

ANNUAL FINANCIAL REPORT

of the

**CITY OF
PINEY POINT VILLAGE, TEXAS**

For the Year Ended
December 31, 2013

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CITY OF PINEY POINT VILLAGE, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Piney Point Village, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the City of Piney Point Village, Texas (the "City"), as of and for the year ended December 31, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the City as of December 31, 2013, and the respective changes in financial position 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 schedule 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.

BELT HARRIS PECHACEK, LLP

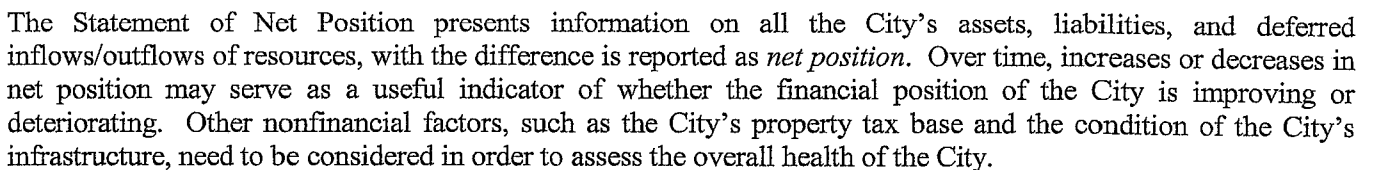
Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 19, 2014

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

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For the Year Ended December 31, 2013

THE STRUCTURE OF OUR ANNUAL REPORT



CITY OF PINEY POINT VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2013

The Statement of Activities presents information showing how the City's net position changed during the most recent 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 the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include one class of activity:

1. Governmental Activities – All of the City's basic services are reported here including public safety (police, fire, EMS), public works (streets and park maintenance), municipal court, and general government. 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.

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

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 only category of City funds is governmental.

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 year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five 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, the debt service fund, the METRO projects fund, the capital projects fund, and special revenue fund, all of which are considered to be major funds for reporting purposes, with the exception of the special revenue fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

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.

CITY OF PINEY POINT VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2013

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes the budgetary comparison schedule for the general fund and a schedule of funding progress for the Texas Municipal Retirement System. 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 exceeded liabilities by \$24,050,093 as of year end.

A large portion of the City's net position, \$17,911,923 or 74 percent, reflects its investments in capital assets (e.g., land, infrastructure, and streets), 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.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2013	2012
<u>Assets</u>		
Current and other assets	\$ 11,657,796	\$ 12,530,225
Capital assets, net	22,407,799	21,016,536
Total Assets	34,065,595	33,546,761
<u>Deferred Outflows of Resources</u>		
Deferred charge on refunding	31,204	35,105
<u>Liabilities</u>		
Long-term liabilities	4,536,870	5,051,818
Other liabilities	5,509,836	4,704,523
Total Liabilities	10,046,706	9,756,341
<u>Net Position</u>		
Net investment in capital assets	17,911,923	17,615,279
Restricted	3,604,102	3,590,927
Unrestricted	2,534,068	2,619,319
Total Net Position	\$ 24,050,093	\$ 23,825,525

CITY OF PINEY POINT VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2013

A portion of the City's net position, \$3,604,102 or 15 percent, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$2,534,068, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved during the year primarily as a result of a decrease in general government expenses.

The City's total net position increased by \$224,568 during the current fiscal year, an increase of one percent in comparison to the prior year.

Statement of Activities:

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

		Governmental Activities	
		2013	2012
Revenues			
Program revenues:			
Charges for services	\$	789,882	\$ 1,018,772
Operating grants and contributions		131,000	232,724
General revenues:			
Property taxes		3,734,702	3,756,659
Franchise fees and other taxes		517,715	546,441
Investment income		6,059	6,910
Other revenue		84,160	369,463
Total Revenues		5,263,518	5,930,969
Expenses			
General government		901,984	1,232,569
Public safety		2,992,153	2,887,077
Municipal court		124,927	205,596
Public works		909,920	900,545
Interest and fees on long-term debt		109,966	119,941
Total Expenses		5,038,950	5,345,728
Change in Net Position		224,568	585,241
Beginning net position		23,825,525	23,240,284
Ending Net Position	\$	24,050,093	\$ 23,825,525

Revenues from governmental activities totaled \$5,263,518 which is a decrease of \$667,451 from the 2012 fiscal year, mainly due to decreases in charges for services of \$228,890, operating grants and contributions of \$101,724, and other revenue of \$285,303. These decreases resulted from a decrease in citations and permits issued, a decrease in grant funds received, and a decrease in reimbursements received on the draining and paving project due to the project nearing completion. Property taxes are the City's largest revenue source. Property taxes totaled \$3,734,702 for the year. This represents a decrease of \$21,957 or 0.6 percent for property tax revenue compared to the previous year.

Expenses for governmental activities decreased by \$306,778. In total, expenses for the year were \$5,038,950, a six percent decrease from the prior year. The decrease is mainly due to a decrease in legal fees related to a prior year lawsuit.

CITY OF PINEY POINT VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2013

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 year.

The City's governmental funds reflect a combined fund balance of \$5,981,746. Of this, \$627 is nonspendable for prepaids, \$132,142 is restricted for debt service, \$3,449,007 is restricted for capital projects, and \$65,216 is restricted for enabling legislation.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$2,334,754, while total fund balance reached \$2,335,381. This represents an increase of \$166,977 from 2012. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represent 52 percent of total general fund expenditures.

There was a decrease of \$18,522 in debt service fund balance for a total of \$132,142 at year end. The decrease is due to debt service payments exceeding property tax collections.

There was a decrease of \$674,099 in the METRO project fund balance for a total of \$2,708,083 at year end. This decrease is due to various construction project expenditures during the year.

There was a decrease of \$1,179,878 in the capital projects fund balance for a total of \$740,924 at year end. This is a result of various construction project expenditures during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than original and final budgeted revenues by \$54,316 during 2013. This net variance includes positive variances of \$21,010 for property taxes and \$111,705 for licenses and permit revenue.

Budgeted expenditures were greater than actual amounts by \$71,794 for the fiscal year. The greatest positive variance was \$76,605 for public works expenditures.

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$22,407,799 in capital assets and infrastructure. This represents a net increase of \$1,391,263 compared to the prior year.

Capital asset events during the year included the following:

- Smithdale/Claymore completed project in the amount of \$6,107,892.
- Various road and drainage construction in progress in the amount of \$1,839,813.

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

CITY OF PINEY POINT VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2013

LONG-TERM DEBT

At the end of the year, the City had total general obligation bonds outstanding of \$4,460,000.

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 total new building and remodel permits exceeded estimates again in 2013 and looks positive going into the 2014 fiscal year. While heavily dependent on property taxes, the City's high appraised values result in residents paying a relatively low property tax rate. New construction and remodels have added approximately \$50-100 million in additional valuation over each of the last several years and we anticipate a similar increase for 2014.

While the City's adopted budget for 2014 was substantially unchanged from prior year, the City did raise its property tax rate by an additional \$.04 cents for 2014 in anticipation of issuing additional bonds for new drainage projects currently being designed. It is the City's intent to issue bonds to pay for the new construction during 2014 and the additional property tax rate will be used to repay bonds issued.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Ben Griffin, City Administrator, City of Piney Point Village, 7676 Woodway, Suite 300, Houston, TX 77063.

BASIC FINANCIAL STATEMENTS

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CITY OF PINEY POINT VILLAGE, TEXAS

STATEMENT OF NET POSITION

December 31, 2013

	Primary Government Governmental Activities
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 8,258,417
Cash with fiscal agent	809,716
Receivables	2,575,528
Prepaid items	627
Due from other governments	13,508
Total Current Assets	11,657,796
Non-Current Assets	
Capital assets (net of accumulated depreciation)	
Non-depreciable	1,348,546
Net depreciable capital assets	21,059,253
Total Non-Current Assets	22,407,799
Total Assets	34,065,595
<u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	31,204
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	632,329
Unearned revenue	4,717,244
Deposits	118,000
Accrued interest payable	42,263
Total Current Liabilities	5,509,836
Noncurrent Liabilities	
Long-term liabilities due within one year	523,811
Long-term liabilities due in more than one year	4,013,059
Total Non-Current Liabilities	4,536,870
Total Liabilities	10,046,706
<u>Net Position</u>	
Net investment in capital assets	17,911,923
Restricted for:	
Debt service	89,879
Enabling legislation	65,216
Capital projects	3,449,007
Unrestricted	2,534,068
Total Net Position	\$ 24,050,093

See Notes to Financial Statements.

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CITY OF PINEY POINT VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants and	Change in
			Contributions	Net Position
				Primary
				Government
				Governmental
				Activities
Primary Government				
Governmental Activities				
General government	\$ 901,984	\$ -	\$ -	\$ (901,984)
Public safety	2,992,153	-	-	(2,992,153)
Municipal court	124,927	282,677	-	157,750
Public works	909,920	507,205	131,000	(271,715)
Interest and fees on long-term debt	109,966	-	-	(109,966)
Total Governmental Activities	<u>\$ 5,038,950</u>	<u>\$ 789,882</u>	<u>\$ 131,000</u>	<u>(4,118,068)</u>
		General Revenues		
		Taxes:		
		Property taxes		3,734,702
		Franchise and other taxes		517,715
		Investment income		6,059
		Other revenue		84,160
		Total General Revenues		<u>4,342,636</u>
		Change in Net Position		<u>224,568</u>
		Beginning net position		<u>23,825,525</u>
		Ending Net Position		<u>\$ 24,050,093</u>

See Notes to Financial Statements.

CITY OF PINEY POINT VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

December 31, 2013

	General	Debt Service	METRO Projects	Capital Projects
<u>Assets</u>				
Cash and cash equivalents	\$ 3,886,570	\$ 344,083	\$ 3,042,211	\$ 920,194
Cash with fiscal agent	700,820	108,896	-	-
Receivables	2,219,866	343,060	-	12,602
Prepaid items	627	-	-	-
Due from other governments	13,508	-	-	-
Due from other funds	66,604	-	-	91,984
Total Assets	\$ 6,887,995	\$ 796,039	\$ 3,042,211	\$ 1,024,780
<u>Liabilities</u>				
Accounts payable	\$ 172,790	\$ -	\$ 235,270	\$ 224,126
Unearned revenue	4,089,098	628,146	-	-
Due to other funds	-	-	98,858	59,730
Deposits	118,000	-	-	-
Total Liabilities	4,379,888	628,146	334,128	283,856
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	172,726	35,751	-	-
<u>Fund Balances</u>				
Nonspendable:				
Prepaid items	627	-	-	-
Restricted:				
Debt service	-	132,142	-	-
Enabling legislation	-	-	-	-
Capital projects	-	-	2,708,083	740,924
Unassigned:				
General fund	2,334,754	-	-	-
Total Fund Balances	2,335,381	132,142	2,708,083	740,924
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,887,995	\$ 796,039	\$ 3,042,211	\$ 1,024,780

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.

 Nondepreciable capital assets

 Depreciable capital assets

 Accumulated depreciation

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

 Unavailable revenue related to property taxes

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

 Accrued interest payable

 Deferred charge on refunding

 Long-term liabilities due within one year

 Long-term liabilities due in more than one year

Net Position of Governmental Activities

See Notes to Financial Statements.

<u>Nonmajor Special Revenue</u>	<u>Total Governmental Funds</u>
\$ 65,359	\$ 8,258,417
-	809,716
-	2,575,528
-	627
-	13,508
-	158,588
<u>\$ 65,359</u>	<u>\$ 11,816,384</u>

\$ 143	\$ 632,329
-	4,717,244
-	158,588
-	118,000
<u>143</u>	<u>5,626,161</u>

-	208,477
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-	627
-	132,142
65,216	65,216
-	3,449,007
-	2,334,754
<u>65,216</u>	<u>5,981,746</u>
<u>\$ 65,359</u>	

1,348,546
23,712,269
(2,653,016)

208,477

(42,263)
31,204
(523,811)
(4,013,059)
\$ 24,050,093

CITY OF PINEY POINT VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2013

	General	Debt Service	METRO Projects	Capital Projects
<u>Revenues</u>				
Property taxes	\$ 3,118,269	\$ 599,538	\$ -	\$ -
Franchise and other taxes	517,715	-	-	-
Licenses and permits	507,205	-	-	-
Fines and forfeitures	257,502	-	-	-
Intergovernmental	131,000	-	-	-
Security fees	11,600	-	-	-
Investment income	2,780	140	2,201	926
Other revenue	80,390	-	-	3,770
Total Revenues	<u>4,626,461</u>	<u>599,678</u>	<u>2,201</u>	<u>4,696</u>
<u>Expenditures</u>				
Current:				
General government	904,973	-	-	-
Public safety	2,992,153	-	-	-
Municipal court	118,475	-	-	-
Public works	443,883	-	-	-
Capital outlay	-	-	676,300	1,184,574
Debt service:				
Principal	-	500,000	-	-
Interest and fiscal charges	-	118,200	-	-
Total Expenditures	<u>4,459,484</u>	<u>618,200</u>	<u>676,300</u>	<u>1,184,574</u>
Net Change in Fund Balances	166,977	(18,522)	(674,099)	(1,179,878)
Beginning fund balances	2,168,404	150,664	3,382,182	1,920,802
Ending Fund Balances	<u>\$ 2,335,381</u>	<u>\$ 132,142</u>	<u>\$ 2,708,083</u>	<u>\$ 740,924</u>

See Notes to Financial Statements.

<u>Nonmajor Special Revenue</u>	<u>Total Governmental Funds</u>
\$ -	\$ 3,717,807
-	517,715
-	507,205
13,575	271,077
-	131,000
-	11,600
12	6,059
-	84,160
<u>13,587</u>	<u>5,246,623</u>
-	904,973
-	2,992,153
6,452	124,927
-	443,883
-	1,860,874
-	500,000
-	118,200
<u>6,452</u>	<u>6,945,010</u>
7,135	(1,698,387)
58,081	7,680,133
<u>\$ 65,216</u>	<u>\$ 5,981,746</u>

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CITY OF PINEY POINT VILLAGE, 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 December 31, 2013

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

Net changes in fund balances - total governmental funds	\$ (1,698,387)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,847,317
Depreciation expense	(456,054)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	16,895
--	--------

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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt principal repayments	500,000
Amortization of premium	8,385
Amortization of deferred charges	(3,901)
Accrued interest expense	3,750

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

Compensated absences	6,563
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Change in Net Position of Governmental Activities	\$ 224,568
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See Notes to Financial Statements.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Piney Point Village, Texas (the "City") was organized in 1954 to provide municipal services such as police protection, fire protection, water, sewer, and sanitation services for its residents. The City operates under general laws of the State of Texas.

The City is an independent political subdivision of the State of Texas governed by an elected five-member council and mayor and is considered a primary government. As required by accounting principles generally accepted in the United States of America, 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, organizations or functions have been included in the City's financial 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 Activities) report information about the City as a whole. These statements include all activities of the City. Governmental activities are normally supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities.

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. Separate financial statements are provided for governmental 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 various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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, are presented. The emphasis of fund financial statements is on major governmental 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 included in other funds. The principal sources of revenues include local property taxes, sales taxes, franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, municipal court, public safety, and public works. The general fund is always 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.

Capital Projects Funds

The capital project funds are used to account for the expenditures of resources accumulated from general obligation bonds, tax notes, related interest earnings, and other sources for capital improvement projects. The METRO project fund is used for the resources granted to the City from the Metropolitan Transit Authority (METRO). These funds are spent only on projects approved by METRO. If the funds are not spent, then they must be returned to METRO with accrued interest. The capital projects fund is a City fund reserved for the use of capital projects within the City. These projects are approved by City Council. The METRO project fund and the capital projects fund are considered major funds for reporting purposes.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted, committed, or assigned for specified activities. The special revenue fund is a nonmajor 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 preparation of the governmental-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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.

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 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, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current 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.

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.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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
- Money market accounts
- Statewide investment pools

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 reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets, other than personal property, are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Personal property is capitalized if the individual asset cost is greater than \$5,000. 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. 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>Estimated Useful Life</u>
Furniture and equipment	5 to 10 years
Infrastructure	20 to 65 years

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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 government 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 the 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 in the governmental funds balance sheet. The governmental funds reports unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

It is the City's policy to permit regular full-time employees to accumulate earned but unused vacation up to a maximum of 20 days. Vacation amounts accumulated may be paid to employees upon termination of employment or at retirement. New employees are ineligible for vacation benefits during the first six months of employment and vacation amounts will not be paid upon separation during this period. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

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 activities Statement of Net Position. 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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.

Assets acquired under the terms of a capital lease 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 applicable 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 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 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).

Nonspendable fund balance represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

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

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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. The City strives to maintain a minimum unassigned fund balance in the general fund between 90 and 100 days of current year operating expenditures.

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 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 October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except for the capital projects funds, which adopt a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is at the fund level. Encumbrance accounting is not utilized.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of December 31, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	Weighted
		Average
		<u>Maturity (Years)</u>
External investment pool (TexPool)	\$ 7,389,615	-

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. State law and the City's investment policy limits 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.

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 December 31, 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 all securities bought be held in safekeeping by either the City, the City's designated depository, a City account in an independent third party financial institution, or with the Federal Reserve Bank. 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.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Capital Projects	Total
Property taxes	\$ 2,150,457	\$ 343,060	\$ -	\$ 2,493,517
Sales tax	25,099	-	-	25,099
Intergovernmental	-	-	12,602	12,602
Other	44,310	-	-	44,310
	<u>\$ 2,219,866</u>	<u>\$ 343,060</u>	<u>\$ 12,602</u>	<u>\$ 2,575,528</u>

C. Capital Assets

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Construction in progress	\$ 5,616,625 *	\$ 1,839,813	\$ (6,107,892)	\$ 1,348,546
Total capital assets, not being depreciated	<u>5,616,625</u>	<u>1,839,813</u>	<u>(6,107,892)</u>	<u>1,348,546</u>
Other capital assets:				
Infrastructure	17,525,453	6,107,892	-	23,633,345
Equipment	71,420	7,504	-	78,924
Total other capital assets	<u>17,596,873</u>	<u>6,115,396</u>	<u>-</u>	<u>23,712,269</u>
Less accumulated depreciation for:				
Infrastructure	(2,144,694)	(444,976)	-	(2,589,670)
Equipment	(52,268)	(11,078)	-	(63,346)
Total accumulated depreciation	<u>(2,196,962)</u>	<u>(456,054)</u>	<u>-</u>	<u>(2,653,016)</u>
Other capital assets, net	<u>15,399,911</u>	<u>5,659,342</u>	<u>-</u>	<u>21,059,253</u>
Totals	<u>\$ 21,016,536</u>	<u>\$ 7,499,155</u>	<u>\$ (6,107,892)</u>	<u>\$ 22,407,799</u>
			Less associated debt	(4,527,080)
			Plus deferred loss on refunding	31,204
			Net investment in capital assets	<u>\$ 17,911,923</u>

* Beginning balance has been restated.

Depreciation was charged to governmental functions as follows:

General government	\$ 11,078
Public works	444,976
Total Governmental Activities Depreciation Expense	<u>\$ 456,054</u>

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

D. Long-Term Debt

The following is a summary of changes in the City's total governmental activities long-term liabilities for the year.

	Original Balance	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities						
Bonds, notes and other payables:						
General obligation bonds	\$ 5,450,000	\$ 4,960,000	\$ -	\$ (500,000)	\$ 4,460,000	* \$ 515,000
Premium and/or discount	83,850	75,465	-	(8,385)	67,080	* -
Compensated absences	-	16,353	13,264	(19,827)	9,790	8,811
Total Governmental Activities	<u>\$ 5,533,850</u>	<u>\$ 5,051,818</u>	<u>\$ 13,264</u>	<u>\$ (528,212)</u>	<u>\$ 4,536,870</u>	<u>\$ 523,811</u>
Long-Term Debt Due In More Than One Year					<u>\$ 4,013,059</u>	
*Debt Associated With Governmental Activity Capital Assets					<u>\$ 4,527,080</u>	

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.

Long-term debt was comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Refunding Bonds		
Series 2011	2.00-3.00%	\$ 4,460,000
Total Governmental Activities Long-Term Debt		<u>\$ 4,460,000</u>

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

Year Ending	Governmental Activities		
	Principal	Interest	Total
Dec 31			
2014	515,000	107,550	622,550
2015	520,000	97,200	617,200
2016	530,000	86,700	616,700
2017	545,000	75,950	620,950
2018	560,000	62,100	622,100
2019-2021	1,790,000	81,600	1,871,600
Total	<u>\$ 4,460,000</u>	<u>\$ 511,100</u>	<u>\$ 4,971,100</u>

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

E. Interfund Transactions

The composition of interfund balances as of year end is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General Fund	Capital Projects Fund	\$ 59,730
General Fund	METRO Projects Fund	6,874
Capital Projects Fund	METRO Projects Fund	91,984
	Total	\$ 158,588

Interfund receivables and payables are considered to be temporary loans and will be repaid during the following year.

F. Leases

The City's operating lease obligation is for the rental of office space to house City Hall. Basic rent shall be payable monthly in advance commencing on the commencement date of August 1, 2007 and continuing throughout the term and shall be accompanied by all applicable state and local sales or use taxes. The first monthly installment of basic rent shall be payable contemporaneously with the execution of the lease; thereafter, basic rent shall be payable on the first day of each month beginning on the first day of the second full calendar month of the term. The monthly basic rent for any partial month at the beginning of the term shall equal the product of 1/365 of the annual basic rent in effect during the partial month and the number of days in the partial month from and after the commencement date. The contract expired August 1, 2012, 60 months after the commencement date. The contract has been renewed to July 31, 2017. The City paid \$93,042 in rental expense during the year. The City's lease obligations are as follows:

<u>Period ending:</u>	<u>Operating Leases</u>
December 31, 2014	\$ 91,242
December 31, 2015	93,747
December 31, 2016	96,253
December 31, 2017	57,000
Total Minimum Lease Payments	\$ 338,242

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

G. Restatement of Net Position

Beginning net position of governmental activities has been restated by \$351,305 in order to remove additions to construction in progress which should not have been capitalized in the prior year.

See below for a reconciliation of changes in beginning net position:

	Governmental Activities
Prior year ending net position as reported	\$ 24,176,830
Restatement - construction in progress	(351,305)
Current year beginning net position as reported	<u>\$ 23,825,525</u>

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 General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation. The City has no additional risk or responsibility to the funds 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 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.

C. Pension Plan

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 PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 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 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:

	<u>2013</u>	<u>2012</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

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, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (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 the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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:

	2013	2012	2011
Annual Req. Contributions (ARC)	\$ 6,259	\$ 4,712	\$ 12,348
Actual Contribution Made	6,259	\$ 4,712	\$ 12,348
NPO at the End of the Period	\$ -	\$ -	\$ -

The required contribution rates for calendar year 2013 were determined as part of the December 31, 2011 actuarial valuation. 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
Remaining Amortization Period	24.3 Years - Closed Period	24.7 Years - Closed Period	23.7 Years - Closed Period
Amortization Period for New			
Gains/Losses	10 years	11 years	11 years
Asset Valuation Method	10-year Smoothed	10-year Smoothed	10-year Smoothed
	Market	Market	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	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

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

	2013
Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 326,675
Actuarial Accrued Liability	\$ 329,496
Percentage Funded	99.1%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,821
Annual Covered Payroll	\$ 314,440
UAAL as a Percentage of Covered Payroll	0.9%

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

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

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 December 31, 2013, the City offered the supplemental death benefit to both active and retired employees.

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 years ended 2013, 2012 and 2011 were \$266, \$246, and \$291, respectively, which equaled the required contributions each year. The City's contribution rate to the TMRS SDBF for the retiree portion for the years ended December 31, 2013, 2012, and 2011 are shown below.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contributions (ARC)	0.08%	0.08%	0.09%
Actual Contribution Made	0.08%	0.08%	0.09%
Percentage of ARC	100.00%	100.00%	100.00%

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

E. Related Organizations and Joint Ventures

The City has entered into an interlocal agreement with the cities of Hunters Creek Village, Hedwig Village, Hilshire Village, Bunker Hill Village, and Spring Valley Village to create the Village Fire Department (VFD). The agreement automatically renews for a period of five years unless terminated by at least one of the contracting cities. Under the terms of the agreement, the City is liable for 21 percent of VFD's budget.

Consolidated financial information of the VFD extracted from the audited financial statements for the year ended December 31, 2013, on which VFD's auditors expressed an unmodified opinion, are as follows:

	VFD Total		City's Portion (21%)	
	Net Position	Balance Sheet	Net Position	Balance Sheet
Total assets	\$ 3,167,660	\$ 1,320,856	\$ 665,209	\$ 277,380
Total liabilities	561,923	196,339	118,004	41,231
Total Participants' Equity	\$ 2,605,737	\$ 1,124,517	\$ 547,205	\$ 236,149
	Change in Net Position	Revenues and Expenditures	Change in Net Position	Revenues and Expenditures
Total revenues	\$ 5,145,072	\$ 5,145,072	\$ 1,080,465	\$ 1,080,465
Total expenditures/expenses	4,978,091	4,943,622	1,045,399	1,038,161
Revenues over expenditures/expenses	166,981	201,450	35,066	42,304
Beginning participants' equity	2,438,756	923,067	512,139	193,844
Ending Participants' Equity	\$ 2,605,737	\$ 1,124,517	\$ 547,205	\$ 236,149
Unfunded actuarial accrued liability at 12/31/12 with TMRS	\$ 651,085		\$ 136,728	

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2013

The City has also entered into an interlocal agreement with the cities of Bunker Hill Village and Hunters Creek Village to create the Memorial Village Police Department (MVPD). Under the terms of the agreement, the City is liable for 33 ⅓ percent of MVPD's budget. Separate financial statements may be obtained directly from MVPD.

Consolidated financial information of the MVPD extracted from the MVPD's audited financial statements for the year ended December 31, 2012, on which the MVPD's auditors expressed an unmodified opinion, are as follows:

	MVPD Total		City's Portion (33 1/3%)	
	<u>Net Position</u>	<u>Balance Sheet</u>	<u>Net Position</u>	<u>Balance Sheet</u>
Total assets	\$ 1,826,628	\$ 277,177	\$ 608,876	\$ 92,393
Total liabilities	677,248	81,923	225,749	27,308
Total Participants' Equity	<u><u>\$ 1,149,380</u></u>	<u><u>\$ 195,254</u></u>	<u><u>\$ 383,127</u></u>	<u><u>\$ 65,085</u></u>
	<u>Change in Net Position</u>	<u>Revenues and Expenditures</u>	<u>Change in Net Position</u>	<u>Revenues and Expenditures</u>
Total revenues	\$ 4,055,093	\$ 4,055,093	\$ 1,351,698	\$ 1,351,698
Total expenditures/expenses	4,190,223	4,097,423	1,396,741	1,365,808
Revenues over expenditures/expenses	(135,130)	(42,330)	(45,043)	(14,110)
Beginning participants' equity	1,284,510	237,584	428,170	79,195
Ending Participants' Equity	<u><u>\$ 1,149,380</u></u>	<u><u>\$ 195,254</u></u>	<u><u>\$ 383,127</u></u>	<u><u>\$ 65,085</u></u>
Unfunded actuarial accrued liability at 12/31/11 with TMRS	<u><u>\$ 2,088,882</u></u>		<u><u>\$ 696,294</u></u>	

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended December 31, 2013

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Property taxes	\$ 3,097,259	\$ 3,118,269	\$ 21,010
Franchise and other taxes	511,386	517,715	6,329
Licenses and permits	395,500	507,205	111,705
Fines and forfeitures	320,000	257,502	(62,498)
Intergovernmental	131,000	131,000	-
Security fees	36,000	11,600	(24,400)
Investment income	4,000	2,780	(1,220)
Other revenue	77,000	80,390	3,390
Total Revenues	<u>4,572,145</u>	<u>4,626,461</u>	<u>54,316</u>
<u>Expenditures</u>			
General government	973,135	904,973	68,162
Public safety	2,898,930	2,992,153	(93,223)
Municipal court	138,725	118,475	20,250
Public works	520,488	443,883	76,605
Total Expenditures	<u>4,531,278</u>	<u>4,459,484</u>	<u>71,794</u>
Net Change in Fund Balance	<u><u>\$ 40,867</u></u>	<u>166,977</u>	<u><u>\$ 126,110</u></u>
Beginning fund balance		<u>2,168,404</u>	
Ending Fund Balance		<u><u>\$ 2,335,381</u></u>	

Notes to Required Supplementary Information

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

CITY OF PINEY POINT VILLAGE, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

December 31, 2013

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's schedule of funding progress.

Fiscal Year	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 326,675	\$ 312,959	\$ 291,075
Actuarial Accrued Liability	\$ 329,496	\$ 326,384	\$ 314,261
Percentage Funded	99.1%	95.9%	92.6%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 2,821	\$ 13,425	\$ 23,186
Annual Covered Payroll	\$ 314,440	\$ 323,243	\$ 303,092
UAAL % of Covered Payroll	0.9%	4.2%	7.6%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	6,259	4,712	12,348
Contributions Made	6,259	4,712	12,348
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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