

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF SPRING  
VALLEY VILLAGE, TEXAS**

For the Year Ended  
September 30, 2012

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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:

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider 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  
January 7, 2013

***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, 2012

The Statement of Net Assets 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.

### 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 one individual governmental fund. 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, which is always considered a major fund.

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.

#### 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 can be found after the financial statements within this report.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2012

### Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules 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 assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$36,180,092 as of year end.

The largest portion of the City's net assets (84.7 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 Assets

The following table reflects the condensed Statement of Net Assets:

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 6,473,773	\$ 336,600	\$ 6,810,373	\$ 6,779,532	\$ 376,336	\$ 7,155,868
Internal balances	427,224	(427,224)	-	985,152	(985,152)	-
Capital assets, net	23,227,286	7,416,956	30,644,242	20,562,889	7,822,043	28,384,932
<b>Total Assets</b>	<b>30,128,283</b>	<b>7,326,332</b>	<b>37,454,615</b>	<b>28,327,573</b>	<b>7,213,227</b>	<b>35,540,800</b>
Long-term liabilities	236,222	42,636	278,858	233,683	33,707	267,390
Other liabilities	764,048	231,617	995,665	227,452	101,485	328,937
<b>Total Liabilities</b>	<b>1,000,270</b>	<b>274,253</b>	<b>1,274,523</b>	<b>461,135</b>	<b>135,192</b>	<b>596,327</b>
Net assets (deficit):						
Invested in capital assets	23,227,286	7,416,956	30,644,242	20,562,889	7,822,043	28,384,932
Restricted	75,118	-	75,118	720,777	-	720,777
Unrestricted	5,825,609	(364,877)	5,460,732	6,582,772	(744,008)	5,838,764
<b>Total Net Assets</b>	<b>\$ 29,128,013</b>	<b>\$ 7,052,079</b>	<b>\$ 36,180,092</b>	<b>\$ 27,866,438</b>	<b>\$ 7,078,035</b>	<b>\$ 34,944,473</b>

A portion of the City's net assets, \$75,118, represents resources restricted to a specific purpose. The balance of unrestricted net assets, \$5,460,732, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved during the year largely as a result of capital improvements.

The City's total net assets increased by \$1,235,619 during the current fiscal year, an increase of 3.5 percent over prior year. This increase is primarily the result of capital improvements during the year.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2012

### Statement of Activities

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

	For the Year Ended September 30, 2012			For the Year Ended September 30, 2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,033,583	\$ 2,709,775	\$ 3,743,358	\$ 1,132,191	\$ 2,909,044	\$ 4,041,235
Operating grants	154,000	-	154,000	154,000	-	154,000
General revenues:						
Property taxes	3,685,289	-	3,685,289	3,548,991	-	3,548,991
Sales taxes	934,790	-	934,790	929,607	-	929,607
Franchise and local taxes	332,619	-	332,619	312,958	-	312,958
Interest	25,176	-	25,176	32,876	-	32,876
Other	124,179	19,508	143,687	132,543	-	132,543
<b>Total Revenues</b>	6,289,636	2,729,283	9,018,919	6,243,166	2,909,044	9,152,210
<b>Expenses</b>						
General government	1,229,504	-	1,229,504	1,225,535	-	1,225,535
Public safety	2,786,639	-	2,786,639	2,837,702	-	2,837,702
Public works	1,324,918	-	1,324,918	1,164,949	-	1,164,949
Water, sewer, and waste	-	2,442,239	2,442,239	-	2,635,600	2,635,600
<b>Total Expenses</b>	5,341,061	2,442,239	7,783,300	5,228,186	2,635,600	7,863,786
Transfers	313,000	(313,000)	-	163,000	(163,000)	-
<b>Change in Net Assets</b>	1,261,575	(25,956)	1,235,619	1,177,980	110,444	1,288,424
Beginning net assets	27,866,438	7,078,035	34,944,473	26,688,458	6,967,591	33,656,049
<b>Ending Net Assets</b>	\$ 29,128,013	\$ 7,052,079	\$ 36,180,092	\$ 27,866,438	\$ 7,078,035	\$ 34,944,473

Property tax revenue increased by \$136,298 or 3.8 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 \$5,183 or 0.6 percent. Governmental expenses reported an increase of \$112,875 or 2.2 percent in comparison to last year, due to public works.

Revenues for business-type activities decreased by \$179,761 or 6.2 percent from prior year. This decrease was due to more rainfall in the current year lowering the demand for water. Similarly, business-type expenses decreased by \$193,361 or 7.3 percent as a result of the decrease in water use among residents.

### 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, 2012**

The City's general fund reflects a fund balance of \$6,084,283. Of this, \$3,817,458 is committed for various purposes and \$75,118 is restricted for municipal court security fees. It is the City's policy to maintain an unassigned fund balance in the general fund equal to 90 days of budgeted operating expenditures. Any remaining funds should be committed for capital improvements. The City's ending unassigned fund balance is in compliance with this policy.

Overall, there was a decrease in fund balance of \$1,370,256 due to the cost of capital improvements.

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

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual general fund revenues exceeded budgeted revenues by \$245,329 during the year. This net variance includes a positive variance of \$148,316 for property tax revenues. General fund expenditures were under the final budget by \$763,910 due to a positive variance of \$609,544 in streets and drainage as a result of capital projects not being completed.

### **CAPITAL ASSETS**

At the end of the year, the City's governmental activities funds had invested \$23,227,286 in capital assets and infrastructure. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. More detailed information about the City's capital assets is presented in the notes to the financial statements.

### **LONG-TERM DEBT**

At the end of the year, the City had a total of \$236,222 of long-term liabilities outstanding.

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

### **ECONOMIC FACTORS**

The City continues to be a thriving community despite the downturn in the economic environment. The City is reaching out to commercial businesses through newly developed economic incentive programs. Businesses have been attracted to the City through such programs and have helped boost sagging sales tax revenue. The City continues to strive to develop land left vacant as a result of the I-10 expansion. Numerous inquiries have been fielded from developers on the vacant land and the City anticipates development in the somewhat near future. Despite the downturn in the housing market, new housing construction in the City remains strong.

### **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 ASSETS

September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Cash and cash equivalents:			
Unrestricted	\$ 4,418,539	\$ 200	\$ 4,418,739
Restricted	21,936	-	21,936
Investments	1,710,053	-	1,710,053
Receivables, net	258,164	336,400	594,564
Internal balances	427,224	(427,224)	-
Prepaid items	65,081	-	65,081
	6,900,997	(90,624)	6,810,373
Capital assets:			
Nondepreciable capital assets	4,507,067	5,207	4,512,274
Net depreciable capital assets	18,720,219	7,411,749	26,131,968
	23,227,286	7,416,956	30,644,242
<b>Total Assets</b>	30,128,283	7,326,332	37,454,615
<b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	730,137	148,585	878,722
Customer deposits	33,911	83,032	116,943
	764,048	231,617	995,665
Noncurrent liabilities:			
Long-term liabilities due within one year	44,185	7,086	51,271
Long-term liabilities due in more than one year	192,037	35,550	227,587
	236,222	42,636	278,858
<b>Total Liabilities</b>	1,000,270	274,253	1,274,523
<b><u>Net Assets</u></b>			
Invested in capital assets	23,227,286	7,416,956	30,644,242
Restricted	75,118	-	75,118
Unrestricted	5,825,609	(364,877)	5,460,732
	29,128,013	7,052,079	36,180,092
<b>Total Net Assets</b>	\$ 29,128,013	\$ 7,052,079	\$ 36,180,092

See Notes to Financial Statements.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
<b>Governmental Activities</b>			
General government	\$ 1,229,504	\$ 219,074	\$ -
Public safety	2,786,639	814,509	-
Public works	1,324,918	-	154,000
<b>Total Governmental Activities</b>	5,341,061	1,033,583	154,000
<b>Business-Type Activities</b>			
Water, sewer, and solid waste	2,442,239	2,709,775	-
<b>Total Business-Type Activities</b>	2,442,239	2,709,775	-
<b>Total Primary Government</b>	\$ 7,783,300	\$ 3,743,358	\$ 154,000
<b>General Revenues:</b>			
Taxes:			
Property taxes			
Sales taxes			
Franchise and local taxes			
Investment income			
Other			
Transfers			
		<b>Total General Revenues and Transfers</b>	
		<b>Change in Net Assets</b>	
Beginning net assets			
		<b>Ending Net Assets</b>	

See Notes to Financial Statements.

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (1,010,430)	\$ -	\$ (1,010,430)
(1,972,130)	-	(1,972,130)
(1,170,918)	-	(1,170,918)
<u>(4,153,478)</u>	<u>-</u>	<u>(4,153,478)</u>
-	267,536	267,536
-	267,536	267,536
<u>(4,153,478)</u>	<u>267,536</u>	<u>(3,885,942)</u>
3,685,289	-	3,685,289
934,790	-	934,790
332,619	-	332,619
25,176	-	25,176
124,179	19,508	143,687
313,000	(313,000)	-
<u>5,415,053</u>	<u>(293,492)</u>	<u>5,121,561</u>
1,261,575	(25,956)	1,235,619
<u>27,866,438</u>	<u>7,078,035</u>	<u>34,944,473</u>
<u>\$ 29,128,013</u>	<u>\$ 7,052,079</u>	<u>\$ 36,180,092</u>

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# CITY OF SPRING VALLEY VILLAGE, TEXAS

## BALANCE SHEET GOVERNMENTAL FUND

September 30, 2012

	<u>General</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 4,418,539
Investments	1,710,053
Receivables, net	258,164
Due from other funds	427,224
Prepaid items	65,081
Restricted cash	21,936
<b>Total Assets</b>	<b>\$ 6,900,997</b>
<b><u>Liabilities</u></b>	
Accounts payable and accrued liabilities	\$ 730,137
Deferred revenue	52,666
Deposits	33,911
<b>Total Liabilities</b>	<b>816,714</b>
<b><u>Fund Balances</u></b>	
Restricted	75,118
Committed	3,817,458
Unassigned	2,191,707
<b>Total Fund Balances</b>	<b>6,084,283</b>
<b>Adjustments for the Statement of Net Assets:</b>	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	
Nondepreciable capital assets	4,507,067
Net depreciable capital assets	18,720,219
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	
Deferred revenue related to property taxes	52,666
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	(44,185)
Long-term liabilities due in more than one year	(192,037)
<b>Net Assets of Governmental Activities</b>	<b>\$ 29,128,013</b>

See Notes to Financial Statements.

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**CITY OF SPRING VALLEY VILLAGE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**

For the Year Ended September 30, 2012

<u>Revenues</u>	<u>General</u>
Property taxes	\$ 3,715,316
Sales taxes	934,790
Franchise and local taxes	332,619
Fines and forfeitures	506,233
Licenses and permits	219,074
Hilshire police contract	308,276
Investment income	25,176
Intergovernmental	154,000
Other	121,604
<b>Total Revenues</b>	<b>6,317,088</b>
<u>Expenditures</u>	
<b>Current:</b>	
General government	1,188,587
Public safety	2,786,166
Public works	4,028,166
<b>Total Expenditures</b>	<b>8,002,919</b>
<u>Other Financing Sources</u>	
Sale of capital assets	2,575
Transfers in	313,000
<b>Total Other Financing Sources</b>	<b>315,575</b>
<b>Net Change in Fund Balance</b>	<b>(1,370,256)</b>
Beginning fund balance	7,454,539
<b>Ending Fund Balance</b>	<b>\$ 6,084,283</b>

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 BALANCE OF THE GOVERNMENTAL FUND TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2012**

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

Net change in fund balances - total governmental funds	\$ (1,370,256)
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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	3,750,340
Depreciation expense	(1,085,943)

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

Net change in deferred revenue	(30,027)
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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.

TMRS obligation	(2,570)
Compensated absences	31

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>1,261,575</u></b>
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See Notes to Financial Statements.

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# CITY OF SPRING VALLEY VILLAGE, TEXAS

## STATEMENT OF NET ASSETS

### PROPRIETARY FUND

September 30, 2012

	<u>Business-Type Activities Enterprise Fund</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 200
Receivables, net	336,400
<b>Total Current Assets</b>	<u>336,600</u>
<b>Noncurrent Assets</b>	
Capital assets:	
Land	5,207
Building	44,708
Infrastructure	26,892
Water system	7,455,889
Sewer system	4,737,752
Vehicles	68,349
Machinery and equipment	98,759
Less accumulated depreciation	(5,020,600)
<b>Total Net Depreciable Assets</b>	<u>7,411,749</u>
<b>Total Noncurrent Assets</b>	<u>7,416,956</u>
<b>Total Assets</b>	<u>7,753,556</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	148,585
Due to other funds	427,224
Customer deposits	83,032
<b>Total Current Liabilities</b>	<u>658,841</u>
<b>Noncurrent Liabilities</b>	
Long-term liabilities due within one year	7,086
Long-term liabilities due in more than one year	35,550
<b>Total Noncurrent Liabilities</b>	<u>42,636</u>
<b>Total Liabilities</b>	<u>701,477</u>
<b>Net Assets</b>	
Invested in capital assets	7,416,956
Unrestricted	(364,877)
<b>Total Net Assets</b>	<u>\$ 7,052,079</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 ASSETS

#### PROPRIETARY FUND

For the Year Ended September 30, 2012

	<u>Business-Type Activities Enterprise Fund</u>
<b><u>Operating Revenues</u></b>	
Water charges	\$ 1,279,176
Sewer charges	1,127,582
Solid waste charges	303,017
Other	19,508
<b>Total Operating Revenues</b>	<u>2,729,283</u>
<b><u>Operating Expenses</u></b>	
General and administrative	516,530
Water	392,586
Sewer	815,991
Solid waste	289,611
Depreciation	427,521
<b>Total Operating Expenses</b>	<u>2,442,239</u>
	<b>Income Before Transfers</b> 287,044
Transfers (out)	<u>(313,000)</u>
	<b>Change in Net Assets</b> (25,956)
Beginning Net Assets	<u>7,078,035</u>
	<b>Ending Net Assets</b> <u>\$ 7,052,079</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, 2012

	<b>Business-Type Activities Enterprise Fund</b>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 2,784,433
Payments to suppliers	(1,932,470)
Payments to employees	(516,530)
<b>Net Cash Provided by Operating Activities</b>	<b>335,433</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Transfers (to) other funds	(313,000)
<b>Net Cash (Used) by Noncapital Financing Activities</b>	<b>(313,000)</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Capital purchases	(22,434)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(22,434)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1)</b>
Beginning cash and cash equivalents	200
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 199</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 287,044
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	427,521
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	39,736
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	122,710
Due to other funds	(557,928)
Compensated absences and pension obligations	936
Customer deposits	15,414
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 335,433</b>

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, 2012**

### **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 general purpose 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 and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of 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 Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City

# **CITY OF SPRING VALLEY VILLAGE, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the Year Ended September 30, 2012**

are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

### **Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed.

#### **General Fund**

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

### **Proprietary Fund Types**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its proprietary funds as presented by GASB.

The proprietary fund type used by the City includes 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.

### **C. Measurement Focus and Basis of Accounting**

The government-wide Statement of Net Assets and Statement of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, which is the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus, which is the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the accounting period in which they are incurred.

### **D. Assets, Liabilities, and Net Assets or Fund Equity**

#### **1. Deposits and Investments**

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.

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

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas 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

# **CITY OF SPRING VALLEY VILLAGE, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the Year Ended September 30, 2012**

### **2. Receivables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statement. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are reported as nonspendable in the governmental funds to indicate that they are not available to spend and are legally required to remain intact.

All trade receivables are shown net of an allowance for uncollectibles.

### **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. 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.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

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. 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. However, only 40 hours may be carried over at year end. Sick leave is accumulated up to 240 hours but does not vest.

### 6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities Statement of Net Assets. The long-term liabilities consist of compensated absences and a net pension obligation.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest 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. Bond premiums, discounts, and issuance costs for proprietary fund types 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. Issuance costs are reported as deferred charges.

### 7. Fund Equity

Fund balances of governmental funds are classified as follows:

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

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

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

*Committed fund balance* — represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.

*Assigned fund balance* — represents amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. Assignments can be made at any time.

*Unassigned fund balance* — represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed, then assigned funds, and finally unassigned funds.

The City Council is the government's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

By resolution, the Council has also authorized the City Administrator and City Treasurer to assign fund balance. Assignments of fund balance by the City Administrator and City Treasurer do not require formal action by the City Council; however, each assignment must be approved by both authorized officials before the item can be presented in the financial statements.

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.

### **8. 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.

## **II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **Budgetary Information**

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, 2012

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

As of September 30, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
State Pool (TexPool)	\$ 692,909	0.00
Certificate of deposits	1,612,844	0.41
U.S. Agencies	<u>97,209</u>	0.40
<b>Total Investments</b>	<b><u>\$ 2,402,962</u></b>	
Portfolio Weighted Average Maturity		0.29

*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, 2012

### B. Receivables

The following comprises receivable balances at year end:

	General	Enterprise
Property taxes	\$ 51,835	\$ -
Other taxes	199,291	-
Accrued interest	7,038	-
Accounts	-	363,350
Less allowance	-	(27,200)
	\$ 258,164	\$ 336,400

### C. Capital assets

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 2,032,589	\$ -	\$ -	\$ 2,032,589
Construction in progress	2,294,334	2,035,532	(1,855,388)	2,474,478
<b>Total Capital Assets Not Being Depreciated</b>	4,326,923	2,035,532	(1,855,388)	4,507,067
Other capital assets:				
Infrastructure	34,276,087	3,462,765	-	37,738,852
Buildings	599,115	-	-	599,115
Furniture and fixtures	266,412	13,826	-	280,238
Machinery and equipment	596,758	7,250	-	604,008
Vehicles	378,925	86,355	-	465,280
<b>Total Other Capital Assets</b>	36,117,297	3,570,196	-	39,687,493
Less accumulated depreciation for:				
Infrastructure	(18,484,394)	(943,533)	-	(19,427,927)
Buildings	(478,349)	(16,028)	-	(494,377)
Furniture and fixtures	(209,206)	(13,241)	-	(222,447)
Machinery and equipment	(502,685)	(29,100)	-	(531,785)
Vehicles	(206,697)	(84,041)	-	(290,738)
<b>Total Accumulated Depreciation</b>	(19,881,331)	(1,085,943)	-	(20,967,274)
Other capital assets, net	16,235,966	2,484,253	-	18,720,219
<b>Totals</b>	\$ 20,562,889	\$ 4,519,785	\$ (1,855,388)	\$ 23,227,286

Depreciation was charged to governmental functions as follows:

General government	\$ 45,377
Public safety	78,839
Public works	961,727
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 1,085,943</b>

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 5,207	\$ -	\$ -	\$ 5,207
<b>Total Capital Assets Not Being Depreciated</b>	<b>5,207</b>	<b>-</b>	<b>-</b>	<b>5,207</b>
Other capital assets:				
Building	44,708	-	-	44,708
Infrastructure	26,892	-	-	26,892
Water system	7,455,889	-	-	7,455,889
Sewer system	4,737,752	-	-	4,737,752
Vehicles	81,043	22,434	(35,128)	68,349
Machinery and equipment	98,759	-	-	98,759
<b>Total Other Capital Assets</b>	<b>12,445,043</b>	<b>22,434</b>	<b>(35,128)</b>	<b>12,432,349</b>
Less accumulated depreciation for:				
Building	(27,322)	(892)	-	(28,214)
Infrastructure	(2,688)	(672)	-	(3,360)
Water system	(3,065,554)	(279,475)	-	(3,345,029)
Sewer system	(1,376,253)	(131,721)	-	(1,507,974)
Vehicles	(66,966)	(9,179)	35,128	(41,017)
Machinery and equipment	(89,424)	(5,582)	-	(95,006)
<b>Total Accumulated Depreciation</b>	<b>(4,628,207)</b>	<b>(427,521)</b>	<b>35,128</b>	<b>(5,020,600)</b>
Other capital assets, net	7,816,836	(405,087)	-	7,411,749
<b>Totals</b>	<b>\$ 7,822,043</b>	<b>\$ (405,087)</b>	<b>\$ -</b>	<b>\$ 7,416,956</b>

Depreciation was charged to business-type functions as follows:

Water	\$ 295,800
Sewer	131,721
<b>Total Business-Type Activities Depreciation Expense</b>	<b>\$ 427,521</b>

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

### 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
<b>Governmental Activities:</b>					
Net pension obligation	\$ 181,670	\$ 2,570	\$ -	\$ 184,240	\$ -
Compensated absences	52,013	62,896	(62,927)	51,982	44,185
<b>Total Governmental Activities</b>	<b>\$ 233,683</b>	<b>\$ 65,466</b>	<b>\$ (62,927)</b>	<b>\$ 236,222</b>	<b>\$ 44,185</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 192,037</b>	
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
<b>Business-Type Activities:</b>					
Net pension obligation	\$ 33,708	\$ 592	\$ -	\$ 34,300	\$ -
Compensated absences	7,992	10,182	(9,838)	8,336	7,086
<b>Total Business-Type Activities</b>	<b>\$ 41,700</b>	<b>\$ 10,774</b>	<b>\$ (9,838)</b>	<b>\$ 42,636</b>	<b>\$ 7,086</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 35,550</b>	

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 Out	Transfer In	Amount
Enterprise fund	General fund	\$ 313,000

Amounts transferred between funds were related to operating activities.

The composition of interfund balances was as follows:

Receivable Fund	Payable Fund	Amount
General fund	Enterprise fund	\$ 427,224

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

### F. Fund Equity

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is restricted or committed for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

Restricted and committed fund balances were as follows:

### General Fund

Committed funds:

Fire contingency	\$	1,825
Police equipment		222,416
City hall		124,641
Mowing equipment		12,000
Street department		27,780
Infrastructure improvements		<u>3,428,796</u>
	\$	<u>3,817,458</u>

Restricted funds:

Municipal court security fee	\$	<u>75,118</u>
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## 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 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, 2012

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 (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8611. The report is also available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

Plan provisions for the City were as follows:

	<u>2012</u>	<u>2011</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, 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, 2012

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 (i.e., December 31, 2010 valuation is effective for rates beginning January 2012).

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

Annual required contribution (ARC)	\$	164,815
Interest on Net Pension Obligation (NPO)		16,154
Adjustment to the ARC		<u>(12,960)</u>
Annual Pension Cost (APC)		168,009
Contributions made		<u>(164,847)</u>
Increase in net pension obligation		3,162
Net pension obligation - beginning of year		215,378
Net pension obligation - end of year	\$	<u><u>218,540</u></u>

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
2010	\$ 419,205	\$ 250,400	59.73%	\$ 168,805
2011	\$ 271,140	\$ 224,567	82.82%	\$ 215,378
2012	\$ 168,009	\$ 164,847	98.12%	\$ 218,540

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

	2012	2011	2010
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
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	25.2 Years - Closed period	26.4 Years - Closed period	27.9 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%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

### Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent valuation date, is as follows:

	<u>2012</u>
Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 7,362,991
Actuarial Accrued Liability	\$ 7,669,182
Percentage Funded	96.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 306,191
Annual Covered Payroll	\$ 2,021,053
UAAL as a Percentage of Covered Payroll	15.2%

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 Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

### **D. Other Post Employment Benefits**

#### **TMRS - Supplemental Death Benefit Fund**

##### Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (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, 2012, the City offered the supplemental death benefit to both active and retired employees.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

### Contributions

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2012, 2011, and 2010 were \$207, \$199, and \$178, respectively. The City's contribution rates for the past three years are shown below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
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.

# CITY OF SPRING VALLEY VILLAGE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2012

Consolidated financial information extracted from the VFD's audited financial statements for the year ended December 31, 2011, on which the VFD's auditors expressed an unqualified opinion, is as follows:

	VFD Total		City's Portion (16.25%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	\$ 2,475,794	\$ 798,776	\$ 402,317	\$ 129,801
Total liabilities	439,136	35,337	71,360	5,742
<b>Total Participants' Equity</b>	<b>\$ 2,036,658</b>	<b>\$ 763,439</b>	<b>\$ 330,957</b>	<b>\$ 124,059</b>
	<b>Change in Net Assets</b>	<b>Revenues and Expenditures</b>	<b>Change in Net Assets</b>	<b>Revenues and Expenditures</b>
Total revenues	\$ 5,138,161	\$ 5,153,443	\$ 834,951	\$ 837,434
Total expenditures/expenses	4,867,390	4,960,496	790,951	806,081
Revenues over expenditures/expenses	270,771	192,947	44,000	31,354
Beginning participants' equity	1,765,887	570,492	286,957	92,705
<b>Ending Participants' Equity</b>	<b>\$ 2,036,658</b>	<b>\$ 763,439</b>	<b>\$ 330,957</b>	<b>\$ 124,059</b>
Unfunded Actuarial Accrued Liability at 12/31/10 with TMRS	\$ 840,595		\$ 136,597	
Actuarial Accrued Liability at 1/01/11 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, 2012

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 3,567,000	\$ 3,567,000	\$ 3,715,316	\$ 148,316
Sales taxes	870,000	870,000	934,790	64,790
Franchise and local taxes	307,000	307,000	332,619	25,619
Fines and forfeitures	575,515	575,515	506,233	(69,282)
Licenses and permits	170,400	170,400	219,074	48,674
Hilshire police contract	308,276	308,276	308,276	-
Investment income	28,000	28,000	25,176	(2,824)
Intergovernmental	154,000	154,000	154,000	-
Other	91,568	91,568	121,604	30,036
<b>Total Revenues</b>	<b>6,071,759</b>	<b>6,071,759</b>	<b>6,317,088</b>	<b>245,329</b>
<b>Expenditures</b>				
<b>General government</b>				
Mayor and council	1,800	1,800	1,578	222
General government	981,604	1,007,604	925,175	82,429
Municipal court	235,695	258,895	242,389	16,506
Parks and recreation	13,800	25,900	19,445	6,455
<b>Total General Government</b>	<b>1,232,899</b>	<b>1,294,199</b>	<b>1,188,587</b>	<b>105,612</b>
<b>Public safety</b>				
Police	1,998,091	2,060,491	2,011,737	48,754
Fire	770,403	774,429	774,429	-
<b>Total Public Safety</b>	<b>2,768,494</b>	<b>2,834,920</b>	<b>2,786,166</b>	<b>48,754</b>
<b>Public works</b>				
Streets and drainage	4,637,710	4,637,710	4,028,166	609,544
<b>Total Expenditures</b>	<b>8,639,103</b>	<b>8,766,829</b>	<b>8,002,919</b>	<b>763,910</b>
<b>Other Financing Sources</b>				
Sale of capital assets	-	-	2,575	2,575
Transfers in	163,000	163,000	313,000	-
<b>Total Other Financing Sources</b>	<b>163,000</b>	<b>163,000</b>	<b>315,575</b>	<b>2,575</b>
<b>Net Change in Fund Balance</b>	<b>\$ (2,404,344)</b>	<b>\$ (2,532,070)</b>	<b>(1,370,256)</b>	<b>\$ 1,161,814</b>
Beginning fund balance			7,454,539	
<b>Ending Fund Balance</b>			<b>\$ 6,084,283</b>	

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, 2012

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.

<b>Fiscal Year</b>	<u><b>2012</b></u>	<u><b>2011</b></u>	<u><b>2010</b></u>
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Value of Assets	\$ 7,362,991	\$ 6,749,892	\$ 4,945,959
Actuarial Accrued Liability	\$ 7,669,182	\$ 7,206,135	\$ 5,976,395
Percentage Funded	96.0%	93.7%	82.8%
Unfunded Actuarial			
Accrued Liability	\$ 306,191	\$ 456,243	\$ 1,030,436
Annual Covered Payroll	\$ 2,021,053	\$ 2,006,089	\$ 1,872,753
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	15.2%	22.7%	55.0%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 215,378	\$ 168,805	\$ -
Annual Pension Cost (APC)	168,009	271,141	419,205
Contributions Made	<u>164,847</u>	<u>224,568</u>	<u>250,400</u>
<b>NPO at the End of Period</b>	<u><u>\$ 218,540</u></u>	<u><u>\$ 215,378</u></u>	<u><u>\$ 168,805</u></u>

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