunding bonds, series 2013. The proceeds were used to refund \$4,860,000 of outstanding certificates of obligation, series 2002. The refunding was undertaken to provide a present value savings in debt service payable by the City. The reacquisition price exceeded the net carrying amount of the old debt by \$35,768. This amount is being netted against the new debt and amortized over the life of the new debt issued, which is shorter than the life of the old debt. This debt refunding resulted in an economic gain of \$177,995 and a reduction of \$391,832 in future debt service payments.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

General obligation debt and capital leases and certificates of obligation at year end were comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Debt:		
Refunding, Series 2013	2.00-3.00%	\$ 3,840,000
Capital Leases	7.10-7.45%	61,169
Business-Type Activities		
Capital Leases	7.10%	36,705
Total General Obligation and Capital Leases		<u>\$ 3,937,874</u>

The annual requirements to amortize general obligation debt outstanding at year end were as follows:

Year Ending Sept. 30	General Obligation Debt	
	Principal	Interest
2014	\$ 405,000	\$ 82,583
2015	390,000	91,000
2016	405,000	83,200
2017	410,000	75,100
2018	420,000	66,900
2019-2023	1,810,000	137,400
Total	<u>\$ 3,840,000</u>	<u>\$ 536,183</u>

The City is not obligated in any manner for special assessment debt.

Future minimum payments to retire capital lease obligations recorded in the respective funds follow:

Year Ending Sept. 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 41,941	\$ 4,228	\$ 17,782	\$ 2,356
2015	19,228	1,248	18,923	1,215
Total	<u>\$ 61,169</u>	<u>\$ 5,476</u>	<u>\$ 36,705</u>	<u>\$ 3,570</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The assets acquired through capital leases are as follows:

Asset	Amount
Police vehicles	\$ 129,097
Dump truck	59,292
Excavator	28,361
Water utility truck	98,138
Less: accumulated depreciation	(98,726)
Total	\$ 216,162

E. Interfund Transactions

Transfers between the primary government funds during the 2013 fiscal year were as follows:

Transfer In	Transfer Out	Amounts
General fund	Water and sewer fund	\$ 202,286
	Total	\$ 202,286

The compositions of interfund balances as of year end were as follows:

Receivable Fund	Payable Fund	Amounts
General fund	Debt service fund	\$ 760,076
Water and sewer fund	General	13,430
	Total	\$ 773,506

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

F. Restatement of Net Position

The beginning net position for governmental activities and business type activities has been restated to account for an adjustment related to long-term debt and interest payables.

	Governmental Activities Net Position	Business-Type Activities Net Position
Beginning net position-as reported	\$ 14,905,262	\$ 11,402,146
Restatement - Long term debt	(5,230,000)	5,230,000
Restatement - Interest Payable	(62,687)	62,687
Beginning net position - restated	\$ 9,612,575	\$ 16,694,833

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, they could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Pension Plans

Texas Municipal Retirement System

Plan Description

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

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and RSI for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the TMRS. This report may be obtained from TMRS' website at 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:

	2013	2012
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/ yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, age prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. Both the normal cost and prior service contribution rates include recognition of

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and the net pension obligation (asset) are as follows:

Annual Required Contribution (ARC)	\$	199,335
Interest on Net Pension Obligation (NPO)		9,176
Adjustment to the ARC		(8,062)
Annual Pension Cost (APC)		200,449
Contributions made		(199,334)
Increase in NPO		1,115
NPO-beginning of year		131,088
NPO-end of year	\$	132,203

Three-year trend information for the annual pension cost (APC) is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 229,713	\$ 194,143	84.52%	\$ 123,751
2012	\$ 207,528	\$ 200,192	96.47%	\$ 131,088
2013	\$ 200,449	\$ 199,334	99.44%	\$ 132,203

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	25 Years - Closed period	26 Years - Closed period	27 Years - Closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-yr Smoothed Market	10-yr Smoothed Market	10-yr Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
	2.10%	2.10%	2.10%

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The funded status as of December 31, 2012, the most recent valuation date, is as follows:

		2013
Actuarial Valuation Date		12/31/2012
Actuarial Value of Assets	\$	5,690,351
Actuarial Accrued Liability	\$	6,773,176
Percentage Funded		84.0%
Unfunded Actuarial		
Accrued Liability (UAAL)	\$	1,082,825
Annual Covered Payroll	\$	2,221,423
UAAL as a Percentage of		
Covered Payroll		48.7%

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 RSI 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.

D. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

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 post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2013, the City offered the supplemental death benefit to both active and retired employees.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

Contributions

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2013, 2012, and 2011 were \$719, \$964, and \$1,162 respectively. The City's contribution rates for the past three years are shown below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contrib. (Rate)	0.03%	0.04%	0.05%
Actual Contribution Made	0.03%	0.04%	0.05%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

Post Employment Healthcare Plan

Plan Description

The City administers a single-employer defined benefit OPEB plan, known as the Post Employment Health Plan (the "Plan"). Employees are eligible for retiree health benefits if they retire with at least 20 years of service from the City. Employees may continue coverage on the City's Plan in existence at the time of retirement. The City pays the entire premium for the retiree's health insurance coverage. Dependent coverage is not offered. The Plan offers Medigap insurance coverage to eligible retirees after retirees have attained the age of 65 years and are eligible for Medicare instead of the full coverage provided prior to becoming eligible for Medicare.

Funding Policy

Funding is provided on a pay-as-you-go basis.

Annual OPEB Cost

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan, and the City's net OPEB obligation:

Annual required contribution (ARC)	\$	68,434
Interest on net OPEB obligation		5,702
Adjustment to the ARC		(9,160)
Annual OPEB cost		64,976
Contributions made		(2,070)
Increase in net OPEB obligation		62,906
Net OPEB obligation-beginning of year		163,215
Net OPEB obligation-end of year	\$	226,121

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 and the two preceding years are as follows:

Fiscal Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation	
			Beginning	Ending
2011	\$ 58,261	6.63%	\$ 55,674	\$ 110,070
2012	\$ 57,307	7.26%	\$ 110,070	\$ 163,215
2013	\$ 64,976	3.19%	\$ 163,215	\$ 226,121

Funded Status and Funding Progress

As of October 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$513,201, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$513,201.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI 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 liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Investment Rate of Return	3.50%
Healthcare Cost Trend Rate (Initial/Ultime)	8.30% / 5.00%

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF JACINTO CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
Revenues				
Ad valorem taxes	\$ 2,401,180	\$ 2,401,180	\$ 2,305,531	\$ (95,649)
Sales taxes	626,710	626,710	653,167	26,457
Franchise and local taxes	705,000	705,000	738,800	33,800
Licenses and permits	66,330	66,330	57,094	(9,236)
Fines and forfeitures	806,150	806,150	676,090	(130,060)
Charges for services	291,760	291,760	309,285	17,525
Intergovernmental	85,500	85,500	161,225	75,725
Investment income	10,000	10,000	7,580	(2,420)
Other revenue	168,980	168,980	166,910	(2,070)
Total Revenues	<u>5,161,610</u>	<u>5,161,610</u>	<u>5,075,682</u>	<u>(85,928)</u>
Expenditures				
Current:				
General government	681,030	686,670	560,240	126,430
Public safety	2,606,160	2,623,908	2,490,494	133,414
Public works	741,970	750,970	688,352	62,618
Community services	818,080	835,080	715,827	119,253
Debt service:				
Principal	52,848	52,848	44,017	8,831
Interest and fiscal charges	2,152	2,152	2,152	-
Total Expenditures	<u>4,902,240</u>	<u>4,951,628</u>	<u>4,501,082</u>	<u>450,546</u>
Excess of				
Revenues Over Expenditures	<u>259,370</u>	<u>209,982</u>	<u>574,600</u>	<u>364,618</u>
Other Financing Sources				
Capital lease	-	-	74,471	74,471
Transfers in	200,000	200,000	202,286	2,286
	<u>200,000</u>	<u>200,000</u>	<u>276,757</u>	<u>76,757</u>
Net Change in Fund Balance	<u>\$ 459,370</u>	<u>\$ 409,982</u>	851,357	<u>\$ 441,375</u>
Beginning fund balance			<u>8,515,538</u>	
Ending Fund Balance			<u>\$ 9,366,895</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF JACINTO CITY, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

September 30, 2013

Fiscal Year	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 5,690,351	\$ 5,264,444	\$ 4,993,064
Actuarial Accrued Liability	\$ 6,773,176	\$ 6,500,962	\$ 6,287,588
Percentage Funded	84.0%	81.0%	79.4%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 1,082,825	\$ 1,236,518	\$ 1,294,524
Annual Covered Payroll	\$ 2,221,423	\$ 2,339,756	\$ 2,327,267
UAAL % of Covered Payroll	48.7%	52.8%	55.6%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 131,088	\$ 123,751	\$ 88,180
Annual Req. Contrib. (ARC)	200,449	207,529	229,714
Contributions Made	199,334	200,192	194,143
NPO at the End of Period	\$ 132,203	\$ 131,088	\$ 123,751

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CITY OF JACINTO CITY, TEXAS

SCHEDULE OF FUNDING PROGRESS

POST EMPLOYMENT HEALTHCARE BENEFITS

September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/09	\$ -	\$ 431,710	\$ 431,710	0.00%	\$ 2,349,618	18.37%
10/01/12	-	513,201	513,201	0.00%	2,221,423	23.10%

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SCHEDULES

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CITY OF JACINTO CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2013

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Ad valorem taxes	\$ 522,870	\$ 528,164	\$ 5,294
Investment income	-	9,654	9,654
Other revenue	-	14,052	14,052
Total Revenues	522,870	551,870	29,000
<u>Expenditures</u>			
Principal	370,000	370,000	-
Interest and fiscal charges	151,770	151,768	2
Bond issuance costs	1,100	136,148 *	(135,048)
Advance refunding escrow	-	1,035,500 *	(1,035,500)
Payment to refunded bond escrow agent	-	3,860,268 *	(3,860,268)
Total Expenditures	522,870	5,553,684	(5,030,814)
Revenues Over (Under) Expenditures	-	(5,001,814)	(5,001,814)
<u>Other Financing Sources (Uses)</u>			
Bonds issued	-	3,840,000	3,840,000
Premium on debt	-	158,660	158,660
Total Other Financing Sources (Uses)	-	3,998,660	3,998,660
Net Change in Fund Balance	\$ -	(1,003,154)	\$ (1,003,154)
Beginning fund balance		675,947	
Ending Fund Balance		\$ (327,207)	

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Expenditures exceeded appropriations at the legal level of control.

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