

CITY OF HUDSON OAKS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

CITY OF HUDSON OAKS, TEXAS
Annual Financial Report
For the Year Ended September 30, 2013

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**CITY OF HUDSON OAKS
PRINCIPAL OFFICIALS
September 30, 2013**

CITY COUNCIL

**Pat Deen
Glen Sutton
Brian Lixey
Daniel David
Tom Fitzpatrick
Marc Provero**

**Mayor
Council Member – Place 1
Council Member – Place 2
Council Member – Place 3
Mayor Pro-Tem – Place 4
Council Member – Place 5**

CITY ADMINISTRATION/SECRETARY

**Patrick Lawler
Chad Janicek
Shelley Major
Joni May**

**City Administrator
Assistant City Administrator
City Secretary
Administrative Services Supervisor**

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hudson Oaks, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hudson Oaks, 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.

Auditor's 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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, each major fund, and the aggregate remaining fund information 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, Texas Municipal Retirement System Schedule of Funding Progress and Notes to Required Supplementary Information on pages 3 – 12, pages 49 – 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

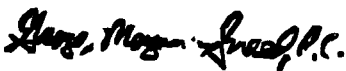
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules and enterprise fund supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and schedules and enterprise fund supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014, on our consideration of the City of Hudson Oaks, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hudson Oaks, Texas' internal control over financial reporting and compliance.



Weatherford, Texas
February 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of The City of Hudson Oaks, Texas, we offer readers of The City of Hudson Oaks' financial statements this narrative overview and analysis of the financial activities of The City of Hudson Oaks for the year ended September 30, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City of Hudson Oaks exceeded its liabilities at the close of the most recent fiscal year by \$11,025,971 (*net position*) compared to \$10,849,434 for the prior year. Of this amount, \$2,076,443 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$323,528. This is compared to an increase of \$52,790 in the prior year.
- As of the close of the current fiscal year, the City of Hudson Oaks' governmental funds reported combined ending fund balances of \$1,948,470 compared to \$2,889,615 for the prior year. 53% is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,025,655, or 46% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Hudson Oaks' basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and fees).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that

are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, and highways and streets and parks. The business-type activities of the City include waterworks and wastewater.

The government-wide financial statements can be found on Exhibits 1 and 2 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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 a government'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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Lakeshore Bridge Capital Projects Fund and 2012 Bond Fund, which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Proprietary funds. The City maintains one type of proprietary fund. The Enterprise fund is 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 and wastewater operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater fund.

The basic proprietary fund financial statements can be found on Exhibits 7 through 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-48 of this report.

Other information.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on Exhibit A-1 and Exhibit A-2.

The individual major governmental funds and combining and individual nonmajor governmental funds and enterprise fund statements and schedules are presented immediately following the required supplementary information. These statements can be found on Exhibits B-1 through C-2 and Schedules 1 – 7 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$11,025,971 as of September 30, 2013.

The largest portion of the City's net position (80%) reflects its investment in capital assets (e.g. land, buildings, equipment, automobiles, improvements, infrastructure and construction in progress); less any outstanding debt used to acquire those assets. 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 capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$2,076,443 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following are summaries of the City's Statement of Net Position and Statement of Activities for the fiscal year ended September 30, 2013 and September 30, 2012.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,450,230	\$ 3,391,621	\$ 2,231,954	\$ 2,835,001	\$ 4,682,184	\$ 6,226,622
Capital assets	6,444,515	5,048,584	9,490,114	9,225,823	15,934,629	14,274,407
Total Assets	<u>8,894,745</u>	<u>8,440,205</u>	<u>11,722,068</u>	<u>12,060,824</u>	<u>20,616,813</u>	<u>20,501,029</u>
Current liabilities	171,401	122,477	232,100	123,807	403,501	246,284
Long-term liabilities	3,402,165	3,290,531	5,785,176	6,114,780	9,187,341	9,405,311
Total liabilities	<u>3,573,566</u>	<u>3,413,008</u>	<u>6,017,276</u>	<u>6,238,587</u>	<u>9,590,842</u>	<u>9,651,595</u>
Net Position:						
Invested in capital assets net of related debt	3,945,645	3,572,025	4,845,486	4,743,012	8,791,131	8,315,037
Restricted Net Position (expendable)	26,372	12,764	132,025	197,820	158,397	210,584
Unrestricted Net Position	1,349,162	1,442,408	727,281	881,405	2,076,443	2,323,813
Total Net Position	<u>\$ 5,321,179</u>	<u>\$ 5,027,197</u>	<u>\$ 5,704,792</u>	<u>\$ 5,822,237</u>	<u>\$11,025,971</u>	<u>\$10,849,434</u>

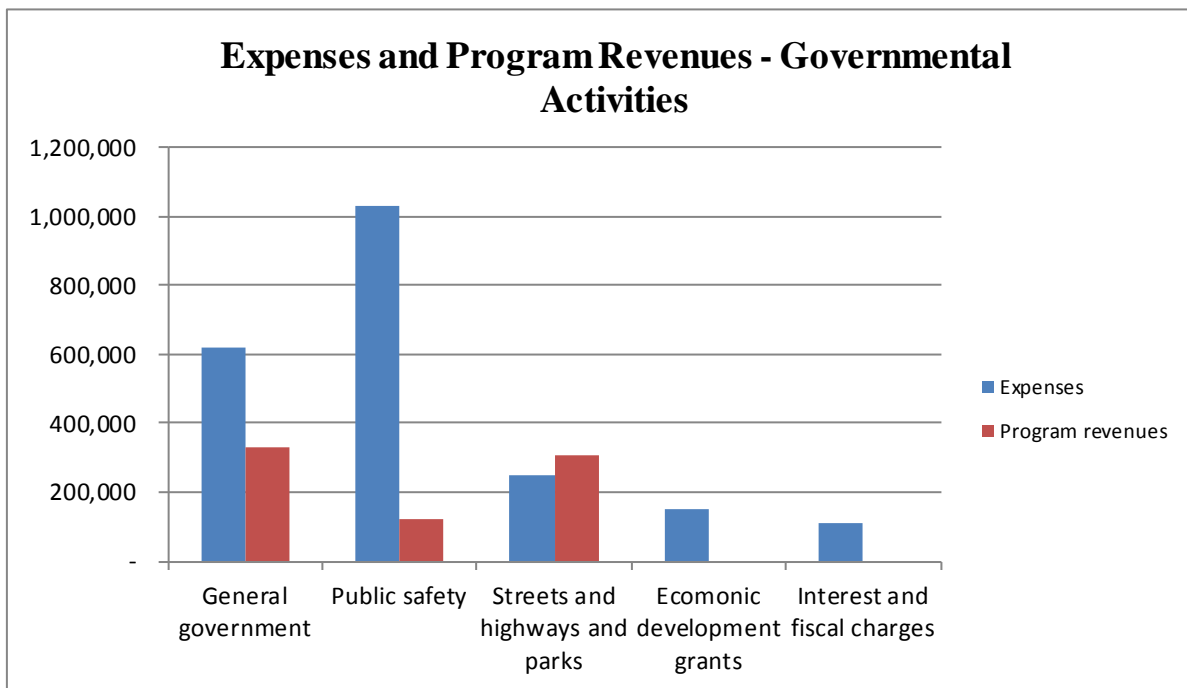
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 460,030	\$ 352,724	\$ 1,831,601	\$ 1,730,715	\$ 2,291,631	\$ 2,083,439
Capital grants and contributions	301,627	-	82,450	-	384,077	-
General revenues:						
Sales taxes	1,527,473	1,443,331	-	-	1,527,473	1,443,331
Franchise taxes	137,113	161,210	-	-	137,113	161,210
Investment earnings	7,004	7,519	182	9,418	7,186	16,937
Other Revenue	71,699	82,999	-	-	71,699	82,999
Total revenues	<u>2,504,946</u>	<u>2,047,783</u>	<u>1,914,233</u>	<u>1,740,133</u>	<u>4,419,179</u>	<u>3,787,916</u>
Expenses						
General government	622,322	611,863	-	-	622,322	611,863
Public safety	1,032,743	1,004,471	-	-	1,032,743	1,004,471
Highways and streets and parks	248,484	316,225	-	-	248,484	316,225
Economic development grants	150,000	-	150,000	-	300,000	-
Interest and fiscal charges	111,547	106,219	-	-	111,547	106,219
Waterworks	-	-	1,151,086	1,069,189	1,151,086	1,069,189
Dyegard Water System	-	-	256,581	249,488	256,581	249,488
Deercreek Management	-	-	132,622	135,193	132,622	135,193
Wastewater	-	-	240,266	242,478	240,266	242,478
Total expenses	<u>2,165,096</u>	<u>2,038,778</u>	<u>1,930,555</u>	<u>1,696,348</u>	<u>4,095,651</u>	<u>3,735,126</u>
Increase (decrease) in net position before transfers	339,850	9,005	(16,322)	43,785	323,528	52,790
Transfers	(93)	-	93	-	-	-
Increase (decrease) in net position	<u>339,757</u>	<u>9,005</u>	<u>(16,229)</u>	<u>43,785</u>	<u>323,528</u>	<u>52,790</u>
Net Position, Beginning	5,027,197	5,018,192	5,822,237	5,778,452	10,849,434	10,796,644
Prior Period Adjustment	(45,775)	-	(101,216)	-	(146,991)	-
Net Position, Ending	<u>\$ 5,321,179</u>	<u>\$ 5,027,197</u>	<u>\$ 5,704,792</u>	<u>\$ 5,822,237</u>	<u>\$ 11,025,971</u>	<u>\$ 10,849,434</u>

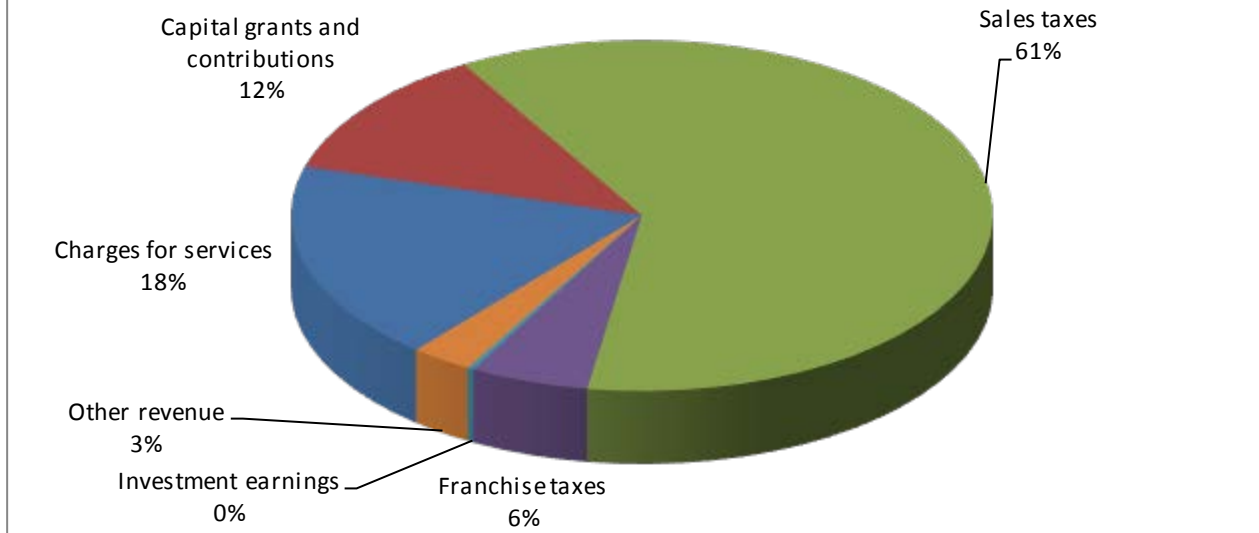
Governmental Activities. Governmental activities increased the City’s net position by \$339,757. Key elements are as follows.

- Revenues increased \$457,163. Charges for service increase due to new construction in the City for both residential houses and commercial buildings which caused the licenses and permits revenue to increase approximately \$85,000. Fines and fees also increased approximately \$17,000. Sales tax increased approximately \$84,000 due to the continued growth in the economy. Intergovernmental revenue increased due to a \$216,000 grant received from the Texas Department of Transportation.
- Expenses increased \$126,318 primarily due to \$150,000 paid in economic development grants.

Below are two graphs summarizing governmental revenue and expense:



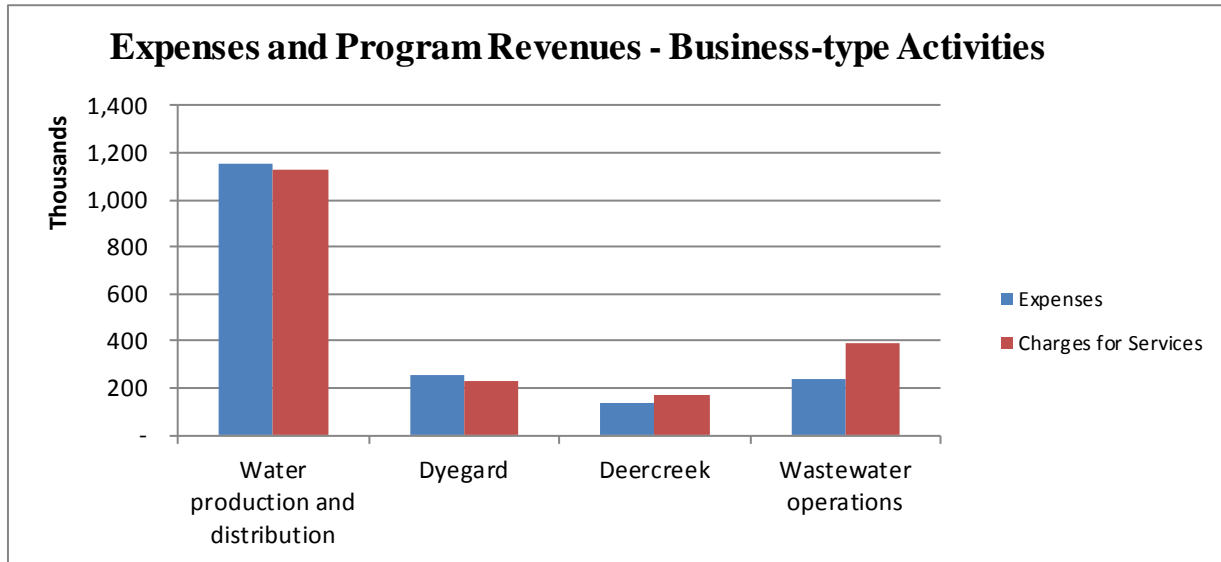
Revenues by Source - Governmental Activities

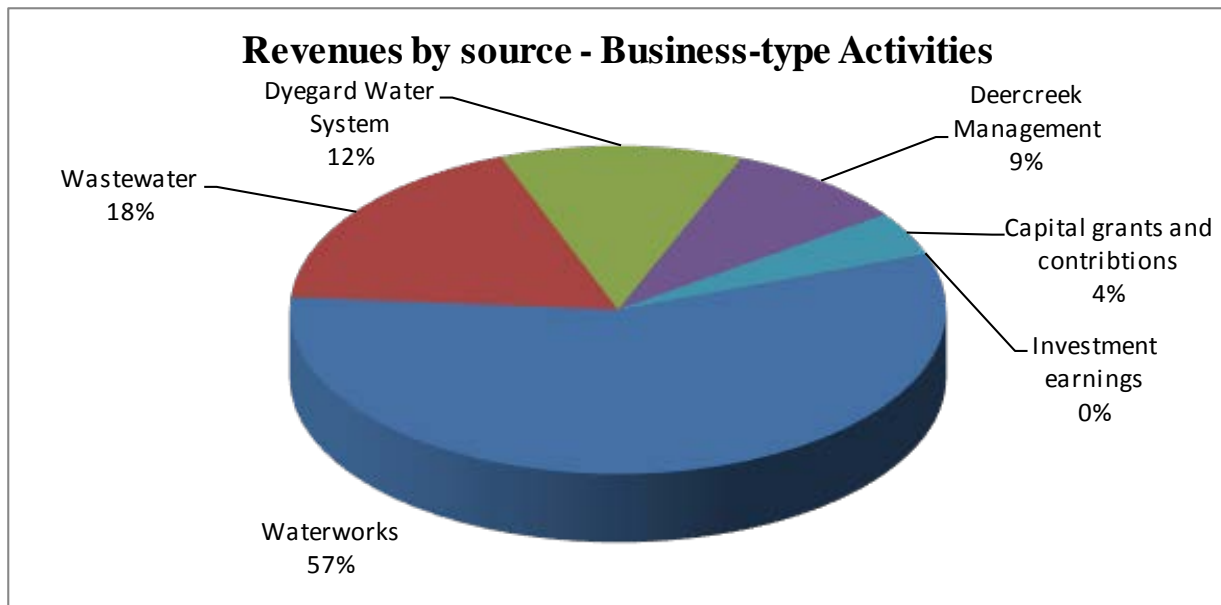


Business-type activities. Business-type activities decreased the City's net position by \$16,229. Key elements are as follows.

- Charges for service increased \$100,886. Water sales increased by approximately \$41,000 due to an increase in water consumption and an increase in rates. Wastewater charges increased approximately \$63,000 due to an increase in water consumption and new residential customers added.
- Expenses overall increased \$234,207. Water department personnel services increased approximately \$28,000 primarily because half of the severance pay of the City Administrator was paid out of the water fund. Water well repairs, professional services, and regional water purchases in the water fund increased \$14,627, \$12,604, and \$15,957, respectively, from the prior year. \$75,000 in economic development grants was paid out of both the water fund and the wastewater fund.

Below are two graphs summarizing business-type activities revenue and expense:





Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At year end, the City's governmental funds reported combined ending fund balances of \$1,948,470. (53%) of the ending fund balance constitutes unassigned fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,025,655. During the current fiscal year the fund balance of the City's general fund decreased by \$7,315. Below is a comparison of the general fund's net change in fund balance for the fiscal year ended September 30, 2013 and September 30, 2012.

	2013	2012	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Taxes				
Sales and use	\$ 1,524,171	\$ 1,439,506	\$ 84,665	6%
Franchise	145,824	158,673	(12,849)	-8%
Licenses and permits	322,735	240,289	82,446	34%
Charges for services	7,390	4,084	3,306	81%
Municipal court fines	115,194	98,365	16,829	17%
Interest	2,604	3,491	(887)	-25%
Miscellaneous	71,715	69,055	2,660	4%
Total revenues	<u>2,189,633</u>	<u>2,013,463</u>	<u>176,170</u>	<u>9%</u>
Expenditures:				
Current:				
General government	584,677	598,326	(13,649)	-2%
Public safety	963,622	997,883	(34,261)	-3%
Highways and streets and parks	496,790	207,942	288,848	139%
Capital outlay	-	176,800	(176,800)	-100%
Economic development grants	150,000	-	150,000	0%
Debt service				
Principal	9,747	10,846	(1,099)	-10%
Interest and fiscal charges	990	-	990	0%
Total expenditures	<u>2,205,826</u>	<u>1,991,797</u>	<u>214,029</u>	<u>11%</u>
Other financing sources (uses):				
Transfers Out	(197,372)	(194,423)	(2,949)	2%
Proceeds from note	206,250	-	206,250	0%
Proceeds from capital lease	-	41,044	(41,044)	-100%
Net change in fund balance	<u>\$ (7,315)</u>	<u>\$ (131,713)</u>	<u>\$ 124,398</u>	<u>94%</u>

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

Unrestricted net position of the Water and Wastewater Fund at the end of the fiscal year amounted to \$727,281. The total change in net position was a \$16,229 decrease. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City did not amend the general fund budget during fiscal year 2013.

General fund expenditures exceeded budgeted expenditures by \$446,544. The largest departments where expenditures were greater than appropriations were highways, streets, and parks, in which the City purchased property for \$278,313 and \$150,000 in economic development grants that were not budgeted.

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2013, amounts to \$15,934,629 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and wastewater systems, improvements, equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- \$278,313 for the purchase of land.
- \$947,139 for the U.S. 180 median landscaping project.
- \$112,573 for street improvements on Ravenbend and Newell Dr.
- \$85,627 for streets in the Red Eagle subdivision.
- \$202,500 in capitalized engineering fees for the Lakeshore Bridge project.

Business-type activities:

- \$41,359 for the purchase of a vacutron.
- \$82,450 developer contribution of Red Eagle Phase 2 water and wastewater lines.
- \$138,477 for the Dyegard tie-in project.
- \$32,439 in capitalized engineering fees related to the Lakeshore Dr/I-20 Sanitary Wastewater and Lift Station project.
- \$24,334 in capitalized engineering fees related to the Red Eagle Pump Station project.
- \$255,426 in capitalized construction costs related to the Automated Meter System project.

The City of Hudson Oaks Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 637,287	\$ 358,974	\$ 255,339	\$ 255,339	\$ 892,626	\$ 614,313
Buildings	1,993,895	2,052,194	38,291	39,450	2,032,186	2,091,644
Water plant	-	-	3,245,121	3,217,824	3,245,121	3,217,824
Distribution systems	-	-	2,728,583	2,788,848	2,728,583	2,788,848
Sewer systems	-	-	1,652,102	1,637,059	1,652,102	1,637,059
Automobiles	42,200	53,209	31,398	45,353	73,598	98,562
Intangible Assets	-	-	1,177,022	1,219,093	1,177,022	1,219,093
Equipment	-	7,105	50,059	19,457	50,059	26,562
Improvements	98,743	110,619	-	-	98,743	110,619
Infrastructure	2,550,589	1,512,032	-	-	2,550,589	1,512,032
Construction in progress	1,121,801	954,451	312,199	3,400	1,434,000	957,851
Total	\$ 6,444,515	\$ 5,048,584	\$ 9,490,114	\$ 9,225,823	\$ 15,934,629	\$ 14,274,407

Additional information on the City's capital assets can be found in note 3 to the financial statements.

Long-Term Debt**City of Hudson Oaks' Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Capital leases	\$ 20,451	\$ 30,198	\$ 33,972	\$ 65,745	\$ 54,423	\$ 95,943
Certificates of Obligation	2,203,713	2,306,030	4,922,184	5,097,823	7,125,897	7,403,853
General Obligation bonds	902,940	904,116	808,157	940,035	1,711,097	1,844,151
Notes Payable	206,250	-	-	-	206,250	-
Total	\$ 3,333,354	\$ 3,240,344	\$ 5,764,313	\$ 6,103,603	\$ 9,097,667	\$ 9,343,947

Economic factors and the Next Year's Budgets and Rates

The City of Hudson Oaks realized positive growth in a number of areas during FY 2012-13. Sales and use tax revenue increased 5% over FY 2011-12, and license and permit revenues increased by 36% over FY 2011-12. The main factor for such a dramatic increase in license and permit revenues was the result of a total of twenty-six new residential permits issued during FY 2012-13. General Fund revenues for FY 2012-13 of \$2,172,040 exceeded FY 2011-12 revenues of \$ 2,054,505 by \$117,535.

FY 2012-13 brought the development of several projects that will have a substantial impact on the City's future economic condition. The US 180 beautification project has provided a major facelift of the City's primary commercial corridor, including entry signage and landscaped medians. Engineering work is underway for several major transportation improvements which will allow the City to grow in strategic ways that maintain our residents' desire to remain free of an ad valorem tax. Another way the City is working to maintain a healthy economic position is through public-private partnerships to bring regional entertainment and commercial opportunities to Hudson Oaks. One example is the Splash Kingdom Water Park, which opened in the summer of 2013. Expected to bring 150,000 unique visitors to the city, this development is a key component to sustaining the City's economic health.

Several enterprise fund projects being funded through the 2012 Certificate of Obligation debt issuance are also underway, including the implementation of automated meter reading infrastructure. Additional projects planned for this debt issuance include the design and construction of a surface water plant and a 20-year capital improvement plan for the Hudson Oaks water supply and distribution system.

The FY 2013-14 general fund budget continues the City's conservative approach to fiscal matters. Although budgeted revenues and expenditures increased by 4.6% and 4.3%, respectively, budgeted revenues for FY 2013-14 remain essentially flat compared to actual collections in FY 2012-13 while revenues are expected to exceed expenditures by just over 1% during the year.

Request for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Administrator, 210 N. Lakeshore, Hudson Oaks, Texas 76087.

BASIC FINANCIAL STATEMENTS

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CITY OF HUDSON OAKS, TEXAS
Statement of Net Position
September 30, 2013

EXHIBIT 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 1,714,768	\$ 1,769,057	\$ 3,483,825
Investments	256,701	87,525	344,226
Receivables (Net of allowances for uncollectibles)			
Accounts	-	285,232	285,232
Sales tax	250,402	-	250,402
Franchise taxes	72,809	-	72,809
Miscellaneous receivables	163,995	-	163,995
Prepaid Expenses	8,396	8,921	17,317
Internal Balances	(16,811)	16,841	
Restricted assets:			
Cash and cash equivalents	-	64,378	64,378
Capital assets (net of accumulated depreciation):			
Land	637,287	255,339	892,626
Buildings	1,993,895	38,291	2,032,186
Water plant	-	3,245,121	3,245,121
Distribution system	-	2,728,583	2,728,583
Wastewater systems	-	1,652,102	1,652,102
Automobiles	42,200	31,398	73,598
Intangible assets	-	1,177,022	1,177,022
Equipment	-	50,059	50,059
Improvements	98,743	-	98,743
Infrastructure	2,550,589	-	2,550,589
Construction in progress	1,121,801	312,199	1,434,000
Total Assets	8,894,745	11,722,068	20,616,813
LIABILITIES:			
Accounts Payable	132,797	200,198	332,995
Accrued payroll	-	421	421
Due to state	20,299	-	20,299
Accrued interest payable	18,305	31,481	49,786
Noncurrent liabilities:			
Due within one year	335,033	362,435	697,468
Due in more than one year	3,067,132	5,422,741	8,489,873
Total Liabilities	3,573,566	6,017,276	9,590,842
NET POSITION:			
Investments in Capital Assets, Net of Debt	3,945,645	4,845,486	8,791,131
Restricted Net Position (expendable)	26,372	132,025	158,397
Unrestricted Net Position	1,349,162	727,281	2,076,443
Total Net Position	\$ 5,321,179	\$ 5,704,792	\$ 11,025,971

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Activities
For the Year Ended September, 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 622,322	\$ 330,141	\$ -	\$ -
Public safety	1,032,743	122,639	-	-
Highways and streets and parks	248,484	7,250	-	301,627
Economic Development Grants	150,000	-	-	-
Interest and fiscal charges	111,547	-	-	-
Total governmental activities	<u>2,165,096</u>	<u>460,030</u>	<u>-</u>	<u>301,627</u>
Business-type activities:				
Waterworks	1,151,086	1,086,808	-	37,930
Wastewater	240,266	343,771	-	44,520
Dyegard Water System	256,581	229,022	-	-
Deercreek Management	132,622	172,000	-	-
Economic Development Grants	150,000	-	-	-
Total business-type activities	<u>1,930,555</u>	<u>1,831,601</u>	<u>-</u>	<u>82,450</u>
Total primary government	<u>4,095,651</u>	<u>2,291,631</u>	<u>-</u>	<u>384,077</u>

General Revenues:

Taxes:

Sales Taxes

Franchise Taxes

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1

Prior Period Adjustment

Net Position September 30

The notes to the financial statements are an integral part of this statement.

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Primary Government	
	Business-type Activities	Total
\$ (292,181)	\$ -	\$ (292,181)
(910,104)	-	(910,104)
60,393	-	60,393
(150,000)	-	(150,000)
(111,547)	-	(111,547)
<u>(1,403,439)</u>	<u>-</u>	<u>(1,403,439)</u>
-	(26,348)	(26,348)
-	148,025	148,025
-	(27,559)	(27,559)
-	39,378	39,378
-	(150,000)	(150,000)
<u>-</u>	<u>(16,504)</u>	<u>(16,504)</u>
<u>(1,403,439)</u>	<u>(16,504)</u>	<u>(1,419,943)</u>
1,527,473	-	1,527,473
137,113	-	137,113
7,004	182	7,186
71,699	-	71,699
(93)	93	-
<u>1,743,196</u>	<u>275</u>	<u>1,743,471</u>
339,757	(16,229)	323,528
5,027,197	5,822,237	10,849,434
<u>(45,775)</u>	<u>(101,216)</u>	<u>(146,991)</u>
<u>\$ 5,321,179</u>	<u>\$ 5,704,792</u>	<u>\$ 11,025,971</u>

CITY OF HUDSON OAKS, TEXAS
 Balance Sheet
 Governmental Funds
 September 30, 2013

	General	Lakeshore Bridge Capital Projects Fund	2012 Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash	\$ 661,209	\$ 911,649	\$ 74,495	\$ 67,415	\$ 1,714,768
Investments	256,701	-	-	-	256,701
Receivables					
Sales Tax	250,402	-	-	-	250,402
Franchise Tax	72,809	-	-	-	72,809
Miscellaneous	163,995	-	-	-	163,995
Prepaid expenses	8,396	-	-	-	8,396
Due from other funds	91,554	-	-	10,788	102,342
Total assets	<u>1,505,066</u>	<u>911,649</u>	<u>74,495</u>	<u>78,203</u>	<u>2,569,413</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	70,420	62,377	-	-	132,797
Due to State	20,299	-	-	-	20,299
Due to Other Funds	29,900	66,013	23,270	-	119,183
Total liabilities	<u>120,619</u>	<u>128,390</u>	<u>23,270</u>	<u>-</u>	<u>272,279</u>
Deferred inflows of resources:					
Deferred revenue	<u>348,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>348,664</u>
Fund balances:					
Nonspendable fund balance	8,396	-	-	-	8,396
Restricted fund balance					
Public, educational, and government access fees	1,732	-	-	-	1,732
Public Safety	-	-	-	17,012	17,012
Parks	-	-	-	7,250	7,250
Capital Projects	-	783,259	51,225	378	834,862
Assigned fund balance					
Debt Service	-	-	-	53,563	53,563
Unassigned fund balance	1,025,655	-	-	-	1,025,655
Total fund balances	<u>1,035,783</u>	<u>783,259</u>	<u>51,225</u>	<u>78,203</u>	<u>1,948,470</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,505,066</u>	<u>\$ 911,649</u>	<u>\$ 74,495</u>	<u>\$ 78,203</u>	<u>\$ 2,569,413</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Position
 September 30, 2013

Total Fund Balances - Governmental Funds	\$ 1,948,470
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$8,858,181 and the accumulated depreciation was \$2,413,666.	6,444,515
Long-term liabilities, including \$3,106,653 bonds payable, \$206,250 notes payable, \$20,451 of capital leases payable, and \$68,811 compensated absences payable are not due and payable in the current period, and, therefore are not reported as a liability in the fund financial statements.	(3,402,165)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.	(18,305)
Franchise taxes receivable, sales tax receivable, and fines and fees receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.	348,664
Net Position of Governmental Activities	<u><u>\$ 5,321,179</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013

	General	Lakeshore Bridge Capital Projects Fund	2012 Bond Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes					
Sales and Use	\$ 1,524,171	\$ -	\$ -	\$ -	\$ 1,524,171
Franchise	145,824	-	-	-	145,824
Licenses and permits	322,735	-	-	-	322,735
Charges for services	7,390	-	-	-	7,390
Municipal court fines	115,194	-	-	6,013	121,207
Park dedicatoin fees	-	-	-	7,250	7,250
Interest	2,604	3,422	937	41	7,004
Intergovernmental	-	-	216,000	-	216,000
Miscellaneous	71,715	-	-	-	71,715
Total revenues	<u>2,189,633</u>	<u>3,422</u>	<u>216,937</u>	<u>13,304</u>	<u>2,423,296</u>
EXPENDITURES:					
Current:					
General government	584,677	-	-	-	584,677
Public safety	963,622	-	-	501	964,123
Highways and streets and parks	496,790	-	-	-	496,790
Capital outlay	-	202,500	947,139	-	1,149,639
Economic development grants	150,000	-	-	-	150,000
Debt service					
Principal	9,747	-	-	101,050	110,797
Interest and fiscal charges	990	-	20	113,562	114,572
Total expenditures	<u>2,205,826</u>	<u>202,500</u>	<u>947,159</u>	<u>215,113</u>	<u>3,570,598</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(16,193)</u>	<u>(199,078)</u>	<u>(730,222)</u>	<u>(201,809)</u>	<u>(1,147,302)</u>
OTHER FINANCING SOURCES (USES):					
Transfers In	-	-	-	197,279	197,279
Transfers Out	(197,372)	-	-	-	(197,372)
Proceeds from note	206,250	-	-	-	206,250
Total other financing sources (uses):	<u>8,878</u>	<u>-</u>	<u>-</u>	<u>197,279</u>	<u>206,157</u>
Net change in fund balance	(7,315)	(199,078)	(730,222)	(4,530)	(941,145)
Fund balance, October 1	<u>1,043,098</u>	<u>982,337</u>	<u>781,447</u>	<u>82,733</u>	<u>2,889,615</u>
Fund balance, September 30	<u>\$ 1,035,783</u>	<u>\$ 783,259</u>	<u>\$ 51,225</u>	<u>\$ 78,203</u>	<u>\$ 1,948,470</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
 Reconciliation of 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

Total Net Change in Fund Balances - Governmental Funds	\$ (941,145)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$1,600,549 of capital outlays and \$113,240 of debt principal payments is to increase net position.	1,713,789
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(204,620)
Current year debt proceeds are other financing sources (uses) in the fund financial statements. The net effect of the \$206,250 increase in notes payable is decrease in net position.	(206,250)
Current year interest payable and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements. The net effect of the \$582 decrease in interest payable and the \$18,624 increase in compensated absences payable is to decrease net position.	(18,042)
Sales tax, franchise tax and fines and fees revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the fund statements.	(3,975)
Change in Net Position of Governmental Activities	<u>\$ 339,757</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Net Position
Proprietary Fund
September 30, 2013

Exhibit 7

	2013
Assets	
Current Assets:	
Cash	\$ 1,769,057
Investments	87,525
Accounts receivable (net of allowance for doubtful accounts)	285,232
Due from other funds	29,900
Prepaid expense	8,921
Restricted Assets - Cash- water debt sinking funds	64,378
Total current assets	2,245,013
Noncurrent Assets:	
Capital Assets:	
Land	255,339
Construction in progress	312,199
Buildings	46,413
Water plant	4,070,170
Distribution system	4,166,428
Intangible assets	1,463,092
Wastewater System	2,320,411
Automobiles	111,257
Office furniture and equipment	97,620
	12,842,929
Less accumulated depreciation	(3,352,815)
Net capital assets	9,490,114
Total noncurrent assets	9,490,114
Total assets	11,735,127
Liabilities	
Current Liabilities:	
Accounts payable	200,198
Accrued payroll	421
Compensated absences payable	20,863
Due to other funds	13,059
Current liabilities payable from restricted assets:	
Current portion of long-term debt	341,572
Accrued interest payable	31,481
Total current liabilities	607,594
Noncurrent Liabilities:	
Certificates of obligation	5,422,741
Total noncurrent liabilities	5,422,741
Total liabilities	6,030,335
Net Position	
Investment in capital assets, net of debt	4,845,486
Restricted for debt service (expendable)	87,872
Restricted for impact fees (expendable)	44,153
Unrestricted	727,281
Total net position	\$ 5,704,792

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended September 30, 2013

	2013
Operating revenues:	
Water & Sewer	\$ 1,543,010
Management contract charges	172,000
Late payment charges	10,329
Tap Fees	29,500
Impact fees	10,143
Customer assessment fees	1,840
Miscellaneous fees and charges	55,779
Total operating revenues	1,831,601
Operating expenses:	
Personnel services	462,090
Supplies	84,783
Contractual Services	562,261
Well utilities	68,359
Depreciation	418,539
Total operating expenses	1,596,032
Operating income (loss)	235,569
Nonoperating revenues (expenses)	
Interest income	182
Interest expense	(184,523)
Economic development grants	(150,000)
Total nonoperating revenues (expenses)	(334,341)
	(98,772)
Contributions and transfers:	
Capital contribution	82,450
Transfer In	93
	82,543
Change in net position	(16,229)
Net Position, October 1	5,822,237
Prior Period Adjustment	(101,216)
Net Position, September 30	\$ 5,704,792

The notes to the financial statements are an integral part of this statement.

CITY OF HUDSON OAKS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2013

	2013
Cash flows from operating activities:	
Cash received from customers and users	\$ 1,839,650
Cash paid to suppliers	(599,899)
Cash paid to employees	(459,618)
Net cash provided (used) by operating activities	780,133
Cash flow from noncapital financing activities:	
Due to other funds	193
Due from other funds	(19,305)
Transfers in (out)	93
Economic development grants	(150,000)
Net cash provided (used) by noncapital financing activities	(169,019)
Cash flows from capital and related financing activities:	
Principal payments - certificates of obligation	(298,950)
Principal payments - capital leases	(31,772)
Purchase of property, plant and equipment	(600,380)
Interest payments	(193,088)
Net cash flows provided by (used in) capital and related financing activities	(1,124,190)
Cash flows from investing activities:	
Interest received	182
(Purchase) sale of investments	(83)
Net cash provided by (used in) investing activities	99
Net increase (decrease) in cash	(512,977)
Cash, October 1	2,346,412
Cash, September 30	\$ 1,833,435
Reconciliation of income from operations to net cash provided by operating activities:	
Income (loss) from operations	\$ 235,569
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities	
Depreciation	418,539
(Increase) decrease in accounts receivable	8,049
Increase (decrease) in accounts payable	115,504
Increase (decrease) in accrued payroll	(7,214)
Increase (decrease) in compensated absences	9,686
Net adjustments	544,564
Net cash provided by operating activities	\$ 780,133
Noncash Investing, Capital and Financing Activities	
Contributions of capital assets	\$ 82,450

The notes to the financial statements are an integral part of this statement

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Hudson Oaks (the "City") is a General Law Type A city which adopted a council-administrator form of government by ordinance in 2007. The City provides the following services as authorized by the State of Texas Local Government Code: public safety, public works, waterworks, and wastewater works.

The accounting and reporting policies of the City relating to the funds are included in the accompanying financial statements and conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City's financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Hudson Oaks has no component units.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all on the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are 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.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are 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. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when the government receives payment.

The City reports the following major governmental funds:

General Fund –

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax receipts and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lakeshore Bridge Capital Projects Funds –

This fund is used to account for the proceeds of the 2007 certificates of obligation and the expenditures related to the Lakeshore Bridge capital project.

2012 Bond Fund -

This fund is used to account for amounts accumulated by the 2012 Certificate of Obligations bonds and expenditures related to the U.S. 180 Middle Median Improvements for the governmental funds.

The City reports the following major proprietary fund:

Water and Wastewater Fund –

The Water and Wastewater Fund is used for activities which are financed and operated in a manner similar to private business enterprise 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 be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City's enterprise fund is comprised of the Water and Wastewater Fund.

Additionally, the City reports the following fund types:

Special Revenue Funds –

The Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes (other than major capital projects).

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

Amounts reported as program revenues include 1) charges for customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds, distinguish operating revenue and expense 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 water and wastewater fund are charges to customers for sales and services. Operating expenses for the enterprise funds 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.

F. Assets, Liabilities and Net Position or Equity

1) Deposits and Investments

Cash and cash equivalents - For the purposes of the statement of cash flows for the proprietary fund, investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less when purchased. The City does not include cash in broker accounts pending investment or amounts invested in Tex-Pool as cash equivalents.

Investments - Investments are generally recorded at fair value except short-term, highly liquid investments are recorded at amortized cost, provided that the fair value of these investments has not been significantly impaired.

2) Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as Due To/From Other Funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are presented net of allowance for uncollectible accounts. Water, Dyegard, and wastewater fund accounts receivable with final status comprise the allowance for uncollectible accounts of \$38,310. In the governmental activities the fines and fees receivable is reported net of an allowance of \$490,243 which is 75% of the outstanding receivable.

3) Unbilled Services

Utility operating revenues (water and wastewater) are billed on monthly cycles. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year. \$98,263 of unbilled services is reported with accounts receivable in the proprietary fund.

4) Restricted Assets

The City has established Interest and Sinking Fund accounts in the water and wastewater proprietary fund. The use of these accounts is limited by bond ordinances and other legal restrictions.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5) Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in the proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the proprietary fund during the current year was \$184,523. Of this amount, \$0 was included as part of the cost of capital assets under construction in connection with water and wastewater construction projects.

Property, plant and equipment of the primary government and proprietary funds are depreciated using the straight-line method over the following estimated useful lives.

Buildings	40 years
Water plant	7-25 years
Distribution system	30 years
Office equipment	5-7 years
Automobiles and trucks	3-5 years

6) Deferred Inflows of Resources

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the general fund reported the following deferred inflows of resources:

Deferred Revenue	
Franchise taxes	\$ 67,791
Sales taxes	117,680
Court fines	<u>163,193</u>
Total	<u><u>\$ 348,664</u></u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7) Compensated Absences

The City allows vacation leave with pay for all regular full time employees after one full year of employment. Employees may carry no more than one-half of their earned vacations to the following year up to a maximum of thirty days. Upon termination an employee may be allowed payment for accumulated vacation pay. Employees who terminate employment in good standing and who have not been terminated for disciplinary reasons are eligible to receive compensation for a portion of their accrued sick leave after their accrued hours exceed 100. All vacation and sick pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for vacation and sick pay is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8) Long-term Obligations

In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

9) Fund Balances – Governmental Funds

The City implemented GASB No. 54, *Fund Balance and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance.

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9) Fund Balances – Governmental Funds (continued)

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to formal action by City Council, the City's highest level of decision making authority. Commitments may be established, modified, or rescinded only through formal action of City Council.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. City Council has designated the City Administrator the authority to assign fund balance.

Unassigned – all amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 16). When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been first spent out of committed funds, then assigned, and finally unassigned as needed. The City's financial goal is to have sufficient balance in the General Fund with sufficient working capital and margin of safety to address local and regional emergencies without borrowing. The City strives to maintain a General Fund Balance of 30% of the City's general fund annual operating expenditures.

10) Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

11) Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

12) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13) Accounting Changes

Change in Accounting Principle – As a result of implementing GASB Statement Nos. 63 and 65, the City has restated the beginning net position in the government-wide Statement of Net Position and the Proprietary Funds Statement of Net Position, effectively decreasing net position as of September 30, 2013 by \$45,775 in the governmental activities and \$101,216 in the business-type activities. The decrease results from no longer deferring and amortizing bond issuance costs.

NOTE 2 - DEPOSITS AND INVESTMENTS:

The City is authorized within the guidelines provided by the Public Funds Investment Act, Texas Government Code Chapter 2256 and local ordinances to invest (1) in obligations of the United States, its agencies, and instrumentalities, (2) direct obligations of the State of Texas or its agencies, (3) collateralized mortgage obligations issued and guaranteed by an agency or instrumentality of the United States, (4) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality of not less than “A” or its equivalent by a nationally-recognized investment firm, (5) certificates of deposit issued by state or national banks domiciled in the State of Texas, insured by the Federal Deposit Insurance Corporation or secured by obligations described in (1) through (4) above that have a market value of not less than the principal amount of the certificates, (6) investment pools authorized by the Act and (7) fully collateralized repurchase agreements.

The City invests idle funds in the Texas Local Government Investment Pool (Tex-Pool). The City’s investment pool operates in a manner consistent with the SEC’s Rule 2A7 of the Investment Act of 1940. The Pool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the City’s position is the same as the value of the City’s shares.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. Consistent with the requirements of State law, it is the policy of the City to require full collateralization of all City deposits. An appropriate third party safekeeping agent, as designated by the City, shall maintain collateral on deposits. This policy applies to any deposits held in an approved depository in excess on the amount protected by Federal Deposit Insurance Corporation insurance. The City’s deposits were fully insured or collateralized as required by the state statutes at September 30, 2013. The collateral is held by Federal Home Loan Bank in the City’s name under a joint safekeeping agreement with Plains Capital Bank.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s \$1,223,459 investment in repurchase sweep accounts are collateralized with securities pledged to the Plains Capital Bank Repurchase Agreement and is not in the City’s name.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (continued):

Credit Risk - Investments

The City controls credit risk by limiting investments to those investments authorized by both the Public Funds Investment Act and by its investment policy.

Interest Rate Risk – Investments

The City manages interest rate risk by limiting the weighted average maturity of investments to less than 270 days. The final stated maturity of any given investment shall not exceed 2 years from the date of purchase.

The City's investments consisted of the following at September 30, 2013.

<u>Description</u>	<u>Amount</u>	<u>Value</u>	<u>Percentage of Total Investments</u>	<u>Standard & Poor's</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 344,226	\$ 344,226	21.96%	AAAm	74 days
Repurchase Sweep Account	<u>1,223,459</u>	<u>1,223,459</u>	78.04%	n/a	n/a
	<u>\$ 1,567,685</u>	<u>\$ 1,567,685</u>			

The repurchase sweep accounts are reported as cash in the financial statements but are considered investments by GASB 40 for deposits and investments disclosures.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

Governmental activities:

	Balance 9/30/2012	Additions	Retirements	Reclassifications	Balance 9/30/2013
Non - Depreciable Assets:					
Lund	\$ 358,974	\$ 278,313	\$ -	\$ -	\$ 637,287
Construction in Progress	954,451	202,500	-	(35,150)	1,121,801
Total non-depreciable assets	<u>1,313,425</u>	<u>480,813</u>	<u>-</u>	<u>(35,150)</u>	<u>1,759,088</u>
Depreciable Assets:					
Equipment	297,701	-	-	-	297,701
Automobiles	210,231	-	(37,927)	-	172,304
Buildings	2,329,801	-	-	-	2,329,801
Improvements	191,451	-	-	-	191,451
Infrastructure	2,952,948	1,119,738	-	35,150	4,107,836
Total capital assets being depreciated	<u>5,982,132</u>	<u>1,119,738</u>	<u>(37,927)</u>	<u>35,150</u>	<u>7,099,093</u>
Accumulated Depreciation:					
Equipment	(290,596)	(7,105)	-	-	(297,701)
Automobiles	(157,022)	(11,009)	37,927	-	(130,104)
Buildings	(277,607)	(58,299)	-	-	(335,906)
Improvements	(80,832)	(11,876)	-	-	(92,708)
Infrastructure	(1,440,916)	(116,331)	-	-	(1,557,247)
Total accumulated depreciation	<u>(2,246,973)</u>	<u>(204,620)</u>	<u>37,927</u>	<u>-</u>	<u>(2,413,666)</u>
Governmental activities capital assets, net	<u>\$ 5,048,584</u>	<u>\$ 1,395,931</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,444,515</u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 3 - CAPITAL ASSETS (continued)

Business-type activities:

	Balance 9/30/2012	Additions	Retirements	Reclassifications	Balance 9/30/2013
Non-Depreciable Assets:					
Land	\$ 255,339	\$ -	\$ -	\$ -	\$ 255,339
Construction in Progress	3,400	312,199	-	(3,400)	312,199
Total non-depreciable assets	<u>258,739</u>	<u>312,199</u>	<u>-</u>	<u>(3,400)</u>	<u>567,538</u>
Buildings	46,413	-	-	-	46,413
Water plant	4,004,658	65,512	-	-	4,070,170
Water distribution	3,990,023	173,005	-	3,400	4,166,428
Wastewater systems	2,229,657	90,754	-	-	2,320,411
Automobiles	111,257	-	-	-	111,257
Equipment	56,260	41,360	-	-	97,620
Intangible assets	<u>1,463,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,463,092</u>
Total capital assets being depreciated	<u>11,901,360</u>	<u>370,631</u>	<u>-</u>	<u>3,400</u>	<u>12,275,391</u>
Accumulated Depreciation:					
Buildings	(6,962)	(1,160)	-	-	(8,122)
Water plant	(786,833)	(38,216)	-	-	(825,049)
Water distribution	(1,201,175)	(236,670)	-	-	(1,437,845)
Wastewater lines	(592,598)	(75,711)	-	-	(668,309)
Automobiles	(65,905)	(13,954)	-	-	(79,859)
Equipment	(36,804)	(10,757)	-	-	(47,561)
Intangible assets	<u>(243,999)</u>	<u>(42,071)</u>	<u>-</u>	<u>-</u>	<u>(286,070)</u>
Total accumulated depreciation	<u>(2,934,276)</u>	<u>(418,539)</u>	<u>-</u>	<u>-</u>	<u>(3,352,815)</u>
Business-type activities capital assets, net	<u>\$ 9,225,823</u>	<u>\$ 264,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,490,114</u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 3 - CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 45,405
Public safety	42,238
Highways and streets and parks	116,977
Total depreciation expense - governmental activities	<u>\$ 204,620</u>
Business-type activities:	
Waterworks	\$ 244,688
Wastewater	75,711
Dyegard Water System	98,140
Total depreciation expense - business-type activities	<u>\$ 418,539</u>

Intangible Assets

June 20, 2003, the water and wastewater fund purchased raw water capacity rights in Benbrook Lake, capacity rights in the Benbrook Pipeline and capacity rights in the Weatherford Treatment Facility. The Enterprise Fund purchased these rights through an agreement with Parker County Utility District #1.

The total cost associated with the buy-ins was \$867,322. This cost was financed with the Combination Tax and Revenue Certificates of Obligation, Series 2003. The debt was refunded in the prior year with the General Obligation Refunding Bonds, Series 2010.

In April of 2004 the water and wastewater fund paid an additional \$104,935 of legal fees associated with the rights purchased through the agreement with Parker County Utility District #1 (PCUD #1). Per amendment number 1 effective March 31, 2004, \$147,916 of the legal fees are related to initial organization cost.

August 24, 2009, the City entered into an agreement with Parker County Special Utility District (PCSUD) to purchase PCSUD's raw water capacity reservation for \$490,834. The raw water capacity reservation reserves the right for the City to receive raw water from Tarrant Regional Water District. The raw water capacity reservation is based on a projected 30 year average daily use of 1.0 MGD.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

A summary of intangible assets as of September 30, 2013, follows:

	<u>Term</u>	<u>Asset</u>	<u>Accumulated Depreciation</u>	<u>Net Asset</u>
Depreciated intangible assets				
TRWD Raw Water Buy-in	28 years	\$ 134,839	\$ (40,934)	\$ 93,905
TRWD Raw Water Capacity	30 years	490,834	(32,722)	458,112
Benbrook Pipeline Buy-in	50 years	526,502	(107,933)	418,569
Treatment Facilities Buy-in	30 years	148,704	(50,807)	97,897
Legal Fees For Buy-ins	30 years	162,213	(53,674)	108,539
		<u>1,463,092</u>	<u>(286,070)</u>	<u>1,177,022</u>
Total depreciated intangible assets				
Aggregate Intangible Depreciation Expense:				
For the year ended September 30, 2013			\$ 42,071	

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of the interfund balances for the City's individual major funds and nonmajor funds as of September 30, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Lakeshore Bridge Capital Projects	\$ 66,013
General	Dyegard Water System	2,271
General	2012 Bond Fund	23,270
CO Series 2012 Sinking Fund	Waterworks Fund	10,788
Total Governmental Funds		<u>\$ 102,342</u>
Waterworks Fund	General Fund	\$ 29,900
Total Proprietary Fund		<u>\$ 29,900</u>

These balances are the result of Lakeshore Bridge engineering fees paid by the General Fund.

The composition of the interfund transfers for the City's individual major funds and nonmajor funds as of September 30, 2013, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
Other Governmental Funds	General	\$ 197,279	Debt Service
Total Governmental Funds Transfer In		<u>\$ 197,279</u>	
Waterworks Fund	General Fund	\$ 93	Debt Service
Total Proprietary Fund Transfer In		<u>\$ 93</u>	

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 5 – LONG-TERM DEBT

A. Capital Leases

Governmental Activities:

On July 25, 2012, the General Fund acquired two police vehicles with a capital lease. The lease requires four annual payments of \$10,846 beginning July 25, 2012. The interest rate is 3.25%. The outstanding balance at September 30, 2013 was \$20,451.

Business-type Activities:

March 27, 2008, the Water and Wastewater Fund began its residential radio meter project and funded it with a \$99,000 capital lease. The lease requires 7 annual payments of \$17,107 beginning March 27, 2008. The interest rate is 6.90%. The balance at September 30, 2013 was \$16,009.

October 10, 2010, the Water and Wastewater Fund acquired three Ford pickups at a cost of \$69,771 with a capital lease. The lease requires 4 annual payments of \$18,279 beginning January 21, 2011. The interest rate is 5.10%. The outstanding balance at September 30, 2013 was \$17,963.

The following is an analysis of capital assets purchased under capital leases as of September 30, 2013:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Automobiles	55,044	69,771
Water Distribution	-	99,000
Less accumulated depreciation	(12,844)	(89,524)
	<u>\$ 42,200</u>	<u>\$ 79,247</u>

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at September 30, 2013:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2014	10,737	35,986
2015	10,705	-
Total minimum lease payments	21,442	35,986
Amount representing interest	(991)	(2,014)
Present value of future minimum payments	\$ <u>20,451</u>	\$ <u>33,972</u>

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 5 – LONG-TERM DEBT (continued)

B. Loans Payable

May 10, 2013, the City entered into an agreement to purchase 3217 Inspiration Drive. Hudson Oaks agreed to pay \$71,063 upon signing of the agreement. Three additional annual payments of principal only, each in the amount of \$68,750, are to be paid on the 1st day of April in 2014, 2015 and 2016.

C. Bonds Payable

Business-type Activities:

General Obligation Refunding Bonds, Series 2010

On November 22, 2010 the City issued the \$2,075,000 General Obligation Refunding Bonds, Series 2010 with interest rates ranging from 2.0% to 4.0% maturing August 1, 2023. The proceeds of the General Obligation Refunding Bonds plus a contribution of \$217,452 from the City were used to refund \$1,075,000 of the 2008 Texas Tax Notes of the governmental activities and \$720,000 of the Texas Combination Tax and Revenue Certificates of Obligation, Series 2000B, and \$430,000 of the Combination Tax and Revenue Certificates of Obligation, Series 2003 of the business-type activities. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year. Interest paid during the year totaled \$54,700.

Combination Tax and Revenue Certificates, Series 2010

On August 15, 2010, the City authorized the issuance and sale of \$2,915,000 Combination Tax and Revenue Certificates of Obligation, Series 2010 dated September 20, 2010. The Certificates were issued in connection with the acquisition of the Dyegard Water System. Surplus revenues from the Dyegard water system are pledged to the payment of the bonds. Interest is due semiannually on February 1 and August 1 of each year bearing an interest rate of 4.25% per annum and maturing August 1, 2035. Interest paid during the year totaled \$104,250.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 5 – LONG-TERM DEBT (continued)

Governmental Activities:

Combination Tax and Revenue Certificates of Obligation, Series 2007

On October 25, 2007, the City authorized the issuance and sale of \$1,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2007. The certificates were issued for paying, in whole or in part, the City's contractual Obligations incurred to acquire and construct street, bridge, curb, and sidewalk improvements, together with utility relocation and drainage improvements incidental thereto, pay for professional services rendered in connection therewith and paying for costs of issuance. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the certificates, however, if surplus revenues or other lawfully available moneys of the City are budgeted for deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of ad valorem taxes that otherwise would have been required to be levied may be reduced to the extent and by the amount of such funds then budgeted to be on deposit in the Interest and Sinking Fund. Interest is due semiannually on March 1 and September 1 of each year at an interest rate of 3.176% per annum and maturing March 1, 2015. Interest paid during the year totaled \$61,295.

Certificates of Obligation, Series 2012

On April 26, 2012, the City authorized the issuance and sale of \$2,910,000 Certificates of Obligation, Series 2012 with an interest rate of 2%-3.5%. The certificates are split between the governmental and business-type activities at approximately 27% and 73%, respectively. The bonds were issued for paying the U.S. 180 middle median improvements, the loan payable to Parker County Special Utility District, improvements to Red Eagle water facility, improvements to the City's water metering system, a replacement of a water well, and a water system study. Ad valorem taxes and surplus revenues from the waterworks and sanitary wastewater system are pledged to the payment of the Certificates, however, if surplus revenues or other lawfully available moneys of the City are budgeted for deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of ad valorem taxes that otherwise would have been required to be levied may be reduced to the extent and by the amount of such funds then budgeted to be on deposit in the Interest and Sinking Fund. Interest is due semiannually on February 1 and August 1 of each year and matures August 1, 2032. Interest paid during the year totaled \$81,950.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 5 – LONG-TERM DEBT (continued)

The annual requirements to amortize all bonded debt outstanding as of September 30, 2013 are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2014	187,400	109,831	297,231	307,600	182,895	490,495
2015	192,400	104,508	296,908	312,600	176,742	489,342
2016	192,400	98,980	291,380	317,600	170,491	488,091
2017	203,750	92,652	296,402	326,250	162,738	488,988
2018	208,750	85,941	294,691	336,250	154,339	490,589
2019-2023	1,172,250	309,852	1,482,102	1,117,750	661,587	1,779,337
2024-2028	716,950	106,035	822,985	1,198,050	464,310	1,662,360
2029-2033	195,750	15,940	211,690	1,304,250	221,385	1,525,635
2034-2038	-	-	-	360,000	23,162	383,162
Debt service requirements	\$ 3,069,650	\$ 923,739	\$ 3,993,389	\$ 5,580,350	\$ 2,217,649	\$ 7,797,999
Add: Unamortized premium	37,003	-	37,003	149,991	-	149,991
Total	\$ 3,106,653	\$ 923,739	\$ 4,030,392	\$ 5,730,341	\$ 2,217,649	\$ 7,947,990

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 5 – LONG-TERM DEBT (continued)

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2013:

	<u>10/1/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/13</u>	<u>Due within one year</u>
Governmental Activities:					
Certificates of Obligation, 2007	\$ 1,495,000	\$ -	\$ 70,000	\$ 1,425,000	\$ 75,000
General Obligation Refunding, 2010	890,000	-	-	890,000	80,000
2010 Premium on bond	14,116	-	1,176	12,940	-
Certificates of Obligation, 2012	785,700	-	31,050	754,650	32,400
2012 Premium on Bond	25,330	-	1,267	24,063	-
Capital Leases	30,198	-	9,747	20,451	10,072
Loan Payable	-	206,250	-	206,250	68,750
Compensated Absences	50,187	68,811	50,187	68,811	68,811
Total Governmental Activities	<u>3,290,531</u>	<u>275,061</u>	<u>163,427</u>	<u>3,402,165</u>	<u>335,033</u>
Business-type Activities:					
Certificates of Obligation, 2010	2,830,000	-	85,000	2,745,000	90,000
2010 Premium on bond	75,038	-	3,263	71,775	-
General Obligation Refunding, 2010	925,000	-	130,000	795,000	130,000
2010 Premium on bond	15,035	-	1,879	13,156	-
Certificates of Obligation 2012	2,124,300	-	83,950	2,040,350	87,600
2012 Premium on Bond	68,485	-	3,425	65,060	-
Capital Leases	65,745	-	31,773	33,972	33,972
Compensated Absences	11,177	20,863	11,177	20,863	20,863
Total Business-type Activities	<u>6,114,780</u>	<u>20,863</u>	<u>350,467</u>	<u>5,785,176</u>	<u>362,435</u>
Total Long-Term Debt	<u>\$ 9,405,311</u>	<u>\$ 295,924</u>	<u>\$ 513,894</u>	<u>\$ 9,187,341</u>	<u>\$ 697,468</u>

For governmental activities, compensated absences payable are liquidated by the general fund.

NOTE 6 – CONDUIT DEBT AGREEMENTS

June 10, 2004, the City passed an ordinance authorizing and approving the creation of the Hudson Oaks Education Finance Corporation (a non-profit corporation) to finance and refinance education facilities for the purpose of aiding institutions of higher education and accredited primary and secondary schools within the limitations set forth in Chapter 53, Texas Education Code.

During the year ended December 31, 2004, the board of directors of the Hudson Oaks Education Finance Corporation authorized the issuance of \$8,650,000 Hudson Oaks Education Finance

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 6 – CONDUIT DEBT AGREEMENTS (continued)

Corporation Education Improvement and Refunding Revenue Bonds (Howard Payne University Project), series 2004. The City of Hudson Oaks has no obligation to repay the debt issued by the Corporation. Subject to the loan agreement approved June 24, 2004, Howard Payne University will make the bond repayments directly to the Paying Agent of the bonds. Howard Payne University has pledged its revenues as security for the debt as long as the debt remains outstanding.

During the year ended December 31, 2005, the board of directors of the Hudson Oaks Education Finance Corporation (the “Corporation”) entered into a \$4,000,000 loan agreement with Lakehill Preparatory School (the “Borrower”) and Frost National Bank (the “Lender”). According to the terms of the loan agreement the Lender is making a loan to the Corporation and the Corporation is making a loan to the Borrower. The proceeds will be used by Borrower to refinance the construction, improvement, and equipping of school buildings and athletic facilities on Borrower’s campus and payment of the costs of issuance. The Corporation’s obligations under the loan agreement are payable solely from the loan payments received from the Borrower and other amounts received, if any, from the enforcement of the security provided by the Borrower Note, and do not constitute, give rise to or impose upon the Corporation or the City of Hudson Oaks, Texas, a pecuniary liability, a charge upon the general credit thereof or a pledge of the general revenues of the City or the Corporation. The Corporation has assigned the Borrower Note to the Lender; therefore, the Lender will make loan payments directly to the Lender.

December 14, 2006, the board of directors of the Hudson Oaks Education Finance Corporation entered into a \$7,500,000 loan agreement with All Saints Episcopal School (the “Borrower”) and Southside Bank (the “Lender”). According to the terms of the loan agreement the Lender is making a loan to the Corporation and the Corporation is making a loan to the Borrower. The proceeds will be used by the Borrower to finance and refinance the cost of construction and equipment of a new athletic complex and track and field facilities on the campus of the school and construct other improvements for the benefit of the Borrower. The Corporation’s obligations to make payments to the Lender with respect to the loan are secured solely by amounts to be paid by the Borrower to the Corporation and by the Corporation to the Lender under the terms of the loan agreement, evidenced by a promissory note delivered by the Corporation to the Lender. The amount of Hudson Oaks Education Finance Corporation conduit debt obligations outstanding at September 30, 2013 are as follows

Howard Payne University Project, Series 2004	\$ 6,020,000
Lakehill Preparatory School Loan Agreement	3,395,000
All Saints Episcopal School	<u>5,890,000</u>
	<u>\$15,305,000</u>

June 10, 2004, the City passed an ordinance authorizing and approving the creation of the Hudson Oaks Health Development Corporation (a non-profit corporation) to acquire, construct, provide, improve, finance, and refinance health facilities to assist the maintenance of the public health, subject to the Texas Health Facilities Development Act. As of September 30, 2013 this corporation has not issued any debt.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM

PLAN DESCRIPTION

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. 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>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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 rate 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 applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to 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.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

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

	2013	2012	2011
Annual required contribution	\$ 123,015	\$ 101,785	\$ 71,580
Interest on Net Pension Obligation	-	-	-
Adjustment to the ARC	-	-	-
Total annual pension cost	123,015	101,785	71,580
Contributions made	123,015	101,785	71,580
Increase (decrease) in Net Pension Obligation	-	-	-
Net Pension Obligation/(Asset), beginning of year	-	-	-
Net Pension Obligation/(Asset), end of year	\$ -	\$ -	\$ -

ACTUARIAL ASSUMPTIONS

The required rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

General System-wide Actuarial Assumptions

Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	24.5 years; closed period	24.3 years; closed period	22.8 years; closed period
Amortized period for new gains/losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation At Cost of Living Adjustments	3.0% 2.1%	3.0% 2.1%	3.0% 2.1%

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

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

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Funded Ratio</i>	<i>Unfunded AAL (UAAAL)</i>	<i>Covered Payroll</i>	<i>UAAAL as a Percentage of Covered Payroll</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>
			<i>(1)/(2)</i>	<i>(2)-(1)</i>		<i>(4)/(5)</i>
12/31/2012	1,653,269	2,299,022	71.9%	645,753	1,160,443	55.6%

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 statement, 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.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

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 postemployment benefit.” or OPEB.

Your City offers supplemental death to:	Plan Year 2012	Plan Year 2013
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (continued)

Contributions

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

The city's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$922, \$969 and \$716, respectively, which equaled the required contributions each year.

NOTE 9 – RISK MANAGEMENT

The City is a member of the Texas Municipal League and participates in the Intergovernmental Risk Pool insurance coverage and are 100% covered through third-party insurance policies. The City has maintained insurance coverage in all major categories of risk comparable to that of the prior year with no reduction in coverage.

NOTE 10 – CONTINGENT LIABILITIES

A. Federal and State Programs

The City participates in certain federal and state-assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material

NOTE 11 – WATER AND WASTEWATER SERVICE CONTRACTS

A. Treated Water

During 2010, the City entered into a contract for treated water with the City of Weatherford wherein the City of Weatherford agreed to deliver treated water to an existing meter located at the City of Hudson Oaks LOR Water Plant #2. Charges to the City are based upon a volume charge. The wholesale water charge shall be recalculated annually and becomes effective on January 1st of each year.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 11 – WATER AND WASTEWATER SERVICE CONTRACTS (continued)

B. Wastewater Service

The City entered into a 20 year wastewater service contract with the City of Weatherford on January 27, 2000, wherein the City of Weatherford agreed to extend a wastewater collection line to the Weatherford city limits just west of the Hudson Oaks city limits and to provide sewage treatment service for amounts of wastewater collected by the City and delivered to the Weatherford System. The City constructed wastewater facilities including a wastewater collection line from the point of entry of the Weatherford System into the City and related lift stations. Charges to the City are based upon a flow charge for the transmission and treatment of wastewater received from the Hudson Oaks system and a capacity charge to compensate Weatherford for the capacity in the Weatherford system necessary to accept the maximum daily flow from the Hudson Oaks system.

NOTE 12 – ECONOMIC DEPENDENCE

The City's largest sales taxpayer is Wal-Mart. Sales tax revenue from Wal-Mart is estimated to account for approximately 40% of the City's budgeted sales tax revenue and 30% of the City's total budgeted general fund revenue.

NOTE 13 – CONTRACTS AND COMMITMENTS

- A. On October 25, 2007, the City issued the \$1,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2007. The certificates were issued to fund street, bridge, curb, and sidewalk improvements, consisting principally of the Lakeshore Bridge project.

During 2009 the City began discussions with the Texas Department of Transportation to expand this project to include adding a frontage road from Lakeshore Dr. to Center Point Rd. October 15, 2009 the City approved an engineering contract for \$1,244,320 related to this expanded project. As of September 30, 2013 \$1,121,802 has been expensed for engineering fees related to the entire project.

- B. August 28, 2008, the City entered into an economic development agreement where the City agreed to rebate developer up to a maximum of one-half (50%) of the estimated construction costs, additional paving costs and bond costs (\$53,510) for infrastructure improvements subject to the following terms and conditions:
- a. If the amount of all sales tax revenues received from the retail use of the property exceed \$130,000 calculated on a cumulative basis the city will rebate one-half of the total rebate amount (\$26,755).
 - b. If the amount of sales tax revenues received from the retail use of the property exceeds \$260,000 on a cumulative basis the City will rebate the remaining one-half (\$26,755).

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 13 – CONTRACTS AND COMMITMENTS (continued)

- c. In the event the amount of sales tax revenues received from the retail use of the property do not exceed \$130,000 during the term of this agreement, no rebate shall be paid by the City to developer. If one-half of the rebate is paid but cumulative sales tax revenues received from the retail use of the property do not exceed \$260,000 prior to expiration of the term of this agreement the remaining one-half shall not be paid by the City to developer.

The agreement shall be effective for six years from the date of the City's issuance of a certificate of occupancy for the property or until all obligations under the agreement are fulfilled, whichever occurs first. As of September 30, 2013 these sales tax goals have not been met therefore no rebate is payable.

- C. On August 26, 2010 the City entered into an interlocal agreement with the Town of Annetta, Texas in whereby the City agreed to assist Annetta in the operations and management of Annetta's water system.
- D. On September 17, 2012, the City entered into a Development Agreement with the property developer and Splash Kingdom. At the closing of property to be used for the Splash Kingdom water park the City shall pay \$150,000 to the property developer. The City shall pay the developer an additional \$150,000 ninety days after the closing of the property. During 2013, the property was closed and the City paid the developer \$300,000. The payments were split between the general and water and wastewater funds.

Provided Splash Kingdom obtains a certificate of occupancy within 24 months of the date of closing on the property, the City agrees to pay the developer an additional \$700,000 paid out over a period of 18 years from the date of this agreement accruing simple interest at 7% annually. Payments for this amount are funded via revenue received from hotel occupancy taxes derived from hotels constructed in the HOT Incentive Area and sales taxes received from the sales tax incentive area. The City agrees to pay the developer a sum equal to the hotel occupancy taxes and sales taxes from the incentive areas up to a maximum of \$150,000 per year. All payments for the \$700,000 obligation are payable only from occupancy taxes and sales taxes collected from the incentive areas up to a maximum of \$150,000 per year. If any portion of the \$700,000 obligation remains unpaid after the payout period, any unpaid balance is waived and thereafter the City shall owe the developer no further payments.

CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2013

NOTE 14 – NEW PRONOUNCEMENTS

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year. GASB Statement No. 63 changed the name of Exhibits 1 and 7 to the Statement of Net Position and net assets were changed to net position. GASB Statement No. 65 changed the classification of deferred revenues in Exhibit 3 from liabilities to deferred inflows of resources and changed the accounting for bond issuance costs in the government-wide and proprietary fund financial statements. As a result, the beginning net position of the proprietary funds Statement of Net Position and the government-wide Statement of Net Position were restated, effectively decreasing net position as of September 30, 2013 by \$146,991, \$101,216 in the business-type activities and \$45,775 in the governmental activities. The decrease results from no longer deferring and amortizing bond issuance costs.

NOTE 15 – FUTURE ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement is to improve the accounting and financial reporting by state and local governments for pensions. This Statement will require government-wide and proprietary fund statements to recognize a liability equal to the net pension liability and that changes in net pensions liability be included in pension expense in the period of the change. This Statement is effective for fiscal years beginning after June 15, 2014. The City has not yet determined the effect this Statement will have on its financial statements.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 19, 2014, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HUDSON OAKS, TEXAS
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance -
 Budget and Actual
 For the Year Ended September 30, 2013

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Taxes	\$ 1,601,173	\$ 1,601,173	\$ 1,669,995	\$ 68,822
Licenses and permits	192,251	192,251	322,735	130,484
Charges for services	1,850	1,850	7,390	5,540
Municipal court fines	142,000	142,000	115,194	(26,806)
Interest	8,000	8,000	2,604	(5,396)
Miscellaneous	82,236	82,236	71,715	(10,521)
Total revenues	<u>2,027,510</u>	<u>2,027,510</u>	<u>2,189,633</u>	<u>162,123</u>
Expenditures:				
Current:				
General government	502,678	502,678	584,677	(81,999)
Public safety	973,546	973,546	963,622	9,924
Highways and streets and parks	272,323	272,323	496,790	(224,467)
Economic development grants	-	-	150,000	(150,000)
Debt service				
Principal	10,737	10,737	9,747	990
Interest and fiscal charges	-	-	990	(990)
Total expenditures	<u>1,759,284</u>	<u>1,759,284</u>	<u>2,205,826</u>	<u>(446,542)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>268,226</u>	<u>268,226</u>	<u>(16,193)</u>	<u>(284,419)</u>
Other Financing Sources (Uses):				
Transfers In			-	
Transfers Out	(250,631)	(250,631)	(197,372)	53,259
Proceeds from note	-	-	206,250	206,250
Total other financing sources (uses):	<u>(250,631)</u>	<u>(250,631)</u>	<u>8,878</u>	<u>259,509</u>
Net change in fund balance	17,595	17,595	(7,315)	(24,910)
Fund balance, October 1	<u>1,043,098</u>	<u>1,043,098</u>	<u>1,043,098</u>	-
Fund balance, September 30	<u>\$ 1,060,693</u>	<u>\$ 1,060,693</u>	<u>\$ 1,035,783</u>	<u>\$ (24,910)</u>

The accompanying notes are an integral part of this schedule.

Texas Municipal Retirement System

Schedule of Funding Progress

(Unaudited)

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>(1)/(2) Funded Ratio</i>	<i>(2)-(1) Unfunded AAL (UAAL)</i>	<i>Covered Payroll</i>	<i>(4)/(5) UAAL as a Percentage of Covered Payroll</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>
12/31/2010	1,182,771	1,664,291	71.1%	481,520	982,486	49.0%
12/31/2011	1,377,034	1,973,857	69.8%	596,823	1,153,954	51.7%
12/31/2012	1,653,269	2,299,022	71.9%	645,753	1,160,443	55.6%

CITY OF HUDSON OAKS, TEXAS
Notes to Required Supplementary Information
September 30, 2013

NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1) Budget

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The City Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

The first budget reading for the ensuing year is presented to the City Council no later than the August City Council meeting. A second budget reading, if necessary, is presented no later than the September City Council meeting. A final budget is approved prior to the beginning of the budget year, and the budget is effective September 1 of the budget year. From its date of submission, the proposed budget shall be a public record, and copies are available for the public upon request. One amendment to the budget for the fiscal year was enacted and approved by the City Council.

2) Encumbrances

The City does not record encumbrances for goods and services.

3) Expenditures in excess of appropriations over \$5,000

Total general fund expenditures exceeded appropriations by \$446,544. The following general fund departments had expenditures in excess of appropriations.

<u>Department</u>	<u>Amount</u>	<u>Primary Cause</u>
General Government	\$81,999	Building inspections and severance pay of the City Administrator
Economic Development	\$150,000	Grants for economic development
Highways, Streets, & Parks	\$224,467	Purchase of property

4) Factors Affecting TMRS Schedule of Funding Progress

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. In additions, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting. For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report. These changes were used to perform the December 31, 2010 actuarial valuation.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

MAJOR GOVERNMENTAL FUND

GENERAL FUND

The **general fund** is used to account for resources traditionally associated with the City, which are not required legally or by sound financial management to be accounted for in another fund.

CITY OF HUDSON OAKS, TEXAS
 General Fund
 Comparative Balance Sheets
 September 30, 2013 and 2012

	2013	2012
Assets:		
Cash	\$ 661,209	\$ 691,595
Investments	256,701	256,458
Sales tax receivable	250,402	237,815
Franchise tax receivable	72,809	81,509
Miscellaneous receivables	163,995	162,350
Prepaid expenses	8,396	-
Due from other funds	91,554	69,601
Total assets	\$ 1,505,066	\$ 1,499,328
 Liabilities, Deferred Outflows of Resources and Fund Balance:		
Liabilities:		
Accounts payable	\$ 70,420	\$ 59,203
Accrued payroll	-	36,105
Due to State	20,299	8,282
Due to Other Funds	29,900	-
Total Liabilities	120,619	103,590
Deferred Outflows of Resources:		
Deferred revenue	348,664	352,640
Fund Balance:		
Nonspendable fund balance	8,396	-
Restricted fund balance	1,732	886
Assigned fund balance	-	27,745
Unassigned fund balance	1,025,655	1,014,467
Total Fund Balance	1,035,783	1,043,098
Total Liabilities, Deferred Outflows and Fund Balance	1,505,066	\$ 1,499,328

CITY OF HUDSON OAKS, TEXAS

General Fund

Comparative Statements of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Taxes		
Sales and use	\$ 1,524,171	\$ 1,439,506
Franchise	145,824	158,673
Licenses and permits	322,735	240,289
Charges for services	7,390	4,084
Municipal court fines	115,194	98,365
Interest	2,604	3,491
Miscellaneous	71,715	69,055
Total revenues	<u>2,189,633</u>	<u>2,013,463</u>
Expenditures:		
Current:		
General government	584,677	598,326
Public safety	963,622	997,883
Highways and streets and parks	496,790	207,942
Capital outlay	-	176,800
Economic development grants	150,000	-
Debt service		
Principal	9,747	10,846
Interest and fiscal charges	990	-
Total expenditures	<u>2,205,826</u>	<u>1,991,797</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(16,193)</u>	<u>21,666</u>
Other financing sources (uses):		
Transfers Out	(197,372)	(194,423)
Note proceeds	206,250	-
Capital lease proceeds	-	41,044
Total other financing sources (uses):	<u>8,878</u>	<u>(153,379)</u>
Net change in fund balance	(7,315)	(131,713)
Fund balance, Beginning	<u>1,043,098</u>	<u>1,174,811</u>
Fund balance, Ending	<u>\$ 1,035,783</u>	<u>\$ 1,043,098</u>

CITY OF HUDSON OAKS, TEXAS
General Fund
Comparative Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
For the Year Ended September 30, 2013 and 2012

	2013			2012		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Revenue:						
Taxes:						
Sales and use tax	\$ 1,456,173	\$ 1,524,171	\$ 67,998	\$ 1,413,815	\$ 1,439,506	\$ 25,691
Franchise tax	145,000	145,824	824	130,000	158,673	28,673
Total taxes	<u>1,601,173</u>	<u>1,669,995</u>	<u>68,822</u>	<u>1,543,815</u>	<u>1,598,179</u>	<u>54,364</u>
Licenses and permits:						
Building permits	175,000	297,100	122,100	175,000	219,205	44,205
Other permits	17,251	25,635	8,384	15,251	21,084	5,833
Total licenses and permits	<u>192,251</u>	<u>322,735</u>	<u>130,484</u>	<u>190,251</u>	<u>240,289</u>	<u>50,038</u>
Charges for services	<u>1,850</u>	<u>7,390</u>	<u>5,540</u>	<u>1,350</u>	<u>4,084</u>	<u>2,734</u>
Municipal court fines	<u>142,000</u>	<u>115,194</u>	<u>(26,806)</u>	<u>162,636</u>	<u>98,365</u>	<u>(64,271)</u>
Interest	<u>8,000</u>	<u>2,604</u>	<u>(5,396)</u>	<u>8,000</u>	<u>3,491</u>	<u>(4,509)</u>
Miscellaneous:						
Education allocation	1,400	-	(1,400)	1,396	-	(1,396)
Rents	49,836	51,978	2,142	18,900	18,150	(750)
Other	31,000	19,737	(11,263)	63,346	50,905	(12,441)
	<u>82,236</u>	<u>71,715</u>	<u>(10,521)</u>	<u>83,642</u>	<u>69,055</u>	<u>(14,587)</u>
Total Revenues	<u>\$ 2,027,510</u>	<u>\$ 2,189,633</u>	<u>\$ 162,123</u>	<u>\$ 1,989,694</u>	<u>\$ 2,013,463</u>	<u>\$ 23,769</u>

CITY OF HUDSON OAKS, TEXAS
General Fund
Comparative Statements of Revenue, Expenditures and Changes
In Fund Balance - Budget and Actual
For the Year Ended September 30, 2013 and 2012

	2013			2012		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Expenditures:						
General government:						
Personal services:						
Salaries	\$ 178,802	\$ 197,417	\$ (18,615)	\$ 172,396	\$ 168,333	\$ 4,063
Payroll taxes	3,280	2,885	395	3,250	3,908	(658)
Worker's compensation	2,106	3,755	(1,649)	2,673	2,712	(39)
Group insurance	13,065	23,125	(10,060)	13,217	16,752	(3,535)
Retirement	18,975	17,250	1,725	18,202	14,874	3,328
Total personal services	216,228	244,432	(28,204)	209,738	206,579	3,159
Supplies:						
General office	6,500	9,584	(3,084)	16,950	13,815	3,135
Postage and printing	6,250	3,991	2,259	6,250	4,118	2,132
Miscellaneous	2,800	2,580	220	3,000	4,136	(1,136)
Total supplies	15,550	16,155	(605)	26,200	22,069	4,131
Services:						
Auditing/accounting	7,000	5,774	1,226	8,000	8,000	-
Professional services	86,000	79,781	6,219	75,000	159,657	(84,657)
Contract labor	4,000	2,975	1,025	6,000	3,011	2,989
Legal	40,000	45,732	(5,732)	40,000	58,476	(18,476)
Bank fees	4,200	3,925	275	3,500	3,373	127
Building inspection	54,000	112,299	(58,299)	80,000	48,575	31,425
Health inspections	-	350	(350)	-	9,700	(9,700)
Advertising/legal	2,500	3,680	(1,180)	2,500	5,412	(2,912)
Election expense	5,000	119	4,881	5,000	4,835	165
Dues/subscriptions	4,750	6,498	(1,748)	4,250	4,983	(733)
Seminars/training	9,500	4,704	4,796	10,000	3,697	6,303
Community events	-	2,433	(2,433)	-	125	(125)
Auto and travel	10,500	6,674	3,826	11,500	9,809	1,691
Insurance	-	3,901	(3,901)	-	3,982	(3,982)
Cash over/short	-	2	(2)	-	(6)	6
Telephone	7,500	12,470	(4,970)	7,500	6,139	1,361
Utilities	12,000	10,189	1,811	12,000	5,614	6,386
Equipment repair/maint	200	219	(19)	200	715	(515)
Pre-employment screening	250	179	71	250	250	-
Software maintenance	13,500	15,116	(1,616)	13,500	26,587	(13,087)
Total services	260,900	317,020	(56,120)	279,200	362,934	(83,734)
Capital expenditures:						
Office equipment	10,000	7,071	2,929	10,000	6,745	3,255
Total capital expenditures	10,000	7,071	2,929	10,000	6,745	3,255
Total General Government	502,678	584,677	(81,999)	525,138	598,326	(73,188)

CITY OF HUDSON OAKS, TEXAS
General Fund
Comparative Statements of Revenue, Expenditures and Changes
In Fund Balance - Budget and Actual
For the Year Ended September 30, 2013 and 2012

	2013			2012		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Public safety:						
Police, Fire Department and Municipal Court:						
Personal services:						
Salaries	597,544	587,585	9,959	576,285	589,218	(12,933)
Payroll taxes	11,818	8,224	3,594	10,297	12,154	(1,857)
Worker's compensation	15,312	9,762	5,550	12,276	9,180	3,096
Group insurance	59,855	69,487	(9,632)	60,549	66,166	(5,607)
Retirement	59,897	66,791	(6,894)	57,431	51,708	5,723
Total personal services	744,426	741,849	2,577	716,838	728,416	(11,578)
Supplies:						
Gas and oil-vehicle	20,000	20,935	(935)	20,000	21,736	(1,736)
Postage/printing	3,800	2,186	1,614	3,800	2,282	1,518
Office/court supplies	10,200	5,141	5,059	9,200	8,127	1,073
Uniforms and ammunition	5,500	4,253	1,247	5,500	3,495	2,005
Total supplies	39,500	32,515	6,985	38,500	35,640	2,860
Services:						
Advertising/legal	200	-	200	300	-	300
Auditing and accounting	7,500	10,719	(3,219)	8,000	5,152	2,848
Professional services	-	6,395	(6,395)	-	752	(752)
Contract labor	54,000	54,865	(865)	54,000	50,678	3,322
Dues/subscriptions	2,300	1,120	1,180	3,300	612	2,688
Seminars, training and awards	4,400	1,436	2,964	5,400	2,895	2,505
Travel	2,100	1,144	956	5,100	1,823	3,277
Insurance	10,000	11,632	(1,632)	20,000	11,068	8,932
Jury and lab fees	500	36	464	500	18	482
Inmate housing/dispatch	46,000	44,690	1,310	46,000	49,599	(3,599)
Telephone	22,200	24,727	(2,527)	19,000	24,386	(5,386)
Radio repair/maint.	2,000	640	1,360	2,000	376	1,624
Vehicle repair/maint.	9,000	9,096	(96)	9,500	14,165	(4,665)
Software maintenance	3,420	10,433	(7,013)	1,700	2,892	(1,192)
Equipment repair/maint.	2,500	1,020	1,480	2,500	3,348	(848)
Pre-employment screening	500	-	500	500	-	500
Utilities	13,000	8,610	4,390	13,000	13,150	(150)
Total services	179,620	186,563	(6,943)	190,800	180,914	9,886
Capital outlay:						
Vehicles	-	-	-	-	41,044	(41,044)
Office/radio equipment	10,000	2,695	7,305	12,000	11,868	132
Total capital outlay	10,000	2,695	7,305	12,000	52,912	(40,912)
Total Public Safety	973,546	963,622	9,924	958,138	997,883	(39,745)

CITY OF HUDSON OAKS, TEXAS
General Fund
Comparative Statements of Revenue, Expenditures and Changes
In Fund Balance - Budget and Actual
For the Year Ended September 30, 2013 and 2012

	2013			2012		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Highways and Streets and Parks:						
Personal Services:						
Salaries	30,640	30,091	549	29,578	31,202	(1,624)
Payroll taxes	569	1,112	(543)	413	1,132	(719)
Worker's compensation	624	751	(127)	792	850	(58)
Group insurance	2,862	3,808	(946)	4,043	3,557	486
Retirement	3,203	3,647	(444)	3,076	2,928	148
Total personal services	37,898	39,409	(1,511)	37,902	39,669	(1,767)
Supplies:						
Office supplies	2,040	1,579	461	2,000	510	1,490
Total supplies	2,040	1,579	461	2,000	510	1,490
Services:						
Contract labor	3,060	4,961	(1,901)	3,000	3,246	(246)
Dues and subscriptions	102	100	2	100	100	-
Telephone and utilities	12,000	11,978	22	12,000	13,237	(1,237)
Insurance	-	6,040	(6,040)	-	5,886	(5,886)
Building repair/maint	18,560	18,962	(402)	18,000	19,007	(1,007)
Professional services	8,160	12,488	(4,328)	8,000	11,599	(3,599)
Equipment rental	3,978	2,019	1,959	3,900	2,863	1,037
Parks grounds keeping	5,100	2,482	2,618	5,000	4,106	894
Property	-	281,300	(281,300)	-	-	-
Street signs	2,550	517	2,033	2,500	1,441	1,059
Street improvements/repairs	178,875	114,955	63,920	227,500	106,278	121,222
Total services	232,385	455,802	(223,417)	280,000	167,763	112,237
Total Highways, Streets, Parks	272,323	496,790	(224,467)	319,902	207,942	111,960
Capital outlay						
Property	-	-	-	-	176,800	(176,800)
Total capital outlay	-	-	-	-	176,800	(176,800)
Economic development grants	-	150,000	(150,000)			
Debt Service:						
Capital lease principal payments	10,737	9,747	990	15,000	10,846	(4,154)
Interest	-	990	(990)	-	-	-
Total Debt Service	10,737	10,737	-	15,000	10,846	(4,154)
Total Expenditures	1,759,284	2,205,826	(446,542)	1,818,178	1,991,797	(181,927)
Excess of revenues over (under) expenditures	268,226	(16,193)	(284,419)	171,516	21,666	(149,850)

CITY OF HUDSON OAKS, TEXAS
General Fund
Comparative Statements of Revenue, Expenditures and Changes
In Fund Balance - Budget and Actual
For the Year Ended September 30, 2013 and 2012

	2013			2012		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):						
Transfers Out	(250,631)	(197,372)	53,259	(169,100)	(194,423)	(25,323)
Proceeds from note	-	206,250	206,250	-	-	-
Proceeds from capital lease	-	-	-	-	41,044	41,044
Total other financing sources (uses):	<u>(250,631)</u>	<u>8,878</u>	<u>259,509</u>	<u>(169,100)</u>	<u>(153,379)</u>	<u>15,721</u>
Net change in fund balance	17,595	(7,315)	(24,910)	2,416	(131,713)	(134,129)
Fund balance, Beginning	<u>1,043,098</u>	<u>1,043,098</u>	<u>-</u>	<u>1,174,811</u>	<u>1,174,811</u>	<u>-</u>
Fund balance, Ending	<u>\$ 1,060,693</u>	<u>\$ 1,035,783</u>	<u>\$ (24,910)</u>	<u>\$ 1,177,227</u>	<u>\$ 1,043,098</u>	<u>\$ (134,129)</u>

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for revenue sources that are legally restricted to expenditures for specific purposes.

Police Seizure Forfeiture – This fund is used to account for revenue from police seizures.

Municipal Court Technology – This fund is used to account for Municipal Court fees collected for court technology.

Court Building Security – This fund is used to account for Municipal Court fees collected for court building security.

Park Dedication – This fund is used to account for park dedication donations and expenditures of those funds.

DEBT SERVICE FUND

Debt Service Fund is used to account for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

CAPITAL PROJECTS FUND

The U.S. 180 Sewer Improvement capital projects fund is used to account for the Waste Water project on U.S. 180.

CITY OF HUDSON OAKS, TEXAS
 Nonmajor Funds
 Combining Balance Sheet
 September 30, 2013

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Total Special Revenue Funds
Assets:					
Cash	\$ 3,587	\$ 8,475	\$ 4,950	\$ 7,250	\$ 24,262
Due from Other Funds	-	-	-	-	-
Total assets	<u>3,587</u>	<u>8,475</u>	<u>4,950</u>	<u>7,250</u>	<u>24,262</u>
Liabilities and Fund Balance:					
Fund Balance:					
Restricted fund balance	\$ 3,587	\$ 8,475	\$ 4,950	\$ 7,250	\$ 24,262
Assigned fund balance	-	-	-	-	-
Total Fund Balance	<u>3,587</u>	<u>8,475</u>	<u>4,950</u>	<u>7,250</u>	<u>24,262</u>
Total Liabilities and Fund Balance	<u>\$ 3,587</u>	<u>\$ 8,475</u>	<u>\$ 4,950</u>	<u>\$ 7,250</u>	<u>\$ 24,262</u>

Exhibit C-1

U.S. 180 Sewer Improvement Capital Projects	Debt Service Fund	Debt Service Fund 2010 Refunding	CO Series 2012 Sinking Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ 378	\$ 11,341	\$ 14,482	\$ 16,952	\$ 42,775	\$ 67,415
-	-	-	10,788	10,788	10,788
<u>378</u>	<u>11,341</u>	<u>14,482</u>	<u>27,740</u>	<u>53,563</u>	<u>78,203</u>
\$ 378	\$ -	\$ -		\$ -	\$ 24,640
-	11,341	14,482	27,740	53,563	53,563
<u>378</u>	<u>11,341</u>	<u>14,482</u>	<u>27,740</u>	<u>53,563</u>	<u>78,203</u>
<u>\$ 378</u>	<u>\$ 11,341</u>	<u>\$ 14,482</u>	<u>\$ 27,740</u>	<u>\$ 53,563</u>	<u>\$ 78,203</u>

CITY OF HUDSON OAKS, TEXAS
 Nonmajor Funds
 Combining Statement of Revenues, Expenditures and Changes
 In Fund Balance
 For the Year Ended September 30, 2013

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Total Special Revenue Funds
Revenue:					
Municipal court fees	\$ -	\$ 3,436	\$ 2,577	\$ -	\$ 6,013
Park dedication fees	-	-	-	7,250	7,250
Interest	-	-	-	-	-
Total Revenues	-	3,436	2,577	7,250	13,263
Expenditures:					
Current					
Public safety	-	-	501	-	501
Debt Service Principal & Interest	-	-	-	-	-
Total Expenditures	-	-	501	-	501
Excess (deficiency) of revenues over (under) expenditures	-	3,436	2,076	7,250	12,762
Other Financing Sources (Uses):					
Transfers In	-	-	-	-	-
Total other financing sources (uses):	-	-	-	-	-
Net change in fund balance	-	3,436	2,076	7,250	12,762
Fund balance, October 1	3,587	5,039	2,874	-	11,500
Fund balance, September 30	<u>\$ 3,587</u>	<u>\$ 8,475</u>	<u>\$ 4,950</u>	<u>\$ 7,250</u>	<u>\$ 24,262</u>

Exhibit C-2

U.S. 180 Sewer Improvement Capital Projects	Debt Service Fund	Debt Service Fund 2010 Refunding	CO Series 2012 Sinking Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,013
-	-	-	-	-	7,250
-	30	7	4	41	41
-	30	7	4	41	13,304
-	-	-	-	-	501
-	161,215	-	53,397	214,612	214,612
-	161,215	-	53,397	214,612	215,113
-	(161,185)	7	(53,393)	(214,571)	(201,809)
-	116,146	-	81,133	197,279	197,279
-	116,146	-	81,133	197,279	197,279
-	(45,039)	7	27,740	(17,292)	(4,530)
378	56,380	14,475	-	70,855	82,733
<u>\$ 378</u>	<u>\$ 11,341</u>	<u>\$ 14,482</u>	<u>\$ 27,740</u>	<u>\$ 53,563</u>	<u>\$ 78,203</u>

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ENTERPRISE FUND SUPPLEMENTARY INFORMATION

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CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Statement of Net Position
September 30, 2013
(With Comparative Totals for September 30, 2012)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Totals	
					2013	2012
Assets						
Current Assets:						
Cash	\$ 1,153,712	\$ 495,244	\$ (35,271)	\$ 155,372	\$ 1,769,057	\$ 2,156,603
Investments	87,525	-	-	-	87,525	87,442
Accounts receivable (net of allowance for doubtful accounts)	179,958	50,152	38,487	16,635	285,232	293,281
Due from other funds	29,900	-	-	-	29,900	-
Prepaid Expense	7,222	-	1,699	-	8,921	8,921
Restricted Assets:						
Cash- water debt sinking funds	22,279	-	42,099	-	64,378	189,809
Total current assets	1,480,596	545,396	47,014	172,007	2,245,013	2,736,056
Noncurrent Assets:						
Other Assets						
Deferred charges - bond issuance costs	-	-	-	-	-	101,216
Total Other Assets	-	-	-	-	-	101,216
Capital Assets:						
Land	255,339	-	-	-	255,339	255,339
Construction in Progress	279,760	32,439	-	-	312,199	3,400
Buildings	46,413	-	-	-	46,413	46,413
Water plant	1,395,158	-	2,675,012	-	4,070,170	4,004,658
Distribution system	3,888,505	-	277,923	-	4,166,428	3,990,023
Intangible assets	1,463,092	-	-	-	1,463,092	1,463,092
Wastewater system	-	2,320,411	-	-	2,320,411	2,229,657
Automobiles	111,257	-	-	-	111,257	111,256
Office furniture and equipment	97,620	-	-	-	97,620	56,260
	7,537,144	2,352,850	2,952,935	-	12,842,929	12,160,098
Less accumulated depreciation	(2,390,167)	(668,310)	(294,338)	-	(3,352,815)	(2,934,275)
Net capital assets	5,146,977	1,684,540	2,658,597	-	9,490,114	9,225,823
Total noncurrent assets	5,146,977	1,684,540	2,658,597	-	9,490,114	9,327,039
Total assets	6,627,573	2,229,936	2,705,611	172,007	11,735,127	12,063,095
Liabilities						
Current Liabilities:						
Accounts payable	126,951	67,797	2,208	3,242	200,198	84,693
Accrued payroll	-	-	-	421	421	7,635
Compensated absences payable	20,863	-	-	-	20,863	11,177
Due to other funds	10,788	-	2,271	-	13,059	2,271
Current liabilities payable from restricted assets:						
Current portion of long-term debt	251,572	-	90,000	-	341,572	330,723
Accrued interest payable	9,971	-	21,510	-	31,481	31,479
Total current liabilities	420,145	67,797	115,989	3,663	607,594	467,978
Noncurrent Liabilities:						
Capital lease payable	-	-	-	-	-	33,972
Certificates of obligation	2,695,967	-	2,726,774	-	5,422,741	5,738,908
	2,695,967	-	2,726,774	-	5,422,741	5,772,880
Total liabilities	3,116,112	67,797	2,842,763	3,663	6,030,335	6,240,858
Net Position						
Investment in capital assets, net of debt	3,319,123	1,684,540	(158,177)	-	4,845,486	4,743,012
Restricted for debt service (expendable)	52,179	-	35,693	-	87,872	172,810
Restricted for impact fees	44,153	-	-	-	44,153	25,010
Unrestricted	96,006	477,599	(14,668)	168,344	727,281	881,405
Total net position	\$ 3,511,461	\$ 2,162,139	\$ (137,152)	\$ 168,344	\$ 5,704,792	\$ 5,822,237

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Elimination	Totals	
						2013	2012
Operating revenues:							
Water & Sewer	\$ 980,713	\$ 334,771	\$ 227,526	\$ -	\$ -	\$ 1,543,010	\$ 1,438,803
Management contract charges	-	-	-	172,000	-	172,000	190,750
Late payment charges	8,833	-	1,496	-	-	10,329	9,613
Tap Fees	20,500	9,000	-	-	-	29,500	22,000
Impact fees	19,143	-	-	-	-	19,143	15,697
Customer assessment fees	1,840	-	-	-	-	1,840	3,360
Miscellaneous fees & Charges	55,779	-	-	-	-	55,779	50,492
Total operating revenues	1,086,808	343,771	229,022	172,000	-	1,831,601	1,730,715
Operating expenses:							
Personal services	342,273	-	-	119,817	-	462,090	426,429
Supplies	65,182	-	7,233	12,368	-	84,783	89,324
Contractual Services	365,524	164,555	31,745	437	-	562,261	508,556
Well utilities	49,884	-	18,475	-	-	68,359	67,138
Depreciation	244,688	75,711	98,140	-	-	418,539	415,160
Total operating expenses	1,067,551	240,266	155,593	132,622	-	1,596,032	1,506,607
Operating income (loss)	19,257	103,505	73,429	39,378	-	235,569	224,108
Nonoperating revenues (expenses)							
Interest income	144	-	38	-	-	182	9,418
Interest expense	(83,535)	-	(100,988)	-	-	(184,523)	(189,741)
Economic development grants	(75,000)	(75,000)	-	-	-	(150,000)	-
Total nonoperating revenues (expenses)	(158,391)	(75,000)	(100,950)	-	-	(334,341)	(180,323)
Income (loss) before transfers	(139,134)	28,505	(27,521)	39,378	-	(98,772)	43,785
Contributions and transfers:							
Capital Contribution	37,930	44,520	-	-	-	82,450	-
Transfer In	6,386	-	-	-	(6,293)	93	-
Transfer out	-	-	-	(6,293)	6,293	-	-
Change in net position	(94,818)	73,025	(27,521)	33,085	-	(16,229)	43,785
Net Position, Beginning	3,707,495	2,089,114	(109,631)	135,259	-	5,822,237	5,778,452
Prior Period Adjustment	(101,216)	-	-	-	-	(101,216)	-
Net Position, Ending	\$ 3,511,461	\$ 2,162,139	\$ (137,152)	\$ 168,344	\$ -	\$ 5,704,792	\$ 5,822,237

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund
Department Combining Statement of Cash Flows
For the Year Ended September 30, 2013
(With Comparative Totals for the Year Ended September 30, 2012)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Total	
					2013	2012
Cash flows from operating activities:						
Cash received from customers and users	\$ 1,093,291	\$ 336,971	\$ 232,560	\$ 176,828	\$ 1,839,650	\$ 1,718,082
Cash paid to suppliers	(416,502)	(114,403)	(56,839)	(12,155)	(599,899)	(819,309)
Cash paid to employees	(337,054)	-	-	(122,564)	(459,618)	(428,433)
Net cash provided (used) by operating activities	<u>339,735</u>	<u>222,568</u>	<u>175,721</u>	<u>42,109</u>	<u>780,133</u>	<u>470,340</u>
Cash flow from noncapital financing activities:						
Due to other funds	10,788	-	(10,595)	-	193	2,349
Due from other funds	(29,900)	-	10,595	-	(19,305)	-
Transfers in (out)	6,386	-	-	(6,293)	93	-
Economic development grant payments	(75,000)	(75,000)	-	-	(150,000)	(185,721)
Net cash provided (used) by noncapital financing activities	<u>(87,726)</u>	<u>(75,000)</u>	<u>-</u>	<u>(6,293)</u>	<u>(169,019)</u>	<u>(183,372)</u>
Cash flows from capital and related financing activities:						
Principal payments - certificates of obligation	(213,950)	-	(85,000)	-	(298,950)	(210,000)
Principal payments - loans payable	-	-	-	-	-	(490,834)
Principal payments - capital leases	(31,772)	-	-	-	(31,772)	(30,277)
Purchase of property, plant and equipment	(511,738)	(78,673)	(9,969)	-	(600,380)	(16,400)
Proceeds from bond issuance	-	-	-	-	-	2,139,744
Interest payments	(88,839)	-	(104,249)	-	(193,088)	(185,721)
Net cash flows provided by (used in) capital and related financing activities	<u>(846,299)</u>	<u>(78,673)</u>	<u>(199,218)</u>	<u>-</u>	<u>(1,124,190)</u>	<u>1,206,512</u>
Cash flows from investing activities:						
Interest received	144	-	38	-	182	9,418
(Purchase) sale of investments	(83)	-	-	-	(83)	(99)
Net cash provided by (used in) investing activities	<u>61</u>	<u>-</u>	<u>38</u>	<u>-</u>	<u>99</u>	<u>9,319</u>
Net increase (decrease) in cash	(594,229)	68,895	(23,459)	35,816	(512,977)	1,502,799
Cash, October 1	1,770,220	426,349	30,287	119,556	2,346,412	657,892
Cash, September 30	<u>\$ 1,175,991</u>	<u>\$ 495,244</u>	<u>\$ 6,828</u>	<u>\$ 155,372</u>	<u>\$ 1,833,435</u>	<u>\$ 2,160,691</u>
Reconciliation of income from operations to net cash provided by operating activities:						
Income (loss) from operations	\$ 19,257	\$ 103,505	\$ 73,429	\$ 39,378	\$ 235,569	\$ 224,108
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities						
Depreciation	244,688	75,711	98,140	-	418,539	415,160
(Increase) decrease in accounts receivable	6,483	(6,800)	3,538	4,828	8,049	(40,263)
(Increase) decrease in prepaid expenses	-	-	-	-	-	(760)
Increase(decrease) in accounts payable	64,088	50,152	614	650	115,504	(131,186)
Increase(decrease) in accrued payroll	(4,467)	-	-	(2,747)	(7,214)	993
Increase(decrease) in compensated absences	9,686	-	-	-	9,686	2,288
Net adjustments	<u>320,478</u>	<u>119,063</u>	<u>102,292</u>	<u>2,731</u>	<u>544,564</u>	<u>246,232</u>
Net cash provided by operating activities	<u>\$ 339,735</u>	<u>\$ 222,568</u>	<u>\$ 175,721</u>	<u>\$ 42,109</u>	<u>\$ 780,133</u>	<u>\$ 470,340</u>
Noncash Investing, Capital and Financing Activities						
Contributions of capital assets	\$ 37,930	\$ 44,520	\$ -	\$ -	\$ 82,450	\$ -

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund - Waterworks Department
Comparative Statements of Revenue, Expenses, and Net Income
With Budget Comparison
For the Year Ended September 30, 2013
(With Comparative Actual Amounts For The Year Ended September 30, 2012)

	2013			2012
	Budget	Actual Amounts	Vairance	Actual
		Budgetary	Positive	
	Basis	(Negative)		
Operating revenue:				
Water sales	\$ 937,617	\$ 980,713	\$ 43,096	\$ 927,508
Late payment charges	8,000	8,833	833	7,040
Tap fees	7,000	20,500	13,500	15,000
Water impact fees	15,000	19,143	4,143	15,697
Customer assessment fees	2,000	1,840	(160)	3,360
Meter Fees	-	6,984	6,984	-
Service charges	44,576	48,795	4,219	50,492
Total operating revenue	<u>1,014,193</u>	<u>1,086,808</u>	<u>72,615</u>	<u>1,019,097</u>
Operating expenses:				
Personal Services:				
Salaries	259,107	289,946	(30,839)	266,060
Payroll taxes	3,580	4,073	(493)	3,818
Worker's compensation	3,978	3,004	974	3,298
Group insurance	31,981	18,047	13,934	17,732
Retirement	26,837	27,203	(366)	23,440
Total personal services	<u>325,483</u>	<u>342,273</u>	<u>(16,790)</u>	<u>314,348</u>
Supplies:				
General office	2,500	2,756	(256)	1,616
Meters, chemicals, etc.	28,220	90,391	(62,171)	33,708
Postage and printing	7,000	9,853	(2,853)	12,509
Miscellaneous	53,800	3,541	50,259	19,157
Total supplies	<u>91,520</u>	<u>106,541</u>	<u>(15,021)</u>	<u>66,990</u>
Contractual services:				
Audit/accounting	3,200	5,774	(2,574)	3,200
Professional services	41,000	48,824	(7,824)	36,220
Contract labor	12,240	7,426	4,814	10,595
Legal/advertising	250	136	114	1,147
Utilities	5,000	10,540	(5,540)	5,260
Telephone	7,000	10,711	(3,711)	5,512
Equipment rental	2,550	-	2,550	114
Dues/subscriptions	500	-	500	-
Building repairs/maint and improvements	4,000	1,350	2,650	3,969
Equipment repairs/maint.	4,000	918	3,082	520
Vehicle repairs/maintenance.	7,500	2,214	5,286	4,598
Gas/oil - vehicle	9,690	18,375	(8,685)	16,686
System repairs/maintenance.	13,000	16,521	(3,521)	12,711
Water well repair/maintenance	17,340	37,925	(20,585)	23,299
Water tank inspections	8,160	-	8,160	-
Pre-employment screening	200	-	200	649
Regional water purchase	60,000	169,692	(109,692)	153,735
Laboratory fees	5,610	3,333	2,277	6,976
Software maintenance	500	5,746	(5,246)	2,502
Seminars, training and awards	800	1,866	(1,066)	2,154
Travel	1,000	350	650	295
UTGCD Expense	42,576	23,823	18,753	28,356
Total contractual services	<u>246,116</u>	<u>365,524</u>	<u>(119,408)</u>	<u>318,498</u>

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund - Waterworks Department
Comparative Statements of Revenue, Expenses, and Net Income
With Budget Comparison
For the Year Ended September 30, 2013
(With Comparative Actual Amounts For The Year Ended September 30, 2012)

	2013			2012
	Budget	Actual Amounts Budgetary Basis	Vairance Positive (Negative)	Actual
Other operating expenses:				
Well utilities	65,000	49,884	15,116	51,865
Total other operating expenses	<u>65,000</u>	<u>49,884</u>	<u>15,116</u>	<u>51,865</u>
 Total operating expenses	 <u>728,119</u>	 <u>864,222</u>	 <u>(136,103)</u>	 <u>751,701</u>
 Operating incomc (loss)	 <u>286,074</u>	 <u>222,586</u>	 <u>(63,488)</u>	 <u>267,396</u>
Nonoperating revenues (expenses) and transfers:				
Interest income	-	144	144	9,376
Interest expense	(106,750)	(83,535)	23,215	(87,749)
Economic development grants	-	(75,000)	(75,000)	-
Debt retirement	(275,000)	(245,722)	29,278	(155,281)
Total nonoperating revenue(expenses)	<u>(381,750)</u>	<u>(404,113)</u>	<u>(22,363)</u>	<u>(233,654)</u>
 Income (loss) before transfers	 (95,676)	 (181,527)	 (85,851)	 33,742
Contributions and transfers:				
Capital contributions	-	37,930	37,930	-
Transfer In	-	227,004	227,004	51,478
Transfer Out	(296,074)	(690,997)	(394,923)	(40,229)
 Change in net position	 (391,750)	 (607,590)	 (215,840)	 44,991
 Net Position, Beginning	 3,707,495	 3,707,495	 -	 3,736,962
 Prior Period Adjustment	 <u>-</u>	 <u>(101,216)</u>	 <u>(101,216)</u>	 <u>-</u>
 Net Position, Ending	 <u>\$ 3,315,745</u>	 <u>\$ 2,998,689</u>	 <u>\$ (317,056)</u>	 <u>\$ 3,781,953</u>
Reconciliation from Budgetary Basis to GAAP Basis				
Debt retirement		245,722		155,281
Capital outlay		511,738		13,000
Depreciation		(244,688)		(242,739)
		<u>\$ 3,511,461</u>		<u>\$ 3,707,495</u>

CITY OF HUDSON OAKS, TEXAS
Water and Wastewater Fund - Wastewater Department
Comparative Statements of Revenue, Expenses, and Net Income
With Budget Comparison
For the Year Ended September 30, 2013
(With Comparative Actual Amounts For The Year Ended September 30, 2012)

	2013			2012
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Actual
Operating revenue:				
Wastewater charges	\$ 250,000	\$ 334,771	\$ 84,771	\$ 271,811
Tap fees	-	9,000	9,000	7,000
Total operating revenue	<u>250,000</u>	<u>343,771</u>	<u>93,771</u>	<u>278,811</u>
Operating expenses:				
Contractual services:				
Wastewater treatment service	160,000	164,555	(4,555)	168,156
Total contractual services	<u>160,000</u>	<u>164,555</u>	<u>(4,555)</u>	<u>168,156</u>
Total operating expenses	<u>160,000</u>	<u>164,555</u>	<u>(4,555)</u>	<u>168,156</u>
Operating income (loss)	<u>90,000</u>	<u>179,216</u>	<u>89,216</u>	<u>110,655</u>
Nonoperating revenues (expenses):				
Economic development grants	-	(75,000)	(75,000)	-
Total nonoperating revenue(expenses)	<u>-</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
Income (loss) before contributions	-	(75,000)	(75,000)	-
Contributions and transfers:				
Capital Contributions	-	44,520	44,520	-
Change in net position	90,000	148,736	58,736	110,655
Net Position, Beginning	<u>2,089,114</u>	<u>2,089,114</u>	<u>-</u>	<u>2,052,781</u>
Net Position, Ending	<u>\$ 2,179,114</u>	<u>\$ 2,237,850</u>	<u>\$ 58,736</u>	<u>\$ 2,163,436</u>
Reconciliation from Budgetary Basis to GAAP Basis				
Depreciation		(75,711)		(74,322)
		<u>\$ 2,162,139</u>		<u>\$ 2,089,114</u>

CITY OF HUDSON OAKS, TEXAS
Dyegard Water System
Comparative Statements of Revenue, Expenses, and Net Income
With Budget Comparison
For the Year Ended September 30, 2013
(With Comparative Actual Amounts For The Year Ended September 30, 2012)

	2013			2012
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Actual
Operating revenue:				
Wastewater charges	\$ 230,000	\$ 227,526	\$ (2,474)	\$ 239,484
Late payment charges	2,700	1,496	(1,204)	2,573
Total operating revenue	<u>232,700</u>	<u>229,022</u>	<u>(3,678)</u>	<u>242,057</u>
Operating expenses:				
Supplies	11,500	7,233	(4,267)	12,322
Contractual services	21,200	31,745	10,545	21,802
Well utilities	15,000	18,475	3,475	15,273
Total operating expenses	<u>47,700</u>	<u>57,453</u>	<u>9,753</u>	<u>49,397</u>
Total operating expenses	<u>47,700</u>	<u>57,453</u>	<u>9,753</u>	<u>49,397</u>
Operating income (loss)	185,000	171,569	6,075	192,660
Nonoperating revenues (expenses)				
Interest income	-	38	38	42
Interest expense	(104,250)	(100,988)	3,262	(101,992)
Debt retirement	(85,000)	(85,000)	-	(85,000)
Total nonoperating revenue(expenses)	<u>(189,250)</u>	<u>(185,950)</u>	<u>3,300</u>	<u>(186,950)</u>
Contributions and transfers:				
Transfer in	-	-	-	40,229
Transfer out	-	-	-	(45,185)
Change in net position	(4,250)	(14,381)	9,375	754
Net Position, Beginning	<u>(109,631)</u>	<u>(109,631)</u>	-	<u>(97,286)</u>
Net Position, Ending	<u>\$ (113,881)</u>	<u>\$ (124,012)</u>	<u>\$ 9,375</u>	<u>\$ (96,532)</u>
Reconciliation from Budgetary Basis to GAAP				
Debt retirement		85,000		85,000
Depreciation expense		(98,140)		(98,099)
		<u>\$ (137,152)</u>		<u>\$ (109,631)</u>

CITY OF HUDSON OAKS, TEXAS
Deer Creek Management
Comparative Statements of Revenue, Expenses, and Net Income
With Budget Comparison
For the Year Ended September 30, 2013
(With Comparative Actual Amounts For The Year Ended September 30, 2012)

	2013			2012
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Actual
Operating revenue:				
Management contract charges	\$ 172,000	\$ 172,000	\$ -	\$ 190,750
Total operating revenue	<u>172,000</u>	<u>172,000</u>	<u>-</u>	<u>190,750</u>
Operating expenses:				
Personnel services	110,108	119,817	9,709	112,081
Supplies	8,000	12,368	4,368	17,012
Contractual services	-	437	437	6,100
Total operating expenses	<u>118,108</u>	<u>132,622</u>	<u>14,514</u>	<u>135,193</u>
Operating Income (loss) before transfers	53,892	39,378	(14,514)	55,557
Contributions and transfers:				
Transfer out	<u>(6,800)</u>	<u>(6,293)</u>	<u>507</u>	<u>(6,293)</u>
Change in net position	47,092	33,085	(14,007)	49,264
Net Position, Beginning	<u>135,259</u>	<u>135,259</u>	<u>-</u>	<u>85,995</u>
Net Position, Ending	<u>\$ 182,351</u>	<u>\$ 168,344</u>	<u>\$ (14,007)</u>	<u>\$ 135,259</u>

COMPLIANCE AND INTERNAL CONTROL

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Hudson Oaks, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hudson Oaks, 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, and have issued our report thereon dated February 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hudson Oaks, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

David M. Gray, P.C.

Weatherford, Texas
February 19, 2014