

ANNUAL FINANCIAL REPORT

of the

**CITY OF SPRING
VALLEY VILLAGE, TEXAS**

For the Year Ended
September 30, 2013

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CITY OF SPRING VALLEY VILLAGE, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 14, 2014

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

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CITY OF SPRING VALLEY VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

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

1. Governmental Activities – Most of the City's basic services are reported here, which include general government, public safety, and public works. Sales taxes, property taxes, franchise taxes, and other revenue finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's water, wastewater, and solid waste operations.

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 two categories of City funds are governmental and proprietary.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 two governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and the capital improvements fund, which are considered to major funds.

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

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, wastewater, and solid waste operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

CITY OF SPRING VALLEY VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and the schedule of funding progress for the Texas Municipal Retirement System. The RSI can be found after the notes to the 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 exceed liabilities by \$37,566,726 as of September 30, 2013.

The largest portion of the City's net position (86.9 percent) reflects its investment in capital assets (e.g., land and City hall, as well as the public works facilities). 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:

	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 6,125,585	\$ 369,627	\$ 6,495,212	\$ 6,473,773	\$ 336,600	\$ 6,810,373
Internal balances	206,566	(206,566)	-	427,224	(427,224)	-
Capital assets, net	25,437,372	7,201,090	32,638,462	23,227,286	7,416,956	30,644,242
Total Assets	31,769,523	7,364,151	39,133,674	30,128,283	7,326,332	37,454,615
Long-term liabilities	239,307	40,762	280,069	236,222	42,636	278,858
Other liabilities	905,419	381,460	1,286,879	764,048	231,617	995,665
Total Liabilities	1,144,726	422,222	1,566,948	1,000,270	274,253	1,274,523
Net position:						
Net investment in capital assets	25,437,372	7,201,090	32,638,462	23,227,286	7,416,956	30,644,242
Restricted	121,848	-	121,848	75,118	-	75,118
Unrestricted	5,065,577	(259,161)	4,806,416	5,825,609	(364,877)	5,460,732
Total Net Position	\$ 30,624,797	\$ 6,941,929	\$ 37,566,726	\$ 29,128,013	\$ 7,052,079	\$ 36,180,092

A portion of the City's net position, \$121,848, represents resources restricted to a specific purpose. The balance of unrestricted net position, \$4,806,416, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by \$1,386,634 during the current fiscal year, an increase of 3.8 percent over prior year. The overall condition of the City improved during the year primarily due to increases in revenue from property taxes, sales taxes, and franchise taxes.

CITY OF SPRING VALLEY VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

Statement of Activities

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

	For the Year Ended September 30, 2013			For the Year Ended September 30, 2012		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,037,725	\$ 2,859,499	\$ 3,897,224	\$ 1,033,583	\$ 2,709,775	\$ 3,743,358
Operating grants	154,000	-	154,000	154,000	-	154,000
General revenues:						
Property taxes	3,812,544	-	3,812,544	3,685,289	-	3,685,289
Sales taxes	1,082,352	-	1,082,352	934,790	-	934,790
Franchise and local taxes	357,602	-	357,602	332,619	-	332,619
Interest	19,163	-	19,163	25,176	-	25,176
Other	111,057	21,285	132,342	124,179	19,508	143,687
Total Revenues	6,574,443	2,880,784	9,455,227	6,289,636	2,729,283	9,018,919
Expenses						
General government	1,590,735	-	1,590,735	1,229,504	-	1,229,504
Public safety	2,648,646	-	2,648,646	2,786,639	-	2,786,639
Public works	1,153,278	-	1,153,278	1,324,918	-	1,324,918
Water, sewer, and waste	-	2,675,934	2,675,934	-	2,442,239	2,442,239
Total Expenses	5,392,659	2,675,934	8,068,593	5,341,061	2,442,239	7,783,300
Transfers	315,000	(315,000)	-	313,000	(313,000)	-
Change in Net Position	1,496,784	(110,150)	1,386,634	1,261,575	(25,956)	1,235,619
Beginning net position	29,128,013	7,052,079	36,180,092	27,866,438	7,078,035	34,944,473
Ending Net Position	\$ 30,624,797	\$ 6,941,929	\$ 37,566,726	\$ 29,128,013	\$ 7,052,079	\$ 36,180,092

Property tax revenue increased by \$127,255 or 3.5 percent due to an increase in property tax values and increased collections from delinquent property taxes. Sales tax also increased over the prior year by \$147,562 or 15.8 percent due to a rising economy. Governmental expenses were comparable to prior year with a increase of \$51,598 or 1.0 percent.

Revenues for business-type activities increased by \$151,501 or 5.6 percent from prior year due to customers consuming more water from weather changes. Similarly, business-type expenses increased by \$233,695 or 9.6 percent as a result of the increase in water use among residents and maintenance and repair expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2013

The City's governmental funds reflect a combined fund balance of \$5,353,565. At the end of the current year, \$3,550,699 was unassigned and \$1,680,633 was assigned for capital outlay of equipment and capital improvements. Total restricted fund balance for various purposes is \$121,848 and \$385 were nonspendable for prepaid purposes.

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 \$3,550,699, while total fund balance reached \$4,032,199. 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 82 percent of total general fund expenditures, while total fund balance represents 93 percent of the total expenditures. The general fund demonstrated an overall increase of \$638,876 due to increase in revenue for sales and property taxes.

Overall, there was a decrease in the capital improvements fund balance of \$1,369,594 due to expenditures for capital improvements.

The City's proprietary fund provides the same type of information found in the government-wide financial statements. The City's enterprise fund had a total net position of \$6,941,929, which is a decrease of \$110,150 from the prior year. This decrease can be attributed to a transfer to the general and capital improvements funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues exceeded budgeted revenues by \$244,657 during the year. This net positive variance includes the positive variance of \$172,352 for sales tax revenues due to a better economy than expected. General fund expenditures were under the final budget by \$420,184 mainly due to a positive variance of \$82,470 and \$226,669 for general government and police expenditures. These positive variances are a result of the City's anticipation of incurring more cost for maintenance and repairs as well as automobile expenses.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds had invested \$25,437,372 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$2,210,086 from the prior year.

Major capital asset events during the year included the following:

- Capitalized infrastructure improvements of \$423,239;
- Purchased new Motorola radios for \$209,388;
- Purchased two new police vehicles for \$51,946;

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

ECONOMIC FACTORS

The City Council approved of a \$6.8 million budget for the 2013/2014 year. The property tax rate for 2014 decreased to \$0.5128.

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 Michelle Yi, City Treasurer, City Hall, 1025 Campbell Road, Houston, Texas, 77055; telephone (713) 465-8308.

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BASIC FINANCIAL STATEMENTS

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CITY OF SPRING VALLEY VILLAGE, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents:			
Unrestricted	\$ 4,185,005	\$ 1,843	\$ 4,186,848
Restricted	26,292	-	26,292
Investments	1,569,147	-	1,569,147
Receivables, net	344,756	367,784	712,540
Internal balances	206,566	(206,566)	-
Prepaid items	385	-	385
	6,332,151	163,061	6,495,212
Capital assets:			
Nondepreciable capital assets	7,055,551	5,207	7,060,758
Net depreciable capital assets	18,381,821	7,195,883	25,577,704
	25,437,372	7,201,090	32,638,462
Total Assets	31,769,523	7,364,151	39,133,674
<u>Liabilities</u>			
Accounts payable and accrued liabilities	830,970	283,517	1,114,487
Customer deposits	74,449	97,943	172,392
	905,419	381,460	1,286,879
Noncurrent liabilities:			
Long-term liabilities due within one year	43,200	6,197	49,397
Long-term liabilities due in more than one year	196,107	34,565	230,672
	239,307	40,762	280,069
Total Liabilities	1,144,726	422,222	1,566,948
<u>Net Position</u>			
Net investment in capital assets	25,437,372	7,201,090	32,638,462
Restricted	121,848	-	121,848
Unrestricted	5,065,577	(259,161)	4,806,416
	30,624,797	6,941,929	37,566,726
Total Net Position	\$ 30,624,797	\$ 6,941,929	\$ 37,566,726

See Notes to Financial Statements.

CITY OF SPRING VALLEY VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 1,590,735	\$ 236,953	\$ -
Public safety	2,648,646	800,772	-
Public works	1,153,278	-	154,000
Total Governmental Activities	5,392,659	1,037,725	154,000
Business-Type Activities			
Water, sewer, and solid waste	2,675,934	2,859,499	-
Total Business-Type Activities	2,675,934	2,859,499	-
Total Primary Government	\$ 8,068,593	\$ 3,897,224	\$ 154,000

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (1,353,782)	\$ -	\$ (1,353,782)
(1,847,874)	-	(1,847,874)
(999,278)	-	(999,278)
<u>(4,200,934)</u>	<u>-</u>	<u>(4,200,934)</u>
-	183,565	183,565
-	183,565	183,565
<u>(4,200,934)</u>	<u>183,565</u>	<u>(4,017,369)</u>
3,812,544	-	3,812,544
1,082,352	-	1,082,352
357,602	-	357,602
19,163	-	19,163
111,057	21,285	132,342
315,000	(315,000)	-
<u>5,697,718</u>	<u>(293,715)</u>	<u>5,404,003</u>
1,496,784	(110,150)	1,386,634
29,128,013	\$ 7,052,079	\$ 36,180,092
<u>\$ 30,624,797</u>	<u>\$ 6,941,929</u>	<u>\$ 37,566,726</u>

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CITY OF SPRING VALLEY VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2013

	General	Capital Improvements	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,265,448	\$ 919,557	\$ 4,185,005
Investments	1,569,147	-	1,569,147
Receivables, net	344,756	-	344,756
Due from other funds	-	885,361	885,361
Prepaid items	385	-	385
Restricted cash	26,292	-	26,292
Total Assets	\$ 5,206,028	\$ 1,804,918	\$ 7,010,946
Liabilities			
Accounts payable and accrued liabilities	\$ 347,418	\$ 483,552	\$ 830,970
Deposits	74,449	-	74,449
Due to other funds	678,795	-	678,795
Total Liabilities	1,100,662	483,552	1,584,214
Deferred Inflows of Resources			
Unavailable revenue - property taxes	73,167	-	73,167
Fund Balances			
Nonspendable:			
Prepays	385	-	385
Restricted:			
Municipal Courts	121,848	-	121,848
Assigned:			
Capital Outlay	359,267	1,321,366	1,680,633
Unassigned	3,550,699	-	3,550,699
Total Fund Balances	4,032,199	1,321,366	5,353,565
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	5,206,028	1,804,918	
Adjustments for the Statement of Net Position:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.			
Nondepreciable capital assets			7,055,551
Net depreciable capital assets			18,381,821
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			73,167
Some liabilities, including bonds payable and accrued interest payable, are not reported as liabilities in the governmental funds.			
Long-term liabilities due within one year			(43,200)
Long-term liabilities due in more than one year			(196,107)
Net Position of Governmental Activities			\$ 30,624,797

See Notes to Financial Statements.

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CITY OF SPRING VALLEY VILLAGE, TEXAS

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

For the Year Ended September 30, 2013

<u>Revenues</u>	<u>General</u>	<u>Capital Improvements</u>	<u>Total Governmental Funds</u>
Property taxes	\$ 3,792,043	\$ -	\$ 3,792,043
Sales taxes	1,082,352	-	1,082,352
Franchise and local taxes	357,602	-	357,602
Fines and forfeitures	470,225	-	470,225
Licenses and permits	236,953	-	236,953
Hilshire police contract	330,547	-	330,547
Investment income	19,163	-	19,163
Intergovernmental	154,000	-	154,000
Other	111,057	-	111,057
Total Revenues	6,553,942	-	6,553,942
 <u>Expenditures</u>			
Current:			
General government	1,262,101	-	1,262,101
Public safety	2,886,525	-	2,886,525
Public works	181,440	-	181,440
Capital outlay	-	3,269,594	3,269,594
Total Expenditures	4,330,066	3,269,594	7,599,660
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,223,876	(3,269,594)	(1,045,718)
 <u>Other Financing Sources</u>			
Transfers in	165,000	1,900,000	2,065,000
Transfers out	(1,750,000)	-	(1,750,000)
Total Other Financing Sources (Uses)	(1,585,000)	1,900,000	315,000
Net Change in Fund Balances	638,876	(1,369,594)	(730,718)
Beginning fund balances	3,393,323	2,690,960	6,084,283
Ending Fund Balances	\$ 4,032,199	\$ 1,321,366	\$ 5,353,565

See Notes to Financial Statements.

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

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

Net change in fund balances - total governmental funds	\$	(730,718)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset acquisitions and retirements		3,277,509
Depreciation expense		(1,067,423)

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

Net change in unavailable revenue - property taxes		20,501
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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.

Net pension obligation		(4,243)
Compensated absences		1,158

Change in Net Position of Governmental Activities	\$	<u>1,496,784</u>
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See Notes to Financial Statements.

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CITY OF SPRING VALLEY VILLAGE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2013

		Business-Type Activities <u>Enterprise</u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$	1,843
Receivables, net		367,784
Total Current Assets		<u>369,627</u>
Noncurrent Assets		
Capital assets:		
Land		5,207
Building		44,708
Infrastructure		26,892
Water system		7,676,138
Sewer system		4,737,752
Vehicles		68,349
Machinery and equipment		98,759
Less accumulated depreciation		<u>(5,456,715)</u>
Total Net Depreciable Assets		<u>7,195,883</u>
Total Noncurrent Assets		<u>7,201,090</u>
Total Assets		<u>7,570,717</u>
<u>Liabilities</u>		
Current Liabilities		
Accounts payable and accrued liabilities		283,517
Due to other funds		206,566
Customer deposits		97,943
Total Current Liabilities		<u>588,026</u>
Noncurrent Liabilities		
Long-term liabilities due within one year		6,197
Long-term liabilities due in more than one year		34,565
Total Noncurrent Liabilities		<u>40,762</u>
Total Liabilities		<u>628,788</u>
<u>Net Position</u>		
Net investment in capital assets		7,201,090
Unrestricted		<u>(259,161)</u>
Total Net Position	\$	<u>6,941,929</u>

See Notes to Financial Statements.

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CITY OF SPRING VALLEY VILLAGE, TEXAS

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

For the Year Ended September 30, 2013

	<u>Business-Type Activities</u>
	<u>Enterprise</u>
<u>Operating Revenues</u>	
Water charges	\$ 1,360,368
Sewer charges	1,186,239
Solid waste charges	312,892
Other	21,285
Total Operating Revenues	<u>2,880,784</u>
<u>Operating Expenses</u>	
General and administrative	502,976
Water	559,617
Sewer	880,854
Solid waste	296,372
Depreciation	436,115
Total Operating Expenses	<u>2,675,934</u>
Income Before Transfers	204,850
Transfers (out)	<u>(315,000)</u>
Change in Net Position	(110,150)
Beginning net position	<u>7,052,079</u>
Ending Net Position	<u>\$ 6,941,929</u>

See Notes to Financial Statements.

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CITY OF SPRING VALLEY VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2013

	Business-Type Activities Enterprise
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,864,311
Payments to suppliers	(1,824,443)
Payments to employees	(502,976)
Net Cash Provided by Operating Activities	536,892
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers (to) other funds	(315,000)
Net Cash (Used) by Noncapital Financing Activities	(315,000)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(220,248)
Net Cash (Used) by Capital and Related Financing Activities	(220,248)
Net Increase in Cash and Cash Equivalents	1,644
Beginning cash and cash equivalents	199
Ending Cash and Cash Equivalents	\$ 1,843
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 204,850
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	436,115
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(31,384)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	134,932
Due to other funds	(220,658)
Compensated absences and pension obligations	(1,874)
Customer deposits	14,911
Net Cash Provided by Operating Activities	\$ 536,892

See Notes to Financial Statements.

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CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Spring Valley Village, Texas (the "City") was incorporated under the laws of the State of Texas in 1955. The City operates as a "General Law" City, which provides for a "Mayor-Council" form of government.

The City provides the following services: public safety, highways and streets, sanitation, water and sewer services, and general administration.

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

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

B. Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and debt service.

The Capital Improvements Fund is used to account for the expenditures related to capital projects through resources accumulated from various internal transfers. The capital improvements fund is considered a major fund for reporting purposes.

The City reports the following enterprise fund:

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

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

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

E. Measurement Focus and Basis of Accounting

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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

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

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

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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 Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Mutual funds of a specific type
- 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) and are recognized as expenditures when utilized.

4. Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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 City are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and fixtures	4-8 years
Infrastructure	40 years
Machinery and equipment	4-8 years
Water and sewer system	20-40 years
Buildings	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 SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

The City maintains formal programs for vacation and sick leave. Vacation pay is calculated six months from the date of employment and is cumulative up to 80 hours for employees with less than five years of service and 120 hours for employees with more than five years of service. According to policy, 40 hours may carry over at year end if no exceptions are made. Sick leave is accumulated up to 240 hours but does not vest.

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 or business-type activities Statement of Net Position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

payment with an appropriate reduction of principal recorded in the government-wide financial statements.

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which 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).

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.

The City will strive to achieve and maintain an unassigned fund balance in the general fund equal to at least 90 days of budgeted operating expenditures. If the unassigned fund balance falls below the target or has a deficiency, the City will seek to reduce expenditures prior to increasing revenues in order to replenish the fund balance within a reasonable time frame not to exceed three years.

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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 September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the object and purpose stated in the approved budget.

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2013, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
State Pool (TexPool)	\$ 1,494,448	0.00
Certificate of deposits	1,569,147	0.48
Total Investments	\$ 3,063,595	
Portfolio Weighted Average Maturity		0.25

Credit risk. State law and the City’s investment policy limits investments to obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent. Further, commercial paper must be rated not less than “A-1” or “P-1” or an equivalent rating by at least two nationally recognized credit rating agencies. As of year end, the City’s investment in TexPool was rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

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 and/or FDIC insurance with a collective market value of at least 105 percent. As of year end, market values of pledged securities and FDIC insurance exceeded bank balances.

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 to the office of the Comptroller of Public Accounts for review.

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

B. Receivables

The following comprises receivable balances at year end:

	General	Enterprise
Property taxes	\$ 73,813	\$ -
Other taxes	265,345	-
Accrued interest	5,598	-
Accounts	-	394,734
Less allowance	-	(27,200)
	\$ 344,756	\$ 367,784

C. Capital Assets

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,032,589	\$ -	\$ -	\$ 2,032,589
Construction in progress	2,474,478	2,971,723	(423,239)	5,022,962
Total Capital Assets Not Being Depreciated	4,507,067	2,971,723	(423,239)	7,055,551
Other capital assets:				
Infrastructure	37,738,852	423,239	-	38,162,091
Buildings	599,115	9,474	-	608,589
Furniture and fixtures	280,238	9,868	-	290,106
Machinery and equipment	604,008	219,871	-	823,879
Vehicles	465,280	71,900	(52,480)	484,700
Total Other Capital Assets	39,687,493	734,352	(52,480)	40,369,365
Less accumulated depreciation for:				
Infrastructure	(19,427,927)	(954,114)	-	(20,382,041)
Buildings	(494,377)	(16,264)	-	(510,641)
Furniture and fixtures	(222,447)	(14,647)	-	(237,094)
Machinery and equipment	(531,785)	(56,584)	-	(588,369)
Vehicles	(290,738)	(25,814)	47,153	(269,399)
Total Accumulated Depreciation	(20,967,274)	(1,067,423)	47,153	(21,987,544)
Other capital assets, net	18,720,219	(333,071)	(5,327)	18,381,821
Governmental Activities Capital Assets, Net	\$ 23,227,286	\$ 2,638,652	\$ (428,566)	\$ 25,437,372

Depreciation was charged to governmental functions as follows:

General government	\$ 47,020
Public safety	48,565
Public works	971,838
Total Governmental Activities Depreciation Expense	\$ 1,067,423

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 5,207	\$ -	\$ -	\$ 5,207
Total Capital Assets Not Being Depreciated	5,207	-	-	5,207
Other capital assets:				
Building	44,708	-	-	44,708
Infrastructure	26,892	-	-	26,892
Water system	7,455,890	220,248	-	7,676,138
Sewer system	4,737,752	-	-	4,737,752
Vehicles	68,349	-	-	68,349
Machinery and equipment	98,759	-	-	98,759
Total Other Capital Assets	12,432,349	220,248	-	12,652,598
Less accumulated depreciation for:				
Building	(28,214)	(892)	-	(29,106)
Infrastructure	(3,360)	(672)	-	(4,032)
Water system	(3,345,029)	(288,131)	-	(3,633,160)
Sewer system	(1,507,974)	(131,659)	-	(1,639,633)
Vehicles	(41,017)	(9,179)	-	(50,196)
Machinery and equipment	(95,006)	(5,582)	-	(100,588)
Total Accumulated Depreciation	(5,020,600)	(436,115)	-	(5,456,715)
Other capital assets, net	7,411,749	(215,867)	-	7,195,883
Business-Type Activities Capital Assets, Net	\$ 7,416,956	\$ (215,867)	\$ -	\$ 7,201,090

Depreciation was charged to business-type functions as follows:

Water	\$ 304,456
Sewer	131,659
Total Business-Type Activities Depreciation Expense	\$ 436,115

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

D. Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Net pension obligation	\$ 184,240	\$ 4,243	\$ -	\$ 188,483	\$ -
Compensated absences	51,982	74,895	(76,053)	50,824	43,200
Total Governmental Activities	\$ 236,222	\$ 79,138	\$ (76,053)	\$ 239,307	\$ 43,200
Long-term liabilities due in more than one year				\$ 196,107	
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Net pension obligation	\$ 34,300	\$ -	\$ (829)	\$ 33,471	\$ -
Compensated absences	8,336	10,793	(11,838)	7,291	6,197
Total Business-Type Activities	\$ 42,636	\$ 10,793	\$ (12,667)	\$ 40,762	\$ 6,197
Long-term liabilities due in more than one year				\$ 34,565	

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.

E. Interfund Transactions

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

Transfer In	Transfer Out	Amount
Capital Improvements	General fund	\$ 1,750,000
	Utility fund	150,000
General Fund	Utility fund	165,000
	Total	\$ 2,065,000

Amounts transferred between funds were related to operating activities.

The composition of interfund balances was as follows:

Receivable Fund	Payable Fund	Amount
Capital Improvements	General Fund	\$ 678,795
	Utility Fund	206,566
	Total	\$ 885,361

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

F. Fund Equity

Funds restricted by the City are \$121,848, which are related to municipal court security and child safety fees.

G. Restatement of Fund Balance

The City restated beginning fund balance for the general fund and capital improvement fund by \$2,690,960 to reclassify funds that are assigned for capital improvements for infrastructure.

Beginning Fund Balance	Capital	
	General	Improvements
Before Adjustments	6,084,283	-
Committed Funds	(2,690,960)	2,690,960
	<u>3,393,323</u>	<u>2,690,960</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 Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

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

C. Pension Plan

Texas Municipal Retirement System

Plan Description

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

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

	<u>2013</u>	<u>2012</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Benefits

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

Contributions

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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

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

Annual required contribution (ARC)	\$	151,448
Interest on net pension obligation (NPO)		16,391
Adjustment to the ARC		(13,440)
Annual pension cost (APC)		154,398
Contributions made		(150,984)
Increase in NPO		3,414
NPO - beginning of year		218,540
NPO - end of year	\$	221,954

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

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 271,140	\$ 224,567	82.82%	\$ 215,378
2012	\$ 168,009	\$ 164,847	98.12%	\$ 218,540
2013	\$ 154,398	\$ 150,984	97.79%	\$ 221,954

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

	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	23.4 Years - Closed period	25.2 Years - Closed period	26.4 Years - Closed period
Amortization Period for New Gains and Losses	30 years	30 Years	30 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
Inflation	3.00%	3.00%	3.00%
Cost of Living Adjustments	0.00%	0.00%	0.00%

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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

	<u>2013</u>
Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 7,921,662
Actuarial Accrued Liability	\$ 8,129,945
Percentage Funded	97.4%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 208,283
Annual Covered Payroll	\$ 2,083,327
UAAL as a Percentage of Covered Payroll	10.0%

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

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

D. Other Post Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2013, the City offered the supplemental death benefit to both active and retired employees.

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

CITY OF SPRING VALLEY VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal years ended 2013, 2012, and 2011 were \$215, \$207, and \$199, respectively. The City's contribution rates for the past three years are shown below:

	2013	2012	2011
Annual Req. Contrib. (Rate)	0.01%	0.01%	0.01%
Actual Contribution Made	0.01%	0.01%	0.01%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

E. Revenue Allocation Agreement

On July 1, 1999, the City entered into a Congestion Mitigation/Traffic Management Agreement with the Metropolitan Transit Authority of Harris County (METRO). Under the terms of the agreement, as amended in October of 2009, METRO is to provide the City annual funding of \$154,000 for eligible transportation projects through September 30, 2014.

F. Related Organizations and Joint Ventures

Fire Protection

The City has entered into an interlocal agreement with the cities of Bunker Hill Village, Hedwig Village, Hunter's Creek Village, Piney Point Village, and Hilshire Village, Texas, to create the Village Fire Department (VFD). The agreement automatically renews for a period of five years unless terminated by at least one of the contracting cities. Under the terms of this agreement, the City is liable for 16.25 percent of VFD's approved budget.

Consolidated financial information extracted from the VFD's audited financial statements for the year ended December 31, 2012, on which the VFD's auditors expressed an unqualified opinion, is as follows:

	VFD Total		City's Portion (16.25%)	
	Net Position	Balance Sheet	Net Position	Balance Sheet
Total assets	\$ 2,628,689	\$ 1,006,468	\$ 427,162	\$ 163,551
Total liabilities	417,767	33,333	67,887	5,417
Total Participants' Equity	\$ 2,210,922	\$ 923,067	\$ 359,275	\$ 158,134
	Change in	Revenues and	Change in	Revenues and
	Net Assets	Expenditures	Net Assets	Expenditures
Total revenues	\$ 5,011,391	\$ 5,011,391	\$ 814,351	\$ 814,351
Total expenditures/expenses	4,837,127	4,851,763	786,033	788,411
Revenues over expenditures/expenses	174,264	159,628	28,318	25,940
Beginning participants' equity	2,036,658	763,439	330,957	124,059
Ending Participants' Equity	\$ 2,210,922	\$ 923,067	\$ 359,275	\$ 149,999
Unfunded Actuarial Accrued Liability at 12/31/12 with TMRS	\$ 696,859		\$ 113,240	
Actuarial Accrued Liability at 1/01/12 for OPEB	\$ 147,392		\$ 23,951	

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SPRING VALLEY VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2013

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 3,760,000	\$ 3,760,000	\$ 3,792,043	\$ 32,043
Sales taxes	910,000	910,000	1,082,352	172,352
Franchise and local taxes	295,000	295,000	357,602	62,602
Fines and forfeitures	564,007	564,007	470,225	(93,782)
Licenses and permits	180,400	180,400	236,953	56,553
Hilshire police contract	348,878	348,878	330,547	(18,331)
Investment income	18,000	18,000	19,163	1,163
Intergovernmental	154,000	154,000	154,000	-
Other	79,000	79,000	111,057	32,057
Total Revenues	6,309,285	6,309,285	6,553,942	244,657
Expenditures				
General government				
Mayor and council	5,700	5,700	1,888	3,812
General government	1,066,985	1,066,985	984,515	82,470
Municipal court	284,012	286,612	222,900	63,712
Parks and recreation	67,000	67,000	52,798	14,202
Total General Government	1,423,697	1,426,297	1,262,101	164,196
Public safety				
Police	2,321,667	2,326,852	2,100,183	226,669
Fire	790,537	790,537	786,342	4,195
Total Public Safety	3,112,204	3,117,389	2,886,525	230,864
Public works				
Streets and drainage	471,764	206,564	181,440	25,124
Total Expenditures	5,007,665	4,750,250	4,330,066	420,184
Other Financing Sources (Uses)				
Transfers in	315,000	315,000	165,000	(150,000)
Transfers out	(1,750,000)	(1,750,000)	(1,750,000)	-
Total Other Financing Sources (Uses)	(1,435,000)	(1,435,000)	(1,585,000)	(150,000)
Net Change in Fund Balance	\$ (133,380)	\$ 124,035	638,876	\$ 514,841
Beginning fund balance			3,393,323	
		Ending Fund Balance	\$ 4,032,199	

Notes to Required Supplementary Information:

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

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CITY OF SPRING VALLEY VILLAGE, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2013

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. The information presented below represents the City's schedule of funding progress.

Fiscal Year	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 7,921,662	\$ 7,362,991	\$ 6,749,892
Actuarial Accrued Liability	\$ 8,129,945	\$ 7,669,182	\$ 7,206,135
Percentage Funded	97.4%	96.0%	93.7%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 208,283	\$ 306,191	\$ 456,243
Annual Covered Payroll	\$ 2,083,327	\$ 2,021,053	\$ 2,006,089
UAAL % of Covered Payroll	10.0%	15.2%	22.7%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 218,540	\$ 215,378	\$ 168,805
Annual Pension Cost (APC)	154,398	168,008	271,141
Contributions Made	150,984	164,847	224,568
	<u>221,954</u>	<u>218,539</u>	<u>215,378</u>
NPO at the End of Period	\$ 221,954	\$ 218,539	\$ 215,378

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