

ANNUAL FINANCIAL REPORT

of the

**CITY OF
HEDWIG VILLAGE, TEXAS**

For the Year Ended
December 31, 2014

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS

TABLE OF CONTENTS

December 31, 2014

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	15
Fund Financial Statements	
Balance Sheet – Governmental Funds	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Notes to Financial Statements	23
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
General Fund	43
Traffic Mitigation Fund	45
Police Seizure Fund	47
Schedule of Funding Progress – Texas Municipal Retirement System	49
<u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
Debt Service Fund	53

(This page intentionally left blank.)



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of the City of Hedwig Village, Texas (the "City"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 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.

Partners

Robert Belt, CPA
Stephanic E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City as of December 31, 2014, 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.

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 schedule listed as supplementary information on the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 26, 2015

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

(This page intentionally left blank.)

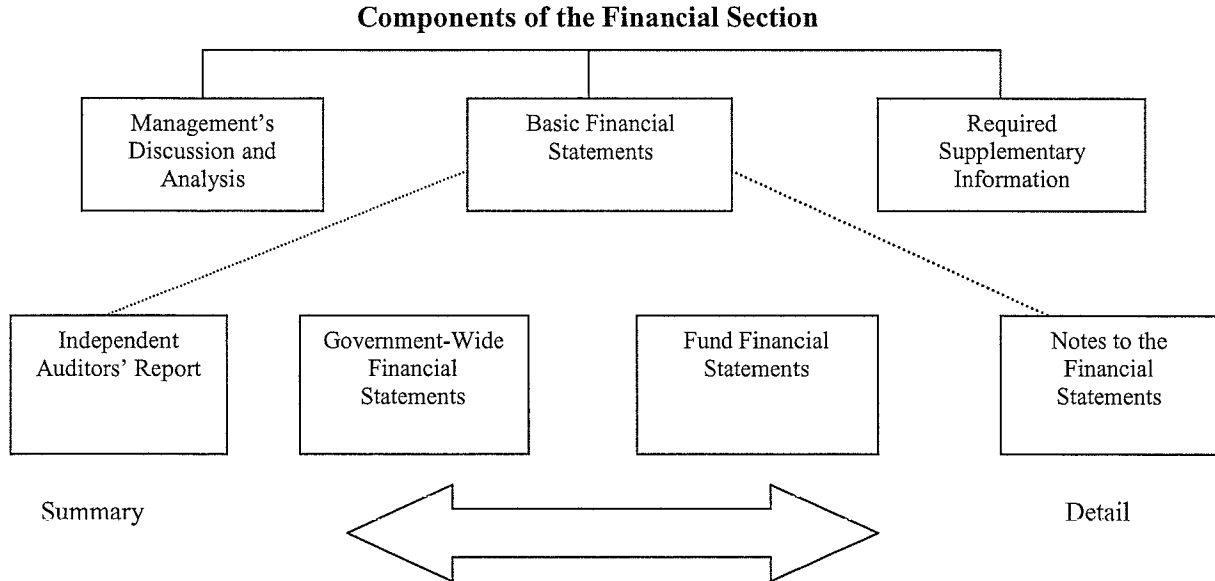
CITY OF HEDWIG VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2014

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Hedwig Village, Texas (the "City") for the year ended December 31, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, even if cash has not yet changed hands.

The Statement of Net Position presents information on all the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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.

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2014

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 and fire), public works (streets and park maintenance), culture and recreation, 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, and the capital projects fund, which are considered to be major funds for reporting purposes. While the traffic mitigation fund and the police seizure fund did not meet the technical criteria to be reported as major funds, the City has elected to present them as such.

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 HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2014

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 inflows of resources exceeded liabilities by \$17,137,872 as of year end. This compares with \$17,936,287 from the prior fiscal year. A large portion of the City's net position, \$15,779,480 or 92 percent, reflects its investments in capital assets (e.g., land, infrastructure, and buildings and improvements), 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	
	2014	2013
<u>Assets</u>		
Current and other assets	\$ 7,278,386	\$ 3,974,560
Capital assets, net	17,973,411	17,989,736
Total Assets	25,251,797	21,964,296
<u>Liabilities</u>		
Long-term liabilities	6,352,960	2,371,172
Other liabilities	170,941	110,335
Total Liabilities	6,523,901	2,481,507
<u>Deferred Inflows of Resources</u>		
Unavailable revenues - property taxes	1,590,024	1,546,502
<u>Net Position</u>		
Net investment in capital assets	15,779,480	15,719,736
Restricted	829,557	1,562,792
Unrestricted	528,835	653,759
Total Net Position	\$ 17,137,872	\$ 17,936,287

A portion of the City's net position, \$829,557 or five percent, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$528,835 or three percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position decreased by \$798,415 during the current fiscal year, a decrease of four percent in comparison to the prior year.

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2014

Statement of Activities:

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

	Governmental Activities	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 563,992	\$ 568,147
Operating grants and contributions	250,940	1,566,304
General revenues:		
Property taxes	1,524,584	1,513,277
Sales taxes	1,842,864	1,731,794
Franchise fees and other taxes	423,242	415,203
Investment income	2,615	2,919
Other revenue	74,329	149,459
Total Revenues	4,682,566	5,947,103
Expenses		
General government	792,733	741,906
Public safety	3,942,859	3,962,722
Public works	486,860	627,236
Culture and recreation	55,873	52,478
Interest and fees on long-term debt	202,656	27,122
Total Expenses	5,480,981	5,411,464
Change in Net Position	(798,415)	535,639
Beginning net position	17,936,287	17,400,648
Ending Net Position	\$ 17,137,872	\$ 17,936,287

Revenues from governmental activities totaled \$4,682,566, which is a decrease of \$1,264,537 from the 2013 fiscal year, mainly due to decreases in operating grants and contributions of \$1,315,364 and other revenue of \$75,130. Sales taxes are the City's largest revenue source and totaled \$1,842,864 for the year. This represents an increase of \$111,070 or six percent compared to the previous year.

Expenses for governmental activities increased by \$69,517. In total, expenses for the year were \$5,480,981, a one percent increase from the prior year due to an increase of depreciation expense in the current year, offset by an increase in capitalized infrastructure projects.

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, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2014

The City's governmental funds reflect a combined fund balance of \$5,496,197. Of this, \$42,119 is nonspendable for prepaid expenses, \$67,986 is restricted for child safety, \$16,410 is restricted for court technology, \$94,897 is restricted for court security, \$3,316 is restricted for governmental programming, \$459,559 is restricted for debt service, \$4,137,370 is restricted for capital projects, \$185,305 is restricted for traffic mitigation, and \$2,084 is restricted for police seizure.

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 \$487,151, while total fund balance reached \$711,879. This represents an increase of \$4,963 from 2013. 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 fund balance represents 10 percent of total general fund expenditures, while total fund balance represents 14 percent of that same amount.

There was a decrease of \$936 in the debt service fund fund balance for a total of \$459,559 at year end. The decrease is due to debt service payments exceeding property tax collections.

There was an increase of \$4,066,066 in the capital projects fund fund balance for a total of \$4,137,370 at year end. This is a result of certificates of obligation issued during the year.

There was a decrease of \$851,738 in the traffic mitigation fund fund balance for a total of \$185,305 at year end. This is a result of increased interfund transfers during the year.

There was no change in the police seizure fund fund balance, which had a total of \$2,084 at year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than final budgeted revenues by \$17,349 during 2014. This net variance includes positive variances of \$66,085 for property taxes and \$557 for fines and forfeitures revenue, offset by a negative variance of \$49,381 in other revenue.

Budgeted expenditures were less than actual amounts by \$23,003 for the fiscal year. The greatest negative variance was \$15,546 for public safety expenditures.

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$17,973,411 in capital assets and infrastructure. This represents a net decrease of \$16,325 compared to the prior year.

Capital asset events during the year included the following:

- Purchase of three 2014 Ford Explorers for the police department for a total of \$74,600
- Construction to North and South Chestwood Drive for \$433,000.
- Hedwig Circle 3" Asphalt Project \$43,325.

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

CITY OF HEDWIG VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2014

LONG-TERM DEBT

At the end of the current year, the City had total bonds and certificates of obligation outstanding of \$6,040,000. Of this amount, \$1,865,000 was general obligation refunding bonds debt and \$4,175,000 was certificates of obligation.

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 adopted a fiscal year 2015 expenditure budget for the general fund of \$4,858,385, which is a decrease of 4.6 percent from the prior year amended budget. The City budgeted for fiscal year 2015 revenues of \$3,921,770, net of transfers from other funds, which is a decrease of approximately two percent from the prior year amended budget. The 2015 tax rate is \$0.196, which is a decrease of \$0.012 from the prior year.

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 Beth Staton, City Administrator/City Secretary-Treasurer, City of Hedwig Village, 955 Piney Point Road, Hedwig Village, TX 77024.

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS

STATEMENT OF NET POSITION

December 31, 2014

	Primary Government Governmental Activities
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 5,780,557
Receivables	1,455,710
Prepaid items	42,119
Total Current Assets	7,278,386
Noncurrent Assets	
Capital assets	
Non-depreciable	617,518
Net depreciable capital assets	17,355,893
Total Noncurrent Assets	17,973,411
Total Assets	25,251,797
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	159,281
Accrued interest payable	11,660
Total Current Liabilities	170,941
Noncurrent Liabilities	
Long-term liabilities due within one year	496,939
Long-term liabilities due in more than one year	5,856,021
Total Noncurrent Liabilities	6,352,960
Total Liabilities	6,523,901
<u>Deferred Inflows of Resources</u>	
Property taxes	1,590,024
<u>Net Position</u>	
Net investment in capital assets	15,779,480
Restricted for:	
Child safety	67,986
Court technology	16,410
Court security	94,897
Governmental programming	3,316
Debt service	459,559
Traffic mitigation	185,305
Police seizure	2,084
Unrestricted	528,835
Total Net Position	\$ 17,137,872

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government				
Governmental Activities				
General government	\$ 792,733	\$ -	\$ -	\$ (792,733)
Public safety	3,942,859	264,087	-	(3,678,772)
Public works	486,860	299,905	250,940	63,985
Culture and recreation	55,873	-	-	(55,873)
Interest and fees on long-term debt	202,656	-	-	(202,656)
Total Governmental Activities	\$ 5,480,981	\$ 563,992	\$ 250,940	(4,666,049)
General Revenues				
Taxes:				
				1,524,584
				1,842,864
				423,242
				2,615
				74,329
				3,867,634
				(798,415)
				17,936,287
				\$ 17,137,872

See Notes to Financial Statements.

CITY OF HEDWIG VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

December 31, 2014

	General	Debt Service	Capital Projects	Traffic Mitigation
Assets				
Cash and cash equivalents	\$ 794,079	\$ 775,648	\$ 4,188,675	\$ 20,071
Receivables	1,045,990	230,629	45	179,046
Prepaid items	42,119	-	-	-
Due from other funds	131,393	-	-	-
Total Assets	\$ 2,013,581	\$ 1,006,277	\$ 4,188,720	\$ 199,117
Liabilities				
Accounts payable and accrued liabilities	\$ 107,931	\$ -	\$ 51,350	\$ -
Due to other funds	-	117,581	-	13,812
Total Liabilities	107,931	117,581	51,350	13,812
Deferred Inflows of Resources				
Unavailable revenue - property taxes	1,193,771	429,137	-	-
Fund Balances				
Nonspendable:				
Prepaid items	42,119	-	-	-
Restricted for:				
Child safety	67,986	-	-	-
Court technology	16,410	-	-	-
Court security	94,897	-	-	-
Governmental programming	3,316	-	-	-
Debt service	-	459,559	-	-
Police seizure	-	-	-	-
Traffic mitigation	-	-	-	185,305
Capital projects	-	-	4,137,370	-
Unassigned:				
General fund	487,151	-	-	-
Total Fund Balances	711,879	459,559	4,137,370	185,305
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,013,581	\$ 1,006,277	\$ 4,188,720	\$ 199,117

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
- 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.

Police Seizure	Total Governmental Funds
\$ 2,084	\$ 5,780,557
-	1,455,710
-	42,119
-	131,393
<u>\$ 2,084</u>	<u>\$ 7,409,779</u>

\$ -	\$ 159,281
-	131,393
<u>-</u>	<u>290,674</u>

<u>-</u>	<u>1,622,908</u>
----------	------------------

-	42,119
-	67,986
-	16,410
-	94,897
-	3,316
-	459,559
2,084	2,084
-	185,305
-	4,137,370
<u>-</u>	<u>487,151</u>
<u>2,084</u>	<u>5,496,197</u>
<u>\$ 2,084</u>	

617,518
25,792,661
(8,436,768)

32,884

(11,660)
(496,939)
(5,856,021)
\$ 17,137,872

CITY OF HEDWIG VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended December 31, 2014

	General	Debt Service	Capital Projects	Traffic Mitigation
Revenues				
Property taxes	\$ 1,111,361	\$ 428,354	\$ -	\$ -
Sales taxes	1,842,864	-	-	-
Franchise and other taxes	423,242	-	-	-
Licenses and permits	299,905	-	-	-
Fines and forfeitures	264,087	-	-	-
Intergovernmental	-	-	-	250,940
Investment income	1,262	160	254	939
Other revenue	74,329	-	-	-
Total Revenues	4,017,050	428,514	254	251,879
Expenditures				
Current:				
General government	692,986	-	-	-
Public safety	3,832,858	-	-	-
Public works	483,778	-	-	-
Culture and recreation	55,873	-	-	-
Capital outlay	50,209	-	139,759	-
Debt service:				
Principal	-	405,000	-	-
Interest and fiscal charges	-	24,450	-	-
Bond issuance costs	-	-	174,680	-
Total Expenditures	5,115,704	429,450	314,439	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,098,654)	(936)	(314,185)	251,879
Other Financing Sources (Uses)				
Transfers in	1,103,617	-	-	-
Transfers (out)	-	-	-	(1,103,617)
Certificates of obligation issued	-	-	4,175,000	-
Premium	-	-	205,251	-
Total Other Financing Sources (Uses)	1,103,617	-	4,380,251	(1,103,617)
Net Change in Fund Balances	4,963	(936)	4,066,066	(851,738)
Beginning fund balances	706,916	460,495	71,304	1,037,043
Ending Fund Balances	\$ 711,879	\$ 459,559	\$ 4,137,370	\$ 185,305

See Notes to Financial Statements.

Police Seizure	Total Governmental Funds
\$ -	\$ 1,539,715
-	1,842,864
-	423,242
-	299,905
-	264,087
-	250,940
-	2,615
-	74,329
<u>-</u>	<u>4,697,697</u>
-	692,986
-	3,832,858
-	483,778
-	55,873
-	189,968
-	405,000
-	24,450
-	174,680
<u>-</u>	<u>5,859,593</u>
<u>-</u>	<u>(1,161,896)</u>
-	1,103,617
-	(1,103,617)
-	4,175,000
-	205,251
<u>-</u>	<u>4,380,251</u>
-	3,218,355
2,084	2,277,842
<u>\$ 2,084</u>	<u>\$ 5,496,197</u>

(This page intentionally left blank.)

CITY OF HEDWIG 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, 2014

Net changes in fund balances - total governmental funds \$ 3,218,355

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	741,489
Depreciation expense	(743,094)
Net effect of disposal of capital assets	(14,720)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(15,131)
--	----------

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 effect of these differences in the treatment of long-term debt and related items.

Debt principal repayments	405,000
Debt issued	(4,175,000)
Premium	(205,251)

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.

Accrued interest expense	(3,526)
Compensated absences	(6,537)

Change in Net Position of Governmental Activities	\$ (798,415)
--	---------------------

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hedwig Village, Texas (the “City”) was incorporated under the laws of the State of Texas in 1954 to provide municipal services such as police protection, fire protection, public works and general government services for its residents. The City operates under general laws of the State of Texas, which provides for a “Mayor-Council” form of government.

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 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, 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 HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures include general government, public safety, public works, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. 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 *capital project fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The traffic mitigation fund, used to account for the receipt and expenditure of funds received from the Metropolitan Transit Authority of Harris County, Texas, and the police seizure fund are considered major funds for reporting purposes. Both of these funds did not meet the technical requirements for reporting as major funds; however, they are considered to be significant in presenting the overall operations of the City and, as such, have been presented as major funds.

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.

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.

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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, balances in statewide investment pools (TexPool), and short-term investments with original maturities of three months or less from the date of acquisition.

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

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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

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 land, construction in progress, vehicles and equipment, buildings and improvements, and infrastructure assets (e.g., roads and similar items), are reported in the applicable governmental 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 \$2,500 and an estimated useful life in excess of three years for personal property and \$25,000 or more for buildings and infrastructure. 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>
Vehicles and equipment	3 to 15 years
Infrastructure	25 to 45 years
Buildings and improvements	5 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*

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item 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. At the government-wide level, the City reports a deferred inflow of resources for that portion of property taxes that were collected for use in the subsequent period.

6. Compensated Employee Absences

The City maintains formal programs for vacation and sick leave. The City's vacation policy provides vacations of ten days after one year of service, up to 15 days with five years of service and up to 20 days with 15 years of service. No vacation can be carried over to the ensuing calendar year. The City provides sick leave of ten days per year, which accumulates up to a maximum of 180 days. Payment may be made for up to 30 days unused sick leave. In addition, employees are allowed to accrue up to 60 hours of compensatory time which is paid upon termination. 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.

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.

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

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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).

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.

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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 fund, which adopts 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 department level as stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made during the year. Encumbrance accounting is not utilized.

A. Excess of Expenditures over Appropriations

The City had expenditures in excess of appropriations in the general fund in the amount of \$7,095, \$15,546 and \$687 for general government, public safety and public works, respectively.

The City also had expenditures in excess of appropriations in the traffic mitigation fund in the amount of \$354,467 for transfers out.

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At December 31, 2014, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	<u>\$ 1,095,633</u>	0.00

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. The City's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of December 31, 2014, the City's investments in TexPool was rated 'AAAm' by Standard & Poor's.

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, 2014, 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.

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

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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	Traffic Mitigation	Total
Property taxes	\$ 639,025	\$ 230,629	\$ -	\$ -	\$ 869,654
Sales tax	358,092	-	-	-	358,092
Franchise taxes	20,971	-	-	-	20,971
Mixed beverage taxes	13,773	-	-	-	13,773
Other	14,129	-	45	179,046	193,220
	<u>\$ 1,045,990</u>	<u>\$ 230,629</u>	<u>\$ 45</u>	<u>\$ 179,046</u>	<u>\$ 1,455,710</u>

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the governmental funds were as follows:

	Unavailable	Unearned
Current property taxes receivable - General Fund	\$ -	\$ 1,170,999
Delinquent property taxes receivable - General Fund	22,772	-
Current property taxes receivable - Debt Service Fund	-	419,025
Delinquent property taxes receivable - Debt Service Fund	10,112	-
	<u>\$ 32,884</u>	<u>\$ 1,590,024</u>

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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:				
Land	\$ 477,762	\$ -	\$ -	\$ 477,762
Construction in progress	-	139,756	-	139,756
Total capital assets not being depreciated	477,762	139,756	-	617,518
Other capital assets:				
Vehicles and equipment	1,021,705	86,458	(60,369)	1,047,794
Buildings and improvements	3,036,217	-	-	3,036,217
Infrastructure	21,274,989	515,275	(81,614)	21,708,650
Total other capital assets	25,332,911	601,733	(141,983)	25,792,661
Less accumulated depreciation for:				
Vehicles and equipment	(707,886)	(162,187)	60,369	(809,704)
Buildings and improvements	(615,474)	(79,699)	-	(695,173)
Infrastructure	(6,497,577)	(501,208)	66,894	(6,931,891)
Total accumulated depreciation	(7,820,937)	(743,094)	127,263	(8,436,768)
Other capital assets, net	17,511,974	(141,361)	(14,720)	17,355,893
Governmental Activities Capital Assets, Net	\$ 17,989,736	\$ (1,605)	\$ (14,720)	17,973,411
			Plus unspent bond proceeds	4,051,320
			Less associated debt	(6,245,251)
			Net investment in capital assets	\$ 15,779,480

*Beginning balances have been restated.

Depreciation was charged to governmental activities functions as follows:

General government	\$ 93,210
Public safety	146,247
Public works	503,637
Total Governmental Activities Depreciation Expense	\$ 743,094

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

D. Long-Term Debt

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

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds, notes and other payables:					
General obligation bonds	\$ 2,270,000	\$ -	\$ (405,000)	\$ 1,865,000 *	\$ 400,000
Certificates of obligation	-	4,175,000	-	4,175,000 *	-
Bond premium	-	205,251	-	205,251 *	-
Compensated absences	101,172	93,929	(87,392)	107,709	96,939
Total Governmental Activities	\$ 2,371,172	\$ 4,474,180	\$ (492,392)	\$ 6,352,960	\$ 496,939
				Long-Term Debt Due In More Than One Year	\$ 5,856,021
					*Debt Associated With Governmental Activities Capital Assets
					\$ 6,245,251

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 2012	1.00-1.75%	\$ 1,865,000
Certificates of Obligation		
Series 2014	2.00-4.00%	4,175,000
Total Governmental Activities Long-Term Debt		\$ 6,040,000

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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

Year Ending Dec 31	Governmental Activities		
	Principal	Interest	Total
2015	\$ 400,000	\$ 112,915	\$ 512,915
2016	510,000	140,238	650,238
2017	520,000	134,088	654,088
2018	310,000	129,238	439,238
2019	320,000	123,741	443,741
2020-2024	1,425,000	530,914	1,955,914
2025-2029	1,175,000	382,163	1,557,163
2030-2034	1,380,000	168,725	1,548,725
Total	\$ 6,040,000	\$ 1,722,022	\$ 7,762,022

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

Federal Arbitrage

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.

E. Interfund Transactions

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

Receivable Fund	Payable Fund	Amounts
General Fund	Debt Service Fund	\$ 117,581
General Fund	Traffic Mitigation Fund	13,812
	Total	\$ 131,393

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

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

Transfers between governmental funds during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
Traffic Mitigation Fund	General Fund	<u>\$ 1,103,617</u>

The traffic mitigation fund transfers revenues to the general fund to pay for eligible METRO activities during the year.

F. Restatement of Net Position

Beginning net position of governmental activities has been restated by \$744,502 in order to adjust for accumulated depreciation.

	<u>Governmental Activities</u>
Beginning net position - as reported	\$ 18,680,789
Restatement - accumulated depreciation	(744,502)
Beginning Net position - Restated	<u>\$ 17,936,287</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.

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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.

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>2014</u>	<u>2013</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, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout the period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to TMRS 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.

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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
2012	\$ 125,238	\$ 125,238	100%	\$ -
2013	\$ 117,084	\$ 117,084	100%	\$ -
2014	\$ 105,034	\$ 105,034	100%	\$ -

The required contribution rates for calendar year 2014 were determined as part of the December 31, 2012 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	17.0 Years - Closed Period	20.0 Years - Closed Period	21.0 Years - Closed Period
Amortization Period for New Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year 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%
	0.00%	0.00%	0.00%

Funded Status and Funding Progress

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

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

	2014
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 3,665,375
Actuarial Accrued Liability (AAL)	\$ 4,133,103
Percentage Funded	88.7%
Unfunded AAL (UAAL)	\$ 467,728
Annual Covered Payroll	\$ 1,637,553
UAAL as a Percentage of Covered Payroll	28.6%

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

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 Benefits Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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, 2014, 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 2014, 2013 and 2012 were \$347, \$138, and \$172, respectively, which equaled the required contributions each year. The City's contribution rate to the TMRS SDBF for the retiree portion for the past three years are shown below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Req. Contributions (ARC)	0.02%	0.01%	0.01%
Actual Contribution Made	0.02%	0.01%	0.01%
Percentage of ARC	100.00%	100.00%	100.00%

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

E. Related Organizations and Joint Ventures

On December 20, 1978, the City entered into an interlocal cooperation agreement with the cities of Bunker Hill Village, Hilshire Village, Hunter's Creek Village, Piney Point Village, and Spring Valley Village, Texas, creating the Village Fire Department (VFD). The agreement ran for a period of 12 years beginning January 1, 1979 and ended December 31, 1990. Effective January 1, 1991, the agreement automatically renewed for a period of five years and will continue to renew on each expiration date unless terminated by at least one of the contracting cities. Under the terms of the agreement, the City is liable for 18.5 percent of VFD's approved 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 (18.5%)	
	Net Position	Balance Sheet	Net Position	Balance Sheet
Total assets	\$ 3,167,660	\$ 1,320,856	\$ 586,017	\$ 244,358
Total liabilities	561,923	196,339	103,956	36,323
Total Participants' Equity	\$ 2,605,737	\$ 1,124,517	\$ 482,061	\$ 208,035
	Change in Net Position	Revenues and Expenditures	Change in Net Position	Revenues and Expenditures
Total revenues	\$ 5,145,072	\$ 5,145,072	\$ 951,838	\$ 951,838
Total expenditures/expenses	4,978,091	4,943,622	920,947	914,570
Revenues over expenditures/expenses	166,981	201,450	30,891	37,268
Beginning participants' equity	2,438,756	923,067	451,170	170,767
Ending Participants' Equity	\$ 2,605,737	\$ 1,124,517	\$ 482,061	\$ 208,035
Unfunded actuarial accrued liability at 12/31/12 with TMRS	\$ 651,085		\$ 120,451	
Actuarial accrued liability at 1/1/11 for OPEB	\$ 147,392		\$ 27,268	

F. Revenue Agreement with METRO

Revenue Allocation Agreement

Effective October 1, 2014, the City entered into an amended Congestion Mitigation/Traffic Management Agreement (the "Agreement") with METRO, which continues through December 31, 2025, unless terminated earlier per the provisions of the Agreement. Under the terms of the Agreement, the City will receive periodic payments in amounts equal to one-half of all available sales and use tax revenues collected by or for METRO within the corporate limits of the City. The City may utilize the funds for traffic-related projects and costs. The funds are accounted for in the Traffic Mitigation Fund.

CITY OF HEDWIG VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2014

G. Health Insurance

In September 2007, the City entered into an agreement by and between the Memorial Villages Water Authority, the Cities of Hunters Creek Village and Spring Valley Village and the Village Fire Department to provide employee health insurance for the participants. The insurance agreement expired on December 31, 2013, and shall be automatically renewed for successive one year terms on January 1 of each succeeding year. Under the terms of the insurance agreement, each party is responsible for the monthly premiums covering that entity's employees and no entity is liable for any losses or damages caused by another participant.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

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

GENERAL FUND

For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,036,276	\$ 1,045,276	\$ 1,111,361	\$ 66,085
Sales taxes	1,743,065	1,843,385	1,842,864	(521)
Franchise and other taxes	401,000	422,944	423,242	298
Licenses and permits	190,000	299,594	299,905	311
Fines and forfeitures	418,100	263,530	264,087	557
Investment income	2,000	1,262	1,262	-
Other revenue	164,921	123,710	74,329	(49,381)
Total Revenues	3,955,362	3,999,701	4,017,050	17,349
Expenditures				
General government	593,288	685,891	692,986	(7,095) *
Public safety	3,471,711	3,817,312	3,832,858	(15,546) *
Public works	541,519	483,091	483,778	(687) *
Culture and recreation	57,044	56,073	55,873	200
Capital outlay	40,800	50,334	50,209	125
Total Expenditures	4,704,362	5,092,701	5,115,704	(23,003)
(Deficiency) of Revenues (Under) Expenditures	(749,000)	(1,093,000)	(1,098,654)	(5,654)
Other Financing Sources (Uses)				
Transfers in	749,000	1,093,000	1,103,617	10,617
Total Other Financing Sources	749,000	1,093,000	1,103,617	10,617
Net Change in Fund Balance	\$ -	\$ -	4,963	\$ 4,963
Beginning fund balance			706,916	
Ending Fund Balance			\$ 711,879	

Notes to Required 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.

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TRAFFIC MITIGATION FUND
For the Year Ended December 31, 2014

	Original and Final Budgets	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Intergovernmental	\$ 749,000	\$ 250,940	\$ (498,060)
Investment income	150	939	789
Total Revenues	749,150	251,879	(497,271)
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(749,150)	(1,103,617)	(354,467) *
Total Other Financing (Uses)	(749,150)	(1,103,617)	(354,467)
Net Change in Fund Balance	\$ -	(851,738)	\$ (851,738)
Beginning fund balance		1,037,043	
Ending Fund Balance		\$ 185,305	

Notes to Required 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.

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
POLICE SEIZURE FUND
For the Year Ended December 31, 2014

	Original and Final Budgets	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Fines and forfeitures	\$ 2,050	\$ -	\$ (2,050)
Investment income	20	-	(20)
Total Revenues	2,070	-	(2,070)
<u>Expenditures</u>			
Capital outlay	2,070	-	2,070
Total Expenditures	2,070	-	2,070
Net Change in Fund Balance	\$ -	-	\$ -
Beginning fund balance		2,084	
Ending Fund Balance		\$ 2,084	

Notes to Required Supplementary Information

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

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

December 31, 2014

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	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Value of Assets	\$ 3,665,375	\$ 3,398,054	\$ 3,058,891
Actuarial Accrued Liability (AAL)	\$ 4,133,103	\$ 3,721,824	\$ 3,470,207
Percentage Funded	88.7%	91.3%	88.1%
Unfunded AAL (UAAL)	\$ 467,728	\$ 323,770	\$ 411,316
Annual Covered Payroll	\$ 1,637,553	\$ 1,722,987	\$ 1,693,359
UAAL as a % of Covered Payroll	28.6%	18.8%	24.3%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	105,034	117,084	125,238
Contributions Made	105,034	117,084	125,238
NPO at the End of Period	\$ -	\$ -	\$ -

(This page intentionally left blank.)

SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

CITY OF HEDWIG VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended December 31, 2014

	Original and Final Budgets	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property taxes	\$ 429,000	\$ 428,354	\$ (646)
Investment income	450	160	(290)
Total Revenues	429,450	428,514	(936)
<u>Expenditures</u>			
Debt service:			-
Principal	405,000	405,000	-
Interest and fiscal charges	24,450	24,450	-
Total Expenditures	429,450	429,450	-
Net Change in Fund Balance	\$ -	(936)	\$ (936)
Beginning fund balance		460,495	
Ending Fund Balance		\$ 459,559	

(This page intentionally left blank.)