

ANNUAL FINANCIAL REPORT

of the

**CITY OF
HEDWIG VILLAGE, TEXAS**

For the Year Ended
December 31, 2014

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CITY OF HEDWIG VILLAGE, TEXAS

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December 31, 2014

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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.

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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 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***

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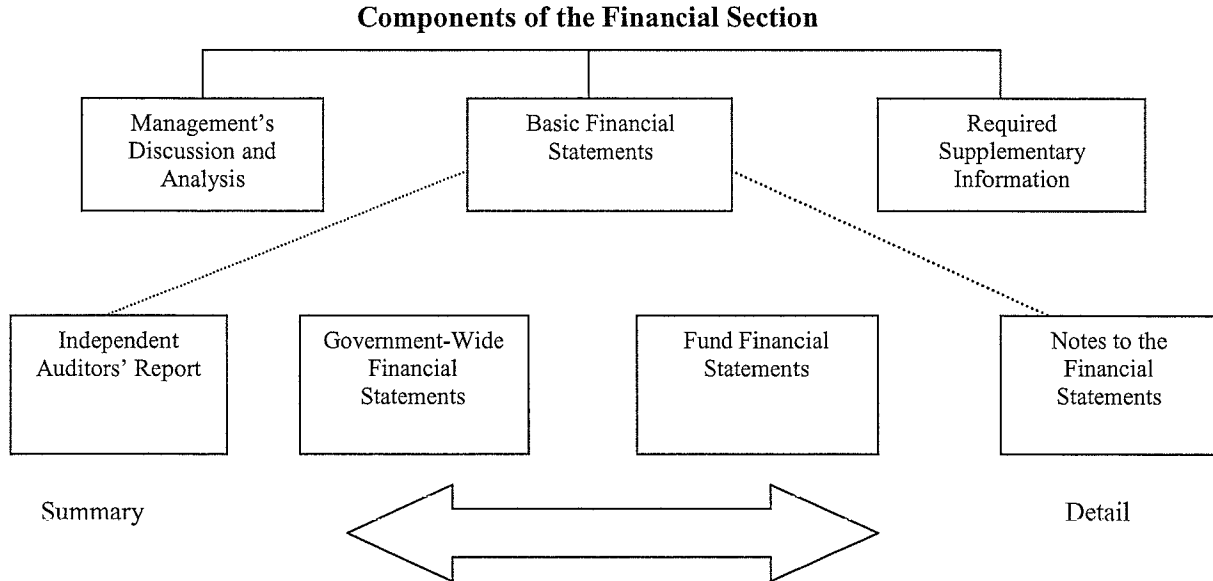
CITY OF HEDWIG VILLAGE, TEXAS

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 | <u>4,682,566</u> | <u>5,947,103</u> |
| 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 | <u>5,480,981</u> | <u>5,411,464</u> |
| Change in Net Position | (798,415) | 535,639 |
| Beginning net position | <u>17,936,287</u> | <u>17,400,648</u> |
| Ending Net Position | <u>\$ 17,137,872</u> | <u>\$ 17,936,287</u> |

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

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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.

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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 |
| | | | Total General Revenues | 3,867,634 |
| | | | Change in Net Position | (798,415) |
| | | | Beginning net position | 17,936,287 |
| | | | Ending Net Position | \$ 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

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Traffic Mitigation</u> |
|--|--------------------|-------------------------|-----------------------------|-------------------------------|
| 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 | <u>4,017,050</u> | <u>428,514</u> | <u>254</u> | <u>251,879</u> |
| 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 | <u>5,115,704</u> | <u>429,450</u> | <u>314,439</u> | <u>-</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(1,098,654)</u> | <u>(936)</u> | <u>(314,185)</u> | <u>251,879</u> |
| 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) | <u>1,103,617</u> | <u>-</u> | <u>4,380,251</u> | <u>(1,103,617)</u> |
| 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 | <u>\$ 711,879</u> | <u>\$ 459,559</u> | <u>\$ 4,137,370</u> | <u>\$ 185,305</u> |

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> |

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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.

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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.