

**CITY OF HUDSON OAKS, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**



**CITY OF HUDSON OAKS, TEXAS**  
Annual Financial Report  
For the Year Ended September 30, 2014

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**CITY OF HUDSON OAKS  
PRINCIPAL OFFICIALS  
September 30, 2014**

**CITY COUNCIL**

**Pat Deen  
Tom Marquardt  
Brian Lixey  
Marty Schrantz  
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**

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**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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *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, 2014, 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 48 – 50 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 18, 2015, 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.

*George Morgan Frost, P.C.*

Weatherford, Texas  
February 18, 2015

## 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, 2014.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Hudson Oaks exceeded its liabilities at the close of the most recent fiscal year by \$11,452,078 (*net position*) compared to \$11,025,971 for the prior year. Of this amount, \$2,669,469 (*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 \$426,107. This is compared to an increase of \$323,528 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 \$1,852,262 compared to \$1,948,470 for the prior year. 60% 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 \$1,115,147, or 52% 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, which is considered a major fund. 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 23-47 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 through 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 \$11,452,078 as of September 30, 2014.

The largest portion of the City's net position (70%) 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 (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$2,669,469 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, 2014 and September 30, 2013.

**Condensed Statement of Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 2,342,454	\$ 2,450,230	\$ 3,282,496	\$ 2,231,954	\$ 5,624,950	\$ 4,682,184
Capital assets	6,589,454	6,444,515	9,393,408	9,490,114	15,982,862	15,934,629
Total Assets	<u>8,931,908</u>	<u>8,894,745</u>	<u>12,675,904</u>	<u>11,722,068</u>	<u>21,607,812</u>	<u>20,616,813</u>
Current liabilities	154,115	171,401	138,285	232,100	292,400	403,501
Long-term liabilities	3,193,103	3,402,165	6,670,231	5,785,176	9,863,334	9,187,341
Total liabilities	<u>3,347,218</u>	<u>3,573,566</u>	<u>6,808,516</u>	<u>6,017,276</u>	<u>10,155,734</u>	<u>9,590,842</u>
Net Position:						
Invested in capital assets net of related debt	4,153,576	3,945,645	3,819,660	4,845,486	7,973,236	8,791,131
Restricted Net Position (expendable)	693,884	26,372	115,489	132,025	809,373	158,397
Unrestricted Net Position	737,230	1,349,162	1,932,239	727,281	2,669,469	2,076,443
Total Net Position	<u>\$ 5,584,690</u>	<u>\$ 5,321,179</u>	<u>\$ 5,867,388</u>	<u>\$ 5,704,792</u>	<u>\$11,452,078</u>	<u>\$11,025,971</u>

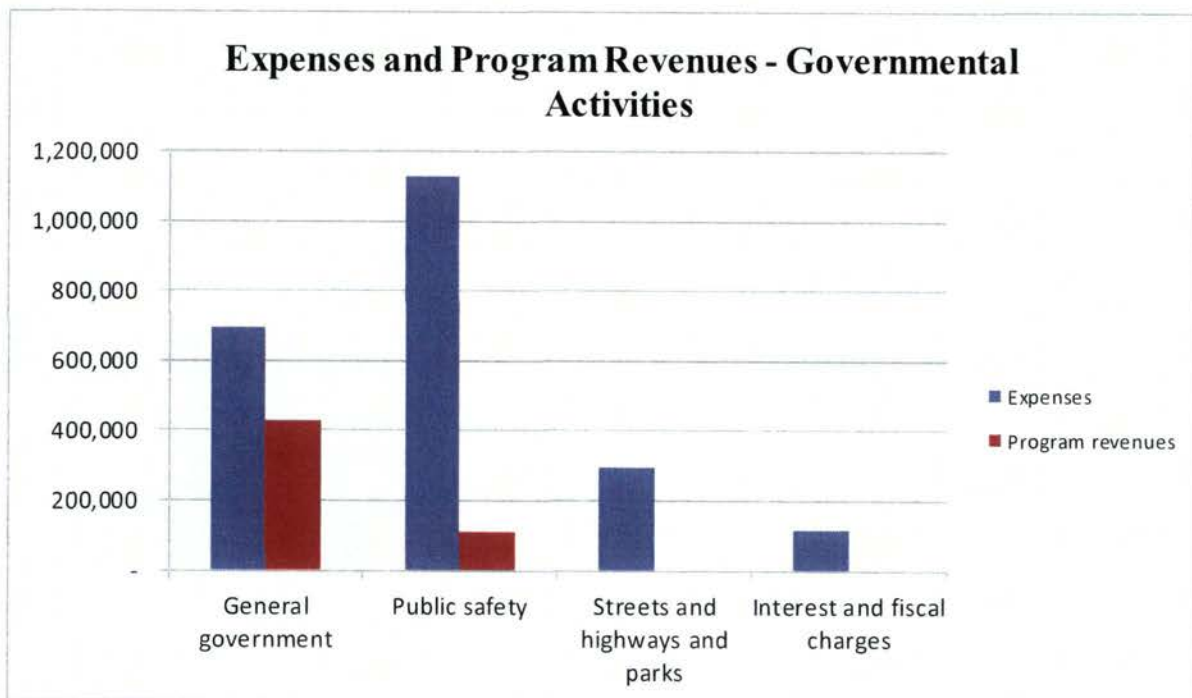
**Condensed Statement of Activities**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 537,689	\$ 460,030	\$ 1,866,868	\$ 1,831,601	\$ 2,404,557	\$ 2,291,631
Capital grants and contributions	-	301,627	113,440	82,450	113,440	384,077
General revenues:						
Sales taxes	1,615,229	1,527,473	-	-	1,615,229	1,527,473
Franchise taxes	169,518	137,113	-	-	169,518	137,113
Investment earnings	4,464	7,004	814	182	5,278	7,186
Other Revenue	57,541	71,699	-	-	57,541	71,699
Total revenues	<u>2,384,441</u>	<u>2,504,946</u>	<u>1,981,122</u>	<u>1,914,233</u>	<u>4,365,563</u>	<u>4,419,179</u>
Expenses						
General government	695,185	622,322	-	-	695,185	622,322
Public safety	1,127,251	1,032,743	-	-	1,127,251	1,032,743
Highways and streets and parks	296,496	248,484	-	-	296,496	248,484
Economic development grants	-	150,000	-	150,000	-	300,000
Interest and fiscal charges	117,554	111,547	-	-	117,554	111,547
Waterworks	-	-	999,905	1,151,086	999,905	1,151,086
Dyegard Water System	-	-	292,818	256,581	292,818	256,581
Deercreek Management	-	-	121,835	132,622	121,835	132,622
Wastewater	-	-	288,412	240,266	288,412	240,266
Total expenses	<u>2,236,486</u>	<u>2,165,096</u>	<u>1,702,970</u>	<u>1,930,555</u>	<u>3,939,456</u>	<u>4,095,651</u>
Increase (decrease) in net position before transfers	147,955	339,850	278,152	(16,322)	426,107	323,528
Transfers	115,556	(93)	(115,556)	93	-	-
Increase (decrease) in net position	263,511	339,757	162,596	(16,229)	426,107	323,528
Net Position, Beginning	5,321,179	5,027,197	5,704,792	5,822,237	11,025,971	10,849,434
Prior Period Adjustment	-	(45,775)	-	(101,216)	-	(146,991)
Net Position, Ending	<u>\$ 5,584,690</u>	<u>\$ 5,321,179</u>	<u>\$ 5,867,388</u>	<u>\$ 5,704,792</u>	<u>\$ 11,452,078</u>	<u>\$ 11,025,971</u>

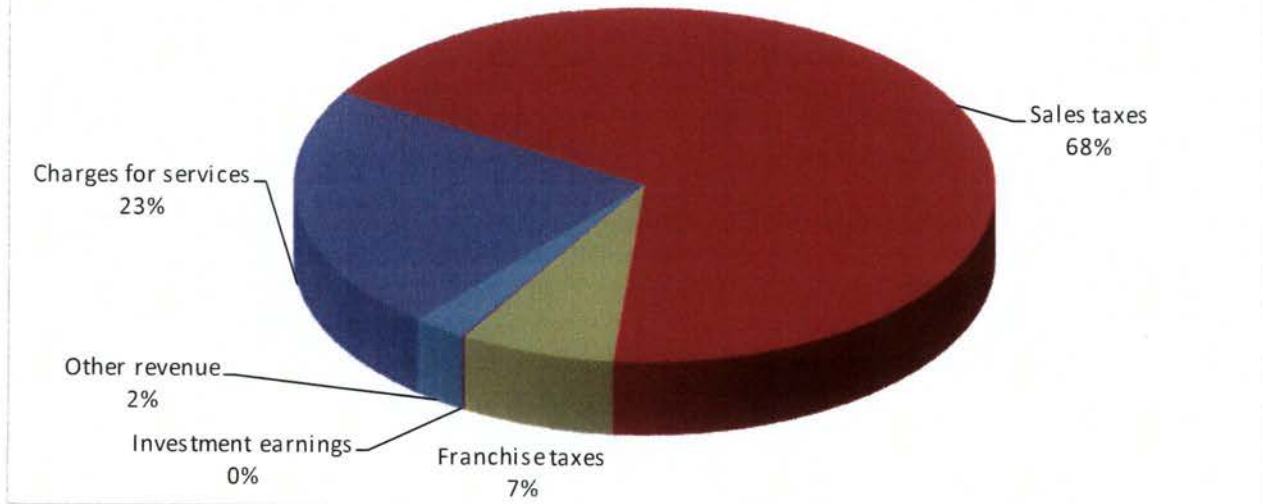
**Governmental Activities.** Governmental activities increased the City's net position by \$263,511. Key elements are as follows.

- Revenues decreased \$120,505. Charges for service increased due to new construction in the City for both residential houses and commercial buildings which caused the licenses and permits revenue to increase approximately \$92,000. Sales tax increased approximately \$88,000 due to the continued growth in the economy. Intergovernmental revenue decreased due to a \$216,000 grant received from the Texas Department of Transportation in the prior year. Capital contributions decreased approximately \$86,000 due to developer contributions for streets in the prior year.
- Expenses increased \$71,390. Public safety expenses increased approximately \$95,000 primarily due to salary increases. General government expenses increased approximately \$73,000 primarily due to an increase in professional services and building inspections. Highways streets and parks expenses increased approximately \$48,000 primarily due to a study for streets that was done. Economic development grants decreased because \$150,000 of economic development grants were paid in the prior year and none were paid in the current year.

Below are two graphs summarizing governmental revenue and expense:



## Revenues by Source - Governmental Activities

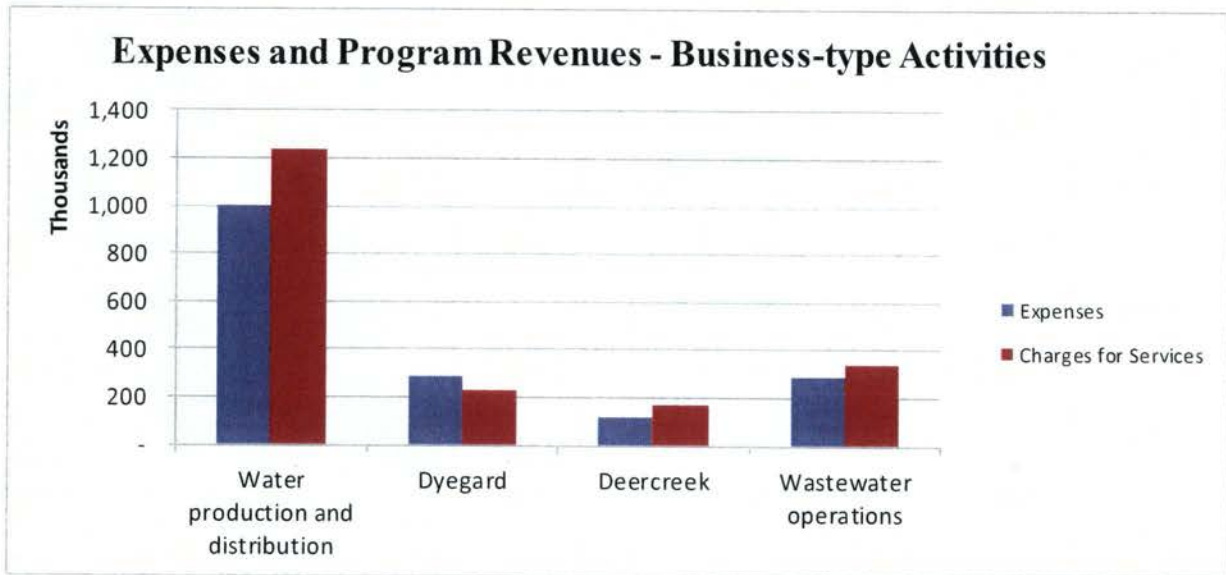


**Business-type activities.** Business-type activities increased the City's net position by \$162,596. Key elements are as follows.

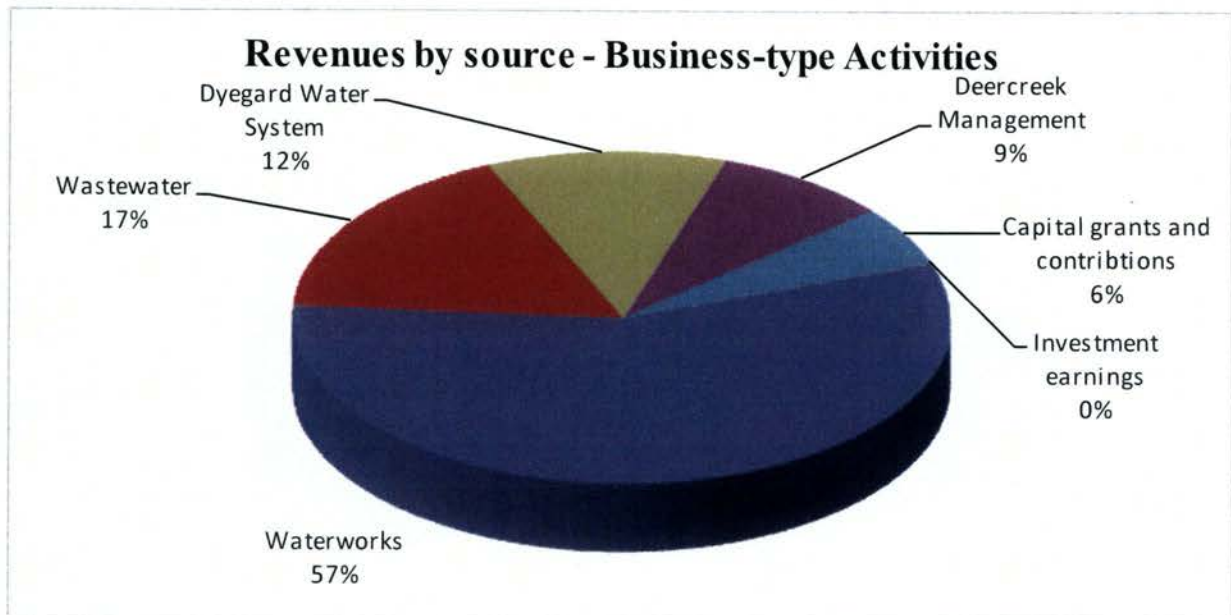
- Revenues increased \$66,889. Charges for service increased approximately \$35,000 due to increase in water sales. Capital contributions increased approximately \$31,000.
- Expenses overall decreased \$227,585. Waterworks expenses decreased approximately \$151,000 due to a decrease in contractual services because less water was purchased from the City of Weatherford due to upgrades made to the Dyegard system in the prior year. \$75,000 in economic development grants was paid out of both the water fund and the wastewater fund in the prior year.



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 \$1,852,262. (60%) 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 \$1,115,147. During the current fiscal year the fund balance of the City's general fund increased by \$81,096. Below is a comparison of the general fund's net change in fund balance for the fiscal year ended September 30, 2014 and September 30, 2013.

	2014	2013	Increase (Decrease)	Percent Increase (Decrease)
<b>Revenues:</b>				
Taxes				
Sales and use	\$ 1,608,529	\$ 1,524,171	\$ 84,358	6%
Franchise	165,438	145,824	19,614	13%
Licenses and permits	414,691	322,735	91,956	28%
Charges for services	15,146	7,390	7,756	105%
Municipal court fines	98,372	115,194	(16,822)	-15%
Interest	1,560	2,604	(1,044)	-40%
Miscellaneous	57,541	71,715	(14,174)	-20%
Total revenues	<u>2,361,277</u>	<u>2,189,633</u>	<u>171,644</u>	<u>8%</u>
<b>Expenditures:</b>				
Current:				
General government	653,351	584,677	68,674	12%
Public safety	1,110,364	963,622	146,742	15%
Highways and streets and parks	299,554	496,790	(197,236)	-40%
Economic development grants	-	150,000	(150,000)	-100%
Debt service				
Principal	78,822	9,747	69,075	709%
Interest and fiscal charges	664	990	(326)	-33%
Total expenditures	<u>2,142,755</u>	<u>2,205,826</u>	<u>(63,071)</u>	<u>-3%</u>
<b>Other financing sources (uses):</b>				
Transfers In	119,176	-	119,176	0%
Transfers Out	(290,822)	(197,372)	(93,450)	47%
Proceeds from note	-	206,250	(206,250)	-100%
Proceeds from capital lease	34,220	-	34,220	0%
Net change in fund balance	<u>\$ 81,096</u>	<u>\$ (7,315)</u>	<u>\$ 88,411</u>	<u>1209%</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 \$1,932,239. The total change in net position was a \$162,596 increase. 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 amended the general fund budget once during fiscal year 2014.

General fund expenditures exceeded budgeted expenditures by \$150,913. The largest departments where expenditures were greater than appropriations were general government and public safety.

## Capital Assets

The City's investment in capital assets for its governmental and business type activities as of September 30, 2014, amounts to \$15,982,862 (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:

- \$45,618 for the purchase of automobiles.
- \$163,787 for ongoing construction on the Lakeshore Bridge project.
- \$172,688 for street infrastructure.

### Business-type activities:

- \$52,921 for the purchase of automobiles.
- \$63,009 for the purchase of a dump truck.
- \$113,440 developer contribution of Highland Park addition 8" water line extension.
- \$33,854 in capitalized construction costs related to the completion of the Automated Meter System project.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 637,287	\$ 637,287	\$ 255,339	\$ 255,339	\$ 892,626	\$ 892,626
Buildings	1,935,596	1,993,895	37,131	38,291	1,972,727	2,032,186
Water plant	-	-	3,115,021	3,098,495	3,115,021	3,098,495
Distribution systems	-	-	2,985,959	2,875,208	2,985,959	2,875,208
Sewer systems	-	-	1,574,755	1,652,101	1,574,755	1,652,101
Automobiles	73,768	42,200	61,064	31,398	134,832	73,598
Intangible Assets	-	-	1,134,951	1,177,023	1,134,951	1,177,023
Equipment	5,338	-	96,964	50,060	102,302	50,060
Improvements	88,427	98,743	-	-	88,427	98,743
Infrastructure	2,563,450	2,550,589	-	-	2,563,450	2,550,589
Construction in progress	1,285,588	1,121,801	132,224	312,199	1,417,812	1,434,000
<b>Total</b>	<b>\$ 6,589,454</b>	<b>\$ 6,444,515</b>	<b>\$ 9,393,408</b>	<b>\$ 9,490,114</b>	<b>\$ 15,982,862</b>	<b>\$ 15,934,629</b>

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	
	2014	2013	2014	2013	2014	2013
Capital leases	\$ 44,599	\$ 20,451	\$ -	\$ 33,972	\$ 44,599	\$ 54,423
Certificates of Obligation	2,095,046	2,203,713	5,972,898	4,922,184	8,067,944	7,125,897
General Obligation bonds	821,764	902,940	676,277	808,157	1,498,041	1,711,097
Notes Payable	137,500	206,250	-	-	137,500	206,250
Total	<u>\$ 3,098,909</u>	<u>\$ 3,333,354</u>	<u>\$ 6,649,175</u>	<u>\$ 5,764,313</u>	<u>\$ 9,748,084</u>	<u>\$ 9,097,667</u>

**Economic factors and the Next Year's Budgets and Rates**

The City of Hudson Oaks realized positive growth in a number of areas during FY14. Sales and use tax revenue increased 5.9% over FY13, and license and permit revenues increased by 30%, aided by significant levels of commercial development during the year. General Fund revenues for FY14 of \$2,399,251 exceeded FY13 revenues of \$2,172,040 by \$209,619.

FY14 set the stage for several items which will have a substantial impact on the City's future economic condition: commercial development including the Shops in Hudson Oaks are expected to generate additional sales tax revenue while diversifying the City's sales tax base; the relocation of Freedom Powersports from Weatherford to Hudson Oaks is providing much needed high-value development along the south side of IH-20, and; the relocation of Boo Ray's from the US 180 corridor to Oykey Trail has been a catalyst for the planned Oykey Corridor development, which will provide office space, retail, and restaurant options.

To aid in these developments, the City issued \$1.235 million in Certificates of Obligations for a sewer line extension along IH-20. This extension will provide service for commercial growth along the interstate. During FY15, construction is expected to begin on the US180/Lakeshore Bridge project, which will improve traffic flow at the City's most strategic intersection which will provide redevelopment opportunities. Finally, the Oykey Corridor Concept Plan is currently in the zoning development phase.

The FY15 general fund budget continues the City's conservative approach to fiscal matters. The budget includes additional funds for street and park maintenance, police protection, and employee retention while holding sales tax projections related to the aforementioned developments to a minimum. This will allow the City to more easily absorb expected debt service costs in FY17 related to the IH-20/Center Point Bridge project.

**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, 2014

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,590,115	\$ 2,885,447	\$ 4,475,562
Investments	256,787	87,554	344,341
Receivables (Net of allowances for uncollectibles)			
Accounts	-	267,417	267,417
Sales tax	261,461	-	261,461
Franchise taxes	76,836	-	76,836
Fines	167,243	-	167,243
Miscellaneous receivables	6,854	-	6,854
Prepaid Expenses	-	8,921	8,921
Internal Balances	(16,842)	16,842	-
Restricted assets:			
Cash and cash equivalents	-	16,315	16,315
Capital assets (net of accumulated depreciation):			
Land	637,287	255,339	892,626
Buildings	1,935,596	37,131	1,972,727
Water plant	-	3,115,021	3,115,021
Distribution system	-	2,985,959	2,985,959
Wastewater systems	-	1,574,755	1,574,755
Automobiles	73,768	61,064	134,832
Intangible assets	-	1,134,951	1,134,951
Equipment	5,338	96,964	102,302
Improvements	88,427	-	88,427
Infrastructure	2,563,450	-	2,563,450
Construction in progress	1,285,588	132,224	1,417,812
<b>Total Assets</b>	<b>8,931,908</b>	<b>12,675,904</b>	<b>21,607,812</b>
<b>LIABILITIES:</b>			
Accounts Payable	95,017	102,026	197,043
Accrued payroll	4,494	1,172	5,666
Due to state	27,186	-	27,186
Accrued interest payable	27,418	35,087	62,505
Noncurrent liabilities:			
Due within one year	376,738	378,656	755,394
Due in more than one year	2,816,365	6,291,575	9,107,940
<b>Total Liabilities</b>	<b>3,347,218</b>	<b>6,808,516</b>	<b>10,155,734</b>
<b>NET POSITION:</b>			
Investments in Capital Assets, Net of Debt	4,153,576	3,819,660	7,973,236
Restricted Net Position (expendable)	693,884	115,489	809,373
Unrestricted Net Position	737,230	1,932,239	2,669,469
<b>Total Net Position</b>	<b>\$ 5,584,690</b>	<b>\$ 5,867,388</b>	<b>\$ 11,452,078</b>

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, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities:				
General government	\$ 695,185	\$ 429,837	\$ -	\$ -
Public safety	1,127,251	107,852	-	-
Highways and streets and parks	296,496	-	-	-
Economic Development Grants	-	-	-	-
Interest and fiscal charges	117,554	-	-	-
Total governmental activities	<u>2,236,486</u>	<u>537,689</u>	<u>-</u>	<u>-</u>
Business-type activities:				
Waterworks	999,905	1,122,107	-	113,440
Wastewater	288,412	340,476	-	-
Dyegard Water System	292,818	232,285	-	-
Deercreek Management	121,835	172,000	-	-
Total business-type activities	<u>1,702,970</u>	<u>1,866,868</u>	<u>-</u>	<u>113,440</u>
Total primary government	<u><u>3,939,456</u></u>	<u><u>2,404,557</u></u>	<u><u>-</u></u>	<u><u>113,440</u></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

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
\$ (265,348)	\$ -	\$ (265,348)
(1,019,399)	-	(1,019,399)
(296,496)	-	(296,496)
-	-	-
(117,554)	-	(117,554)
<u>(1,698,797)</u>	<u>-</u>	<u>(1,698,797)</u>
-	235,642	235,642
-	52,064	52,064
-	(60,533)	(60,533)
-	50,165	50,165
<u>-</u>	<u>277,338</u>	<u>277,338</u>
<u>(1,698,797)</u>	<u>277,338</u>	<u>(1,421,459)</u>
1,615,229	-	1,615,229
169,518	-	169,518
4,464	814	5,278
57,541	-	57,541
115,556	(115,556)	-
<u>1,962,308</u>	<u>(114,742)</u>	<u>1,847,566</u>
263,511	162,596	426,107
<u>5,321,179</u>	<u>5,704,792</u>	<u>11,025,971</u>
<u>\$ 5,584,690</u>	<u>\$ 5,867,388</u>	<u>\$ 11,452,078</u>

**CITY OF HUDSON OAKS, TEXAS**  
 Balance Sheet  
 Governmental Funds  
 September 30, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Assets:			
Cash	\$ 776,236	\$ 813,879	\$ 1,590,115
Investments	256,787	-	256,787
Receivables			
Sales Tax	261,461	-	261,461
Franchise Tax	76,836	-	76,836
Fines and fees	167,243	-	167,243
Miscellaneous	6,854	-	6,854
Due from other funds	91,554	34,037	125,591
	<u>1,636,971</u>	<u>847,916</u>	<u>2,484,887</u>
Total assets			
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	95,017	-	95,017
Accrued payroll	4,494	-	4,494
Due to State	27,186	-	27,186
Due to Other Funds	29,900	112,533	142,433
	<u>156,597</u>	<u>112,533</u>	<u>269,130</u>
Total liabilities			
Deferred inflows of resources:			
Deferred revenue	363,495	-	363,495
Fund balances:			
Restricted fund balance			
Public, educational, and government access fees	1,732	-	1,732
Public Safety	-	21,498	21,498
Parks	-	7,250	7,250
Capital Projects	-	663,404	663,404
Assigned fund balance			
Debt Service	-	43,231	43,231
Unassigned fund balance	1,115,147	-	1,115,147
	<u>1,116,879</u>	<u>735,383</u>	<u>1,852,262</u>
Total fund balances			
Total liabilities, deferred inflows and fund balances	<u>\$ 1,636,971</u>	<u>\$ 847,916</u>	<u>\$ 2,484,887</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, 2014

Total Fund Balances - Governmental Funds	\$	1,852,262
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 \$9,177,963 and the accumulated depreciation was \$2,588,509.		6,589,454
Long-term liabilities, including \$2,916,810 bonds payable, \$137,500 notes payable, \$44,599 of capital leases payable, and \$94,194 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.		(3,193,103)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.		(27,418)
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.		363,495
Net Position of Governmental Activities	<u>\$</u>	<u>5,584,690</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, 2014

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Taxes			
Sales and Use	\$ 1,608,529	\$ -	\$ 1,608,529
Franchise	165,438	-	165,438
Licenses and permits	414,691	-	414,691
Charges for services	15,146	-	15,146
Municipal court fines	98,372	5,429	103,801
Interest	1,560	2,904	4,464
Miscellaneous	57,541	-	57,541
Total revenues	<u>2,361,277</u>	<u>8,333</u>	<u>2,369,610</u>
<b>EXPENDITURES:</b>			
Current:			
General government	653,351		653,351
Public safety	1,110,364	943	1,111,307
Highways and streets and parks	299,554	-	299,554
Capital outlay	-	174,276	174,276
Debt service			
Principal	78,822	187,410	266,232
Interest and fiscal charges	664	110,210	110,874
Total expenditures	<u>2,142,755</u>	<u>472,839</u>	<u>2,615,594</u>
Excess (deficiency) of revenues over (under) expenditures	<u>218,522</u>	<u>(464,506)</u>	<u>(245,984)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	119,176	287,202	406,378
Transfers Out	(290,822)	-	(290,822)
Proceeds from capital lease	34,220	-	34,220
Total other financing sources (uses):	<u>(137,426)</u>	<u>287,202</u>	<u>149,776</u>
Net change in fund balance	81,096	(177,304)	(96,208)
Fund balance, October 1	<u>1,035,783</u>	<u>912,687</u>	<u>1,948,470</u>
Fund balance, September 30	<u>\$ 1,116,879</u>	<u>\$ 735,383</u>	<u>\$ 1,852,262</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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ (96,208)
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 \$388,766 of capital outlays and \$268,665 of debt principal payments is to increase net position.	657,431
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.	(243,827)
Current year debt proceeds are other financing sources (uses) in the fund financial statements. The net effect of the \$34,220 increase in capital leases payable is decrease in net position.	(34,220)
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 \$9,115 increase in interest payable and the \$25,383 increase in compensated absences payable is to decrease net position.	(34,498)
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.	14,833
Change in Net Position of Governmental Activities	\$ 263,511

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, 2014

<b>Assets</b>	
Current Assets:	
Cash	\$ 2,885,447
Investments	87,554
Accounts receivable (net of allowance for doubtful accounts)	267,417
Due from other funds	29,900
Prepaid expense	8,921
Restricted Assets - Cash- water debt sinking funds	16,315
Total current assets	<u>3,295,554</u>
Noncurrent Assets:	
Capital Assets:	
Land	255,339
Construction in progress	132,224
Buildings	46,413
Water plant	4,070,170
Distribution system	4,579,905
Intangible assets	1,463,092
Wastewater System	2,320,411
Automobiles	122,692
Office furniture and equipment	162,853
	<u>13,153,099</u>
Less accumulated depreciation	<u>(3,759,691)</u>
Net capital assets	<u>9,393,408</u>
Total noncurrent assets	<u>9,393,408</u>
 Total assets	 <u>12,688,962</u>
<b>Liabilities</b>	
Current Liabilities:	
Accounts payable	102,026
Accrued payroll	1,172
Compensated absences payable	21,056
Due to other funds	13,058
Current liabilities payable from restricted assets:	
Current portion of long-term debt	357,600
Accrued interest payable	35,087
Total current liabilities	<u>529,999</u>
Noncurrent Liabilities:	
Certificates of obligation	6,291,575
Total noncurrent liabilities	<u>6,291,575</u>
 Total liabilities	 <u>6,821,574</u>
<b>Net Position</b>	
Investment in capital assets, net of debt	3,819,660
Restricted for debt service (expendable)	40,678
Restricted for impact fees (expendable)	74,811
Unrestricted	1,932,239
 Total net position	 <u>\$ 5,867,388</u>

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, 2014

	2014
Operating revenues:	
Water & Sewer	\$ 1,575,128
Management contract charges	172,000
Late payment charges	11,694
Tap Fees	24,000
Impact fees	30,657
Customer assessment fees	640
Miscellaneous fees and charges	52,749
Total operating revenues	1,866,868
Operating expenses:	
Personnel services	447,921
Supplies	72,885
Contractual Services	415,685
Well utilities	103,168
Depreciation	448,362
Total operating expenses	1,488,021
Operating income (loss)	378,847
Nonoperating revenues (expenses)	
Interest income	814
Interest expense	(179,949)
Debt issuance costs	(35,000)
Total nonoperating revenues (expenses)	(214,135)
	164,712
Contributions and transfers:	
Capital contribution	113,440
Transfer out	(115,556)
	162,596
Change in net position	162,596
Net Position, October 1	5,704,792
Net Position, September 30	\$ 5,867,388

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, 2014

	2014
<b>Cash flows from operating activities:</b>	
Cash received from customers and users	\$ 1,884,683
Cash paid to suppliers	(689,911)
Cash paid to employees	(446,977)
Net cash provided (used) by operating activities	747,795
<b>Cash flow from noncapital financing activities:</b>	
Transfers in (out)	(115,556)
Net cash provided (used) by noncapital financing activities	(115,556)
<b>Cash flows from capital and related financing activities:</b>	
Principal payments - certificates of obligation	(307,600)
Principal payments - capital leases	(33,972)
Purchase of property, plant and equipment	(238,216)
Proceeds from bond issuance	1,200,000
Interest payments	(184,909)
Net cash flows provided by (used in) capital and related financing activities	435,303
<b>Cash flows from investing activities:</b>	
Interest received	814
(Purchase) sale of investments	(29)
Net cash provided by (used in) investing activities	785
<b>Net increase (decrease) in cash</b>	1,068,327
<b>Cash, October 1</b>	1,833,435
<b>Cash, September 30</b>	\$ 2,901,762
<b>Reconciliation of income from operations to net cash provided by operating activities:</b>	
Income (loss) from operations	\$ 378,847
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities	
Depreciation	448,362
(Increase) decrease in accounts receivable	17,815
Increase (decrease) in accounts payable	(98,173)
Increase (decrease) in accrued payroll	751
Increase (decrease) in compensated absences	193
Net adjustments	368,948
Net cash provided by operating activities	\$ 747,795
<b>Noncash Investing, Capital and Financing Activities</b>	
Contributions of capital assets	\$ 113,440

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, 2014**

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, 2014**

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 fund:

*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, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

*Debt Service Funds –*

The Debt Service Funds account for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

*Capital Projects Funds –*

The Capital Projects Funds account for amounts accumulated and expenditures related to major capital projects for the governmental funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are 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, 2014**

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.

E. 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 \$501,731 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. \$110,773 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, 2014**

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 \$179,949. 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	\$ 71,871
Sales taxes	124,380
Court fines	<u>167,244</u>
Total	<u>\$ 363,495</u>

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

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. Issuance 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, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 includes 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, 2014**

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, 2014. 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 \$1,303,509 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.

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.



**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued):

The City's investments consisted of the following at September 30, 2014.

Description	Amount	Value	Percentage of Total Investments	Standard & Poor's	Weighted Average Maturity
TexPool	\$ 344,342	\$ 344,342	20.90%	AAAm	83 days
Repurchase Sweep Account	1,303,509	1,303,509	79.10%	n/a	n/a
	<u>\$ 1,647,851</u>	<u>\$ 1,647,851</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.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

Governmental activities:

	Balance 9/30/2013	Additions	Retirements	Reclassifications	Balance 9/30/2014
Non - Depreciable Assets:					
Land	\$ 637,287	\$ -	\$ -	\$ -	\$ 637,287
Construction in Progress	1,121,801	163,787	-	-	1,285,588
Total non-depreciable assets	<u>1,759,088</u>	<u>163,787</u>	<u>-</u>	<u>-</u>	<u>1,922,875</u>
Depreciable Assets:					
Equipment	297,701	6,673	-	-	304,374
Automobiles	172,304	45,618	(68,984)	-	148,938
Buildings	2,329,801	-	-	-	2,329,801
Improvements	191,451	-	-	-	191,451
Infrastructure	4,107,836	172,688	-	-	4,280,524
Total capital assets being depreciated	<u>7,099,093</u>	<u>224,979</u>	<u>(68,984)</u>	<u>-</u>	<u>7,255,088</u>
Accumulated Depreciation:					
Equipment	(297,701)	(1,335)	-	-	(299,036)
Automobiles	(130,104)	(14,050)	68,984	-	(75,170)
Buildings	(335,906)	(58,299)	-	-	(394,205)
Improvements	(92,708)	(10,316)	-	-	(103,024)
Infrastructure	(1,557,247)	(159,827)	-	-	(1,717,074)
Total accumulated depreciation	<u>(2,413,666)</u>	<u>(243,827)</u>	<u>68,984</u>	<u>-</u>	<u>(2,588,509)</u>
Governmental activities capital assets, net	<u>\$ 6,444,515</u>	<u>\$ 144,939</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,589,454</u>

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 3 - CAPITAL ASSETS (continued)

Business-type activities:

	Balance 9/30/2013	Additions	Retirements	Reclassifications	Balance 9/30/2014
Non-Depreciable Assets:					
Land	\$ 255,339	\$ -	\$ -	\$ -	\$ 255,339
Construction in Progress	312,199	75,451	-	(255,426)	132,224
Total non-depreciable assets	<u>567,538</u>	<u>75,451</u>	<u>-</u>	<u>(255,426)</u>	<u>387,563</u>
Buildings	46,413	-	-	-	46,413
Water plant	4,070,170	-	-	-	4,070,170
Water distribution	4,166,428	158,051	-	255,426	4,579,905
Wastewater systems	2,320,411	-	-	-	2,320,411
Automobiles	111,257	52,921	(41,486)	-	122,692
Equipment	97,620	65,233	-	-	162,853
Intangible assets	1,463,092	-	-	-	1,463,092
Total capital assets being depreciated	<u>12,275,391</u>	<u>276,205</u>	<u>(41,486)</u>	<u>255,426</u>	<u>12,765,536</u>
Accumulated Depreciation:					
Buildings	(8,122)	(1,160)	-	-	(9,282)
Water plant	(825,049)	(130,100)	-	-	(955,149)
Water distribution	(1,437,845)	(156,101)	-	-	(1,593,946)
Wastewater lines	(668,309)	(77,347)	-	-	(745,656)
Automobiles	(79,859)	(23,255)	41,486	-	(61,628)
Equipment	(47,561)	(18,328)	-	-	(65,889)
Intangible assets	(286,070)	(42,071)	-	-	(328,141)
Total accumulated depreciation	<u>(3,352,815)</u>	<u>(448,362)</u>	<u>41,486</u>	<u>-</u>	<u>(3,759,691)</u>
Business-type activities capital assets, net	<u>\$ 9,490,114</u>	<u>\$ (96,706)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,393,408</u>

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 3 - CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 38,743
Public safety	43,719
Highways and streets and parks	161,365
Total depreciation expense - governmental activities	<u>\$ 243,827</u>
Business-type activities:	
Waterworks	\$ 257,342
Wastewater	92,423
Dyegard Water System	98,597
Total depreciation expense - business-type activities	<u>\$ 448,362</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 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, 2014**

NOTE 3 - CAPITAL ASSETS (continued)

A summary of intangible assets as of September 30, 2014, follows:

	Term	Asset	Accumulated Depreciation	Net Asset
Depreciated intangible assets				
TRWD Raw Water Buy-in	28 years	\$ 134,839	\$ (45,749)	\$ 89,090
TRWD Raw Water Capacity	30 years	490,834	(49,084)	441,750
Benbrook Pipeline Buy-in	50 years	526,502	(118,463)	408,039
Treatment Facilities Buy-in	30 years	148,704	(55,764)	92,940
Legal Fees For Buy-ins	30 years	162,213	(59,081)	103,132
Total depreciated intangible assets		<u>1,463,092</u>	<u>(328,141)</u>	<u>1,134,951</u>

Aggregate Intangible Depreciation Expense:

For the year ended September 30, 2014 \$ 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, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
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
2012 Bond Fund	Lakeshore Bridge Capital Projects	23,249
Total Governmental Funds		<u>\$ 125,591</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, 2014, is as follows:

Transfer In	Transfer Out	Amount	Purpose
General	Waterworks Fund	\$ 115,556	Debt Service
General	Other Governmental Funds	3,620	Debt Service
Other Governmental Funds	General	287,202	Debt Service
Total Governmental Funds Transfer In		<u>\$ 406,378</u>	

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

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, 2014 was \$10,379.

On July 11, 2014, the General Fund acquired two police vehicles with a capital lease. The lease requires three annual payments of \$12,212 beginning June 2015. The interest rate is 3.50%. The outstanding balance at September 30, 2014 was \$34,220.

The following is an analysis of capital assets purchased under capital leases as of September 30, 2014:

	Governmental Activities
Automobiles	100,662
Less accumulated depreciation	(26,894)
	\$ 73,768

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, 2014:

	Governmental Activities
2015	\$ 22,917
2016	12,212
2017	12,212
Total minimum lease payments	47,341
Amount representing interest	(2,742)
Present value of future minimum payments	\$ 44,599

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 1<sup>st</sup> day of April in 2014, 2015 and 2016.

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

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 \$58,425.

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 \$79,650.

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 5 – LONG-TERM DEBT (continued)

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 \$52,100.

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 \$102,550.

Combination Tax and Revenue Certificates, Series 2014

On May 15, 2014, the City authorized the issuance and sale of \$1,235,000 Combination Tax and Revenue Certificates of Obligation, Series 2014 dated June 12, 2014. The Certificates were issued in order to acquire, construct, expand and equip extensions and improvements to the City's sanitary wastewater system including, but not limited to, an expansion of the wastewater main south of I-20 from Lakeshore Drive to Parker Oaks Drive and the acquisition of easements, the installation of a lift station, and the construction of a gravity main and a force main related thereto. 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 bearing an interest rate of 2.15% per annum and maturing August 1, 2024. No interest was paid during the year.

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 5 – LONG-TERM DEBT (continued)

The annual requirements to amortize all bonded debt outstanding as of September 30, 2014 are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 192,400	\$ 104,508	\$ 296,908	\$ 357,600	\$ 206,909	\$ 564,509
2016	192,400	98,980	291,380	367,600	196,076	563,676
2017	203,750	92,652	296,402	381,250	187,248	568,498
2018	208,750	85,941	294,691	391,250	177,666	568,916
2019	220,100	79,026	299,126	449,900	169,784	619,684
2020-2024	1,106,300	264,964	1,371,264	1,918,700	681,786	2,600,486
2025-2029	610,050	78,141	688,191	1,244,950	419,211	1,664,161
2030-2034	148,500	9,696	158,196	1,211,500	171,566	1,383,066
2035-2039	-	-	-	185,000	7,863	192,863
Debt service requirements	\$ 2,882,250	\$ 813,908	\$ 3,696,158	\$ 6,507,750	\$ 2,218,109	\$ 8,725,859
Add: Unamortized premium	34,560	-	34,560	141,425	-	141,425
Total	<u>\$ 2,916,810</u>	<u>\$ 813,908</u>	<u>\$ 3,730,718</u>	<u>\$ 6,649,175</u>	<u>\$ 2,218,109</u>	<u>\$ 8,867,284</u>



**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

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, 2014:

	<u>10/1/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>9/30/14</u>	<u>Due within one year</u>
<b>Governmental Activities:</b>					
Certificates of Obligation, 2007	\$ 1,425,000	\$ -	\$ 75,000	\$ 1,350,000	\$ 80,000
General Obligation Refunding, 2010	890,000	-	80,000	810,000	80,000
2010 Premium on bond	12,940	-	1,176	11,764	-
Certificates of Obligation, 2012	754,650	-	32,400	722,250	32,400
2012 Premium on Bond	24,063	-	1,267	22,796	-
Capital Leases	20,451	34,220	10,072	44,599	21,394
Loan Payable	206,250	-	68,750	137,500	68,750
Compensated Absences	68,811	94,194	68,811	94,194	94,194
<b>Total Governmental Activities</b>	<u>3,402,165</u>	<u>128,414</u>	<u>337,476</u>	<u>3,193,103</u>	<u>376,738</u>
<b>Business-type Activities:</b>					
Certificates of Obligation, 2010	2,745,000	-	90,000	2,655,000	90,000
2010 Premium on bond	71,775	-	3,263	68,512	-
General Obligation Refunding, 2010	795,000	-	130,000	665,000	135,000
2010 Premium on bond	13,156	-	1,879	11,277	-
Certificates of Obligation 2012	2,040,350	-	87,600	1,952,750	87,600
2012 Premium on Bond	65,060	-	3,424	61,636	-
Certificates of Obligation, 2014	-	1,235,000	-	1,235,000	45,000
Capital Leases	33,972	-	33,972	-	-
Compensated Absences	20,863	21,056	20,863	21,056	21,056
<b>Total Business-type Activities</b>	<u>5,785,176</u>	<u>1,256,056</u>	<u>371,001</u>	<u>6,670,231</u>	<u>378,656</u>
<b>Total Long-Term Debt</b>	<u>\$ 9,187,341</u>	<u>\$ 1,384,470</u>	<u>\$ 708,477</u>	<u>\$ 9,863,334</u>	<u>\$ 755,394</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.

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 6 – CONDUIT DEBT AGREEMENTS (continued)

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. The amount of Hudson Oaks Education Finance Corporation conduit debt obligations outstanding at September 30, 2014 are as follows:

Lakehill Preparatory School Loan Agreement	\$ 3,185,000
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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, 2014 this corporation has not issued any debt.

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](http://www.TMRS.com).

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

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:

	Plan Year 2013	Plan Year 2014
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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to 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, 2014**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)

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

	2014	2013	2012
Annual required contribution	\$ 137,094	\$ 123,015	\$ 101,785
Interest on Net Pension Obligation	-	-	-
Adjustment to the ARC	-	-	-
Total annual pension cost	137,094	123,015	101,785
Contributions made	137,094	123,015	101,785
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 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

**General System-wide Actuarial Assumptions**

Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	24.3 years; closed period	22.8 years; closed period	30.0 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%

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

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 7 - EMPLOYEE RETIREMENT SYSTEM (continued)**

The funded status as of December 31, 2013, 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 (UAAL)</i>	<i>Covered Payroll</i>	<i>UAAL as a Percentage of Covered Payroll</i>
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2013	1,930,825	2,714,141	71.1%	783,316	1,128,480	69.4%

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 2013	Plan Year 2014
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, 2014**

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 2014, 2013 and 2012 were \$963, \$922 and \$969, 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 1<sup>st</sup> of each year.

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

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 – 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, 2014 \$1,285,589 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).
  - 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.

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

NOTE 12 – CONTRACTS AND COMMITMENTS (continued)

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, 2014 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. As of September 30, 2014, sales tax owed to the developer was \$11,760.

NOTE 13 – 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.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68*. This Statement addresses issues related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement will be implemented with GASB Statement No. 68, effective for the fiscal year ending September 30, 2015.



**CITY OF HUDSON OAKS, TEXAS**  
**Notes to the Financial Statements**  
**September 30, 2014**

**NOTE 14 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through February 18, 2015, which is the date the financial statements were available to be issued.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**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, 2014

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 1,715,177	\$ 1,715,177	\$ 1,773,967	\$ 58,790
Licenses and permits	199,841	385,800	414,691	28,891
Charges for services	2,200	2,200	15,146	12,946
Municipal court fines	131,000	131,000	98,372	(32,628)
Interest	1,100	1,100	1,560	460
Miscellaneous	70,936	70,936	57,541	(13,395)
Total revenues	<u>2,120,254</u>	<u>2,306,213</u>	<u>2,361,277</u>	<u>55,064</u>
<b>Expenditures:</b>				
Current:				
General government	484,493	583,593	653,351	(69,758)
Public safety	1,006,725	1,049,725	1,110,364	(60,639)
Highways and streets and parks	310,115	306,615	299,554	7,061
Debt service				
Principal	51,909	51,909	78,822	(26,913)
Interest and fiscal charges	-	-	664	(664)
Total expenditures	<u>1,853,242</u>	<u>1,991,842</u>	<u>2,142,755</u>	<u>(150,913)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>267,012</u>	<u>314,371</u>	<u>218,522</u>	<u>(95,849)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	119,176	119,176
Transfers Out	(243,325)	(243,325)	(290,822)	(47,497)
Proceeds from capital lease	-	-	34,220	34,220
Total other financing sources (uses):	<u>(243,325)</u>	<u>(243,325)</u>	<u>(137,426)</u>	<u>105,899</u>
Net change in fund balance	23,687	71,046	81,096	10,050
Fund balance, October 1	<u>1,035,783</u>	<u>1,035,783</u>	<u>1,035,783</u>	<u>-</u>
Fund balance, September 30	<u>\$ 1,059,470</u>	<u>\$ 1,106,829</u>	<u>\$ 1,116,879</u>	<u>\$ 10,050</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>
			<i>(1)/(2)</i>	<i>(2)-(1)</i>		<i>(4)/(5)</i>
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%
12/31/2013	1,930,825	2,714,141	71.1%	783,316	1,128,480	69.4%

**CITY OF HUDSON OAKS, TEXAS**  
**Notes to Required Supplementary Information**  
**September 30, 2014**

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 \$150,913. The following general fund departments had expenditures in excess of appropriations.

<u>Department</u>	<u>Amount</u>	<u>Primary Cause</u>
General Government	\$ 69,758	Professional services and economic development agreements.
Public Safety	\$ 60,639	Wages and purchase of vehicles and equipment
Debt Service Principal	\$ 26,913	Payment on property purchased

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## MAJOR GOVERNMENTAL FUND

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### 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.

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## CITY OF HUDSON OAKS, TEXAS

## General Fund

## Comparative Balance Sheets

September 30, 2014 and 2013

<b>Assets:</b>	<u>2014</u>	<u>2013</u>
Cash	\$ 776,236	\$ 661,209
Investments	256,787	256,701
Sales tax receivable	261,461	250,402
Franchise tax receivable	76,836	72,809
Fines and fees	167,243	-
Miscellaneous receivables	6,854	163,995
Prepaid expenses	-	8,396
Due from other funds	91,554	91,554
Total assets	<u>\$ 1,636,971</u>	<u>\$ 1,505,066</u>
 <b>Liabilities, Deferred Outflows of Resources and Fund Balance:</b>		
Liabilities:		
Accounts payable	\$ 95,017	\$ 70,420
Accrued payroll	4,494	-
Due to State	27,186	20,299
Due to Other Funds	29,900	29,900
Total Liabilities	<u>156,597</u>	<u>120,619</u>
 Deferred Outflows of Resources:		
Deferred revenue	<u>363,495</u>	<u>348,664</u>
 Fund Balance:		
Nonspendable fund balance	-	8,396
Restricted fund balance	1,732	1,732
Unassigned fund balance	1,115,147	1,025,655
Total Fund Balance	<u>1,116,879</u>	<u>1,035,783</u>
 Total Liabilities, Deferred Outflows and Fund Balance	 <u>\$ 1,636,971</u>	 <u>\$ 1,505,066</u>

## CITY OF HUDSON OAKS, TEXAS

## General Fund

Comparative Statements of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Taxes		
Sales and use	\$ 1,608,529	\$ 1,524,171
Franchise	165,438	145,824
Licenses and permits	414,691	322,735
Charges for services	15,146	7,390
Municipal court fines	98,372	115,194
Interest	1,560	2,604
Miscellaneous	57,541	71,715
Total revenues	<u>2,361,277</u>	<u>2,189,633</u>
Expenditures:		
Current:		
General government	653,351	584,677
Public safety	1,110,364	963,622
Highways and streets and parks	299,554	496,790
Economic development grants	-	150,000
Principal	78,822	9,747
Interest and fiscal charges	664	990
Total expenditures	<u>2,142,755</u>	<u>2,205,826</u>
Excess (deficiency) of revenues over (under) expenditures	<u>218,522</u>	<u>(16,193)</u>
Other financing sources (uses):		
Transfers In	119,176	-
Transfers Out	(290,822)	(197,372)
Note proceeds	-	206,250
Capital lease proceeds	34,220	-
Total other financing sources (uses):	<u>(137,426)</u>	<u>8,878</u>
Net change in fund balance	81,096	(7,315)
Fund balance, Beginning	<u>1,035,783</u>	<u>1,043,098</u>
Fund balance, Ending	<u>\$ 1,116,879</u>	<u>\$ 1,035,783</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, 2014 and 2013

	2014			2013		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Revenue:						
Taxes:						
Sales and use tax	\$ 1,560,177	\$ 1,608,529	\$ 48,352	\$ 1,456,173	\$ 1,524,171	\$ 67,998
Franchise tax	155,000	165,438	10,438	145,000	145,824	824
Total taxes	<u>1,715,177</u>	<u>1,773,967</u>	<u>58,790</u>	<u>1,601,173</u>	<u>1,669,995</u>	<u>68,822</u>
Licenses and permits:						
Building permits	370,000	386,879	16,879	175,000	297,100	122,100
Other permits	15,800	27,812	12,012	17,251	25,635	8,384
Total licenses and permits	<u>385,800</u>	<u>414,691</u>	<u>28,891</u>	<u>192,251</u>	<u>322,735</u>	<u>130,484</u>
Charges for services	<u>2,200</u>	<u>15,146</u>	<u>12,946</u>	<u>1,850</u>	<u>7,390</u>	<u>5,540</u>
Municipal court fines	<u>131,000</u>	<u>98,372</u>	<u>(32,628)</u>	<u>142,000</u>	<u>115,194</u>	<u>(26,806)</u>
Interest	<u>1,100</u>	<u>1,560</u>	<u>460</u>	<u>8,000</u>	<u>2,604</u>	<u>(5,396)</u>
Miscellaneous:						
Education allocation	1,400	1,294	(106)	1,400	-	(1,400)
Rents	49,836	46,128	(3,708)	49,836	51,978	2,142
Other	19,700	10,119	(9,581)	31,000	19,737	(11,263)
	<u>70,936</u>	<u>57,541</u>	<u>(13,395)</u>	<u>82,236</u>	<u>71,715</u>	<u>(10,521)</u>
Total Revenues	<u>\$ 2,306,213</u>	<u>\$ 2,361,277</u>	<u>\$ 55,064</u>	<u>\$ 2,027,510</u>	<u>\$ 2,189,633</u>	<u>\$ 162,123</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, 2014 and 2013

	2014			2013		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Expenditures:						
General government:						
Personal services:						
Salaries	\$ 165,601	\$ 169,889	\$ (4,288)	\$ 178,802	\$ 197,417	\$ (18,615)
Payroll taxes	3,173	3,169	4	3,280	2,885	395
Worker's compensation	1,950	4,237	(2,287)	2,106	3,755	(1,649)
Group insurance	12,535	17,877	(5,342)	13,065	23,125	(10,060)
Retirement	19,005	17,945	1,060	18,975	17,250	1,725
Total personal services	202,264	213,117	(10,853)	216,228	244,432	(28,204)
Supplies:						
General office	7,250	9,688	(2,438)	6,500	9,584	(3,084)
Postage and printing	6,239	3,725	2,514	6,250	3,991	2,259
Miscellaneous	2,300	7,901	(5,601)	2,800	2,580	220
Total supplies	15,789	21,314	(5,525)	15,550	16,155	(605)
Services:						
Auditing/accounting	7,113	5,113	2,000	7,000	5,774	1,226
Professional services	93,237	111,134	(17,897)	86,000	79,781	6,219
Contract labor	-	2,668	(2,668)	4,000	2,975	1,025
Legal	38,539	39,872	(1,333)	40,000	45,732	(5,732)
Bank fees	4,585	4,915	(330)	4,200	3,925	275
Building inspection	125,000	129,451	(4,451)	54,000	112,299	(58,299)
Health inspections	-	-	-	-	350	(350)
Advertising/legal	2,500	9,726	(7,226)	2,500	3,680	(1,180)
Economic development agreements	8,100	19,860	(11,760)	-	-	-
Election expense	5,000	4,398	602	5,000	119	4,881
Filing fees	-	774	(774)	-	-	-
Dues/subscriptions	6,750	6,151	599	4,750	6,498	(1,748)
Seminars/training	9,141	5,080	4,061	9,500	4,704	4,796
Community events	5,000	4,331	669	-	2,433	(2,433)
Auto and travel	7,575	10,447	(2,872)	10,500	6,674	3,826
Insurance	-	6,151	(6,151)	-	3,901	(3,901)
Cash over/short	-	5	(5)	-	2	(2)
Telephone	11,000	13,695	(2,695)	7,500	12,470	(4,970)
Utilities	18,000	20,565	(2,565)	12,000	10,189	1,811
Equipment repair/maint	250	209	41	200	219	(19)
Pre-employment screening	250	-	250	250	179	71
Software maintenance	13,500	20,487	(6,987)	13,500	15,116	(1,616)
Total services	355,540	415,032	(59,492)	260,900	317,020	(56,120)
Capital expenditures:						
Office equipment	10,000	3,888	6,112	10,000	7,071	2,929
Total capital expenditures	10,000	3,888	6,112	10,000	7,071	2,929
Total General Government	583,593	653,351	(69,758)	502,678	584,677	(81,999)

**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, 2014 and 2013

	2014			2013		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Public safety:						
Police, Fire Department and Municipal Court:						
Personal services:						
Salaries	631,138	652,717	(21,579)	597,544	587,585	9,959
Payroll taxes	11,804	11,423	381	11,818	8,224	3,594
Worker's compensation	15,312	11,795	3,517	15,312	9,762	5,550
Group insurance	62,169	58,504	3,665	59,855	69,487	(9,632)
Retirement	63,470	69,819	(6,349)	59,897	66,791	(6,894)
Total personal services	783,893	804,258	(20,365)	744,426	741,849	2,577
Supplies:						
Gas and oil-vehicle	20,000	17,202	2,798	20,000	20,935	(935)
Postage/printing	3,800	5,234	(1,434)	3,800	2,186	1,614
Office/court supplies	9,400	12,600	(3,200)	10,200	5,141	5,059
Uniforms and ammunition	6,500	5,306	1,194	5,500	4,253	1,247
Total supplies	39,700	40,342	(642)	39,500	32,515	6,985
Services:						
Advertising/legal	200	-	200	200	-	200
Auditing and accounting	9,200	6,913	2,287	7,500	10,719	(3,219)
Professional services	-	10,063	(10,063)	-	6,395	(6,395)
Contract labor	49,000	32,683	16,317	54,000	54,865	(865)
Dues/subscriptions	2,425	467	1,958	2,300	1,120	1,180
Seminars, training and awards	4,700	2,126	2,574	4,400	1,436	2,964
Community events	3,000	2,800	200	-	-	-
Travel	2,900	1,640	1,260	2,100	1,144	956
Insurance	10,000	13,135	(3,135)	10,000	11,632	(1,632)
Jury and lab fees	500	-	500	500	36	464
Inmate housing/dispatch	46,000	44,586	1,414	46,000	44,690	1,310
Telephone	24,000	17,514	6,486	22,200	24,727	(2,527)
Radio repair/maint.	2,000	5,056	(3,056)	2,000	640	1,360
Vehicle repair/maint.	6,000	5,968	32	9,000	9,096	(96)
Software maintenance	4,500	18,669	(14,169)	3,420	10,433	(7,013)
Equipment repair/maint.	5,500	6,356	(856)	2,500	1,020	1,480
Pre-employment screening	500	-	500	500	-	500
Utilities	13,000	12,640	360	13,000	8,610	4,390
Total services	183,425	180,616	2,809	179,620	186,563	(6,943)
Capital outlay:						
Vehicles	22,707	45,618	(22,911)	-	-	-
Office/radio equipment	20,000	39,530	(19,530)	10,000	2,695	7,305
Total capital outlay	42,707	85,148	(42,441)	10,000	2,695	7,305
Total Public Safety	1,049,725	1,110,364	(60,639)	973,546	963,622	9,923

**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, 2014 and 2013

	2014			2013		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Highways and Streets and Parks:						
Personal Services:						
Salaries	32,198	35,764	(3,566)	30,640	30,091	549
Payroll taxes	598	675	(77)	569	1,112	(543)
Worker's compensation	624	1,207	(583)	624	751	(127)
Group insurance	4,010	3,447	563	2,862	3,808	(946)
Retirement	3,580	3,741	(161)	3,203	3,647	(444)
Total personal services	41,010	44,834	(3,824)	37,898	39,409	(1,511)
Supplies:						
Office supplies	5,540	2,963	2,577	2,040	1,579	461
Total supplies	5,540	2,963	2,577	2,040	1,579	461
Services:						
Contract labor	3,121	4,953	(1,832)	3,060	4,961	(1,901)
Dues and subscriptions	100	-	100	102	100	2
Telephone and utilities	12,000	8,836	3,164	12,000	11,978	22
Insurance	-	4,879	(4,879)	-	6,040	(6,040)
Building repair/maint	18,931	19,173	(242)	18,560	18,962	(402)
Professional services	16,000	80,346	(64,346)	8,160	12,488	(4,328)
Equipment rental	2,500	-	2,500	3,978	2,019	1,959
Parks grounds keeping	5,202	6,515	(1,313)	5,100	2,482	2,618
Property	-	1,460	(1,460)	-	281,300	(281,300)
Street signs	2,600	11,358	(8,758)	2,550	517	2,033
Street improvements/repairs	199,611	114,237	85,374	178,875	114,955	63,920
Total services	260,065	251,757	8,308	232,385	455,802	(223,417)
Total Highways, Streets, Parks	306,615	299,554	7,061	272,323	496,790	(224,467)
Economic development grants	-	-	-	-	150,000	(150,000)
Debt Service:						
Capital lease principal payments	51,909	78,822	(26,913)	10,737	9,747	(990)
Interest	-	664	(664)	-	990	(990)
Total Debt Service	51,909	79,486	(27,577)	10,737	10,737	(1,980)
Total Expenditures	1,991,842	2,142,755	(150,913)	1,759,284	2,205,826	(448,523)
Excess of revenues over (under) expenditures	314,371	218,522	(95,849)	268,226	(16,193)	(284,419)



**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, 2014 and 2013**

	2014			2013		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):						
Transfers in	-	119,176	119,176	-	-	-
Transfers out	(243,325)	(290,822)	(47,497)	(250,631)	(197,372)	53,259
Proceeds from capital lease	-	34,220	34,220	-	206,250	206,250
Total other financing sources (uses):	<u>(243,325)</u>	<u>(137,426)</u>	<u>105,899</u>	<u>(250,631)</u>	<u>8,878</u>	<u>259,509</u>
Net change in fund balance	71,046	81,096	10,050	17,595	(7,315)	(24,910)
Fund balance, Beginning	<u>1,035,783</u>	<u>1,035,783</u>	<u>-</u>	<u>1,043,098</u>	<u>1,043,098</u>	<u>-</u>
Fund balance, Ending	<u>\$ 1,106,829</u>	<u>\$ 1,116,879</u>	<u>\$ 10,050</u>	<u>\$ 1,060,693</u>	<u>\$ 1,035,783</u>	<u>\$ (24,910)</u>

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## **NONMAJOR GOVERNMENTAL FUNDS**

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### **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 FUNDS**

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

### **CAPITAL PROJECTS FUNDS**

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

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

The 2012 Bond capital project fund is used to account for amounts accumulated by the 2012 certificates of obligation and expenditures related to the U.S. 180 Middle Median Improvements for the governmental funds.

**CITY OF HUDSON OAKS, TEXAS**  
 Nonmajor Funds  
 Combining Balance Sheet  
 September 30, 2014

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Total Special Revenue Funds
<b>Assets:</b>					
Cash	\$ 3,587	\$ 10,633	\$ 7,278	\$ 7,250	\$ 28,748
Due from Other Funds	-	-	-	-	-
<b>Total assets</b>	<u>3,587</u>	<u>10,633</u>	<u>7,278</u>	<u>7,250</u>	<u>28,748</u>
<b>Liabilities and Fund Balance:</b>					
<b>Liabilities:</b>					
Due to Other Funds	-	-	-	-	-
<b>Total Liabilities</b>	-	-	-	-	-
<b>Fund Balance:</b>					
Restricted fund balance	3,587	10,633	7,278	7,250	28,748
Assigned fund balance	-	-	-	-	-
<b>Total Fund Balance</b>	<u>3,587</u>	<u>10,633</u>	<u>7,278</u>	<u>7,250</u>	<u>28,748</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 3,587</u>	<u>\$ 10,633</u>	<u>\$ 7,278</u>	<u>\$ 7,250</u>	<u>\$ 28,748</u>

Exhibit C-1

U.S. 180 Sewer Improvement Capital Projects	Lakeshore Bridge Capital Projects Fund	2012 Bond Fund	Total Capital Projects Funds	Debt Service Fund	Debt Service Fund 2010 Refunding	CO Series 2012 Sinking Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ 378	\$ 711,550	\$ 40,760	\$ 752,688	\$ 11,363	\$ 14,489	\$ 6,591	\$ 32,443	\$ 813,879
-	-	23,249	23,249	-	-	10,788	10,788	34,037
<u>378</u>	<u>711,550</u>	<u>64,009</u>	<u>775,937</u>	<u>11,363</u>	<u>14,489</u>	<u>17,379</u>	<u>43,231</u>	<u>847,916</u>
-	89,263	23,270	112,533	-	-	-	-	112,533
-	89,263	23,270	112,533	-	-	-	-	112,533
378	622,287	40,739	663,404	-	-	-	-	692,152
-	-	-	-	11,363	14,489	17,379	43,231	43,231
<u>378</u>	<u>622,287</u>	<u>40,739</u>	<u>663,404</u>	<u>11,363</u>	<u>14,489</u>	<u>17,379</u>	<u>43,231</u>	<u>735,383</u>
<u>\$ 378</u>	<u>\$ 711,550</u>	<u>\$ 64,009</u>	<u>\$ 775,937</u>	<u>\$ 11,363</u>	<u>\$ 14,489</u>	<u>\$ 17,379</u>	<u>\$ 43,231</u>	<u>\$ 847,916</u>

**CITY OF HUDSON OAKS, TEXAS**

Nonmajor Funds

Combining Statement of Revenues, Expenditures and Changes

In Fund Balance

For the Year Ended September 30, 2014

	Police Seizure Forfeiture Fund	Municipal Court Technology Fund	Court Building Security Fund	Park Dedication Fund	Total Special Revenue Funds
Revenue:					
Municipal court fees	\$ -	\$ 3,101	\$ 2,328	\$ -	\$ 5,429
Interest	-	-	-	-	-
Total Revenues	-	3,101	2,328	-	5,429
Expenditures:					
Current					
Public safety	-	943	-	-	943
Debt Service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total Expenditures	-	943	-	-	943
Excess (deficiency) of revenues over (under) expenditures	-	2,158	2,328	-	4,486
Other Financing Sources (Uses):					
Transfers In	-	-	-	-	-
Total other financing sources (uses):	-	-	-	-	-
Net change in fund balance	-	2,158	2,328	-	4,486
Fund balance, October 1	3,587	8,475	4,950	7,250	24,262
Fund balance, September 30	<u>\$ 3,587</u>	<u>\$ 10,633</u>	<u>\$ 7,278</u>	<u>\$ 7,250</u>	<u>\$ 28,748</u>

U.S. 180 Sewer Improvement Capital Projects	Lakeshore Bridge Capital Projects Fund	2012 Bond Fund	Total Capital Projects Funds	Debt Service Fund	Debt Service Fund 2010 Refunding	CO Series 2012 Sinking Fund	Total Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,429
-	2,815	13	2,828	21	7	48	76	2,904
-	2,815	13	2,828	21	7	48	76	8,333
-	-	-	-	-	-	-	-	943
-	-	-	-	155,000	-	32,400	187,400	187,400
-	-	10	10	88,324	-	21,886	110,210	110,220
-	163,787	10,489	174,276	-	-	-	-	174,276
-	163,787	10,499	174,286	243,324	-	54,286	-	472,839
-	(160,972)	(10,486)	(171,458)	(243,303)	7	(54,238)	76	(464,506)
-	-	-	-	243,325	-	43,877	287,202	287,202
-	-	-	-	243,325	-	43,877	287,202	287,202
-	(160,972)	(10,486)	(171,458)	22	7	(10,361)	287,278	(177,304)
378	783,259	51,225	834,862	11,341	14,482	27,740	53,563	912,687
<u>\$ 378</u>	<u>\$ 622,287</u>	<u>\$ 40,739</u>	<u>\$ 663,404</u>	<u>\$ 11,363</u>	<u>\$ 14,489</u>	<u>\$ 17,379</u>	<u>\$ 340,841</u>	<u>\$ 735,383</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, 2014  
(With Comparative Totals for September 30, 2013)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Totals	
					2014	2013
<b>Assets</b>						
<b>Current Assets:</b>						
Cash	\$ 1,196,607	\$ 1,589,274	\$ (52,719)	\$ 152,285	\$ 2,885,447	\$ 1,769,057
Investments	87,554	-	-	-	87,554	87,525
Accounts receivable (net of allowance for doubtful accounts)	179,633	36,335	35,184	16,265	267,417	285,232
Due from other funds	29,900	-	-	-	29,900	29,900
Prepaid Expense	7,222	-	1,699	-	8,921	8,921
<b>Restricted Assets:</b>						
Cash- water debt sinking funds	12,435	-	3,880	-	16,315	64,378
<b>Total current assets</b>	<b>1,513,351</b>	<b>1,625,609</b>	<b>(11,956)</b>	<b>168,550</b>	<b>3,295,554</b>	<b>2,245,013</b>
<b>Noncurrent Assets:</b>						
<b>Capital Assets:</b>						
Land	255,339	-	-	-	255,339	255,339
Construction in Progress	24,334	107,890	-	-	132,224	312,199
Buildings	46,413	-	-	-	46,413	46,413
Water plant	1,395,156	-	2,675,014	-	4,070,170	4,070,170
Distribution system	4,301,982	-	277,923	-	4,579,905	4,166,428
Intangible assets	1,463,092	-	-	-	1,463,092	1,463,092
Wastewater system	-	2,320,411	-	-	2,320,411	2,320,411
Automobiles	69,771	52,921	-	-	122,692	111,257
Office furniture and equipment	99,844	63,009	-	-	162,853	97,620
	7,655,931	2,544,231	2,952,937	-	13,153,099	12,842,929
Less accumulated depreciation	(2,606,021)	(760,734)	(392,936)	-	(3,759,691)	(3,352,815)
<b>Net capital assets</b>	<b>5,049,910</b>	<b>1,783,497</b>	<b>2,560,001</b>	<b>-</b>	<b>9,393,408</b>	<b>9,490,114</b>
<b>Total noncurrent assets</b>	<b>5,049,910</b>	<b>1,783,497</b>	<b>2,560,001</b>	<b>-</b>	<b>9,393,408</b>	<b>9,490,114</b>
<b>Total assets</b>	<b>6,563,261</b>	<b>3,409,106</b>	<b>2,548,045</b>	<b>168,550</b>	<b>12,688,962</b>	<b>11,735,127</b>
<b>Liabilities</b>						
<b>Current Liabilities:</b>						
Accounts payable	65,806	18,886	16,834	500	102,026	200,198
Accrued payroll	1,631	-	-	(459)	1,172	421
Compensated absences payable	21,056	-	-	-	21,056	20,863
Due to other funds	10,788	-	2,270	-	13,058	13,059
<b>Current liabilities payable from restricted assets:</b>						
Current portion of long-term debt	222,600	45,000	90,000	-	357,600	341,572
Accrued interest payable	9,399	5,630	20,058	-	35,087	31,481
<b>Total current liabilities</b>	<b>331,280</b>	<b>69,516</b>	<b>129,162</b>	<b>41</b>	<b>529,999</b>	<b>607,594</b>
<b>Noncurrent Liabilities:</b>						
Certificates of obligation	2,468,063	1,190,000	2,633,512	-	6,291,575	5,422,741
<b>Total liabilities</b>	<b>2,799,343</b>	<b>1,259,516</b>	<b>2,762,674</b>	<b>41</b>	<b>6,821,574</b>	<b>6,030,335</b>
<b>Net Position</b>						
Investment in capital assets, net of debt	3,434,674	548,497	(163,511)	-	3,819,660	4,845,486
Restricted for debt service (expendable)	42,335	-	(1,657)	-	40,678	87,872
Restricted for impact fees	74,811	-	-	-	74,811	44,153
Unrestricted	212,098	1,601,093	(49,461)	168,509	1,932,239	727,281
<b>Total net position</b>	<b>\$ 3,763,918</b>	<b>\$ 2,149,590</b>	<b>\$ (214,629)</b>	<b>\$ 168,509</b>	<b>\$ 5,867,388</b>	<b>\$ 5,704,792</b>

**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, 2014  
 (With Comparative Totals for the Year Ended September 30, 2013)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Elimination	Totals	
						2014	2013
<b>Operating revenues:</b>							
Water & Wastewater	\$ 1,011,033	\$ 333,476	\$ 230,619	\$ -	\$ -	\$ 1,575,128	\$ 1,543,010
Management contract charges	-	-	-	172,000	-	172,000	172,000
Late payment charges	10,028	-	1,666	-	-	11,694	10,329
Tap Fees	17,000	7,000	-	-	-	24,000	29,500
Impact fees	30,657	-	-	-	-	30,657	19,143
Customer assessment fees	640	-	-	-	-	640	1,840
Miscellaneous fees & Charges	52,749	-	-	-	-	52,749	55,779
Total operating revenues	<u>1,122,107</u>	<u>340,476</u>	<u>232,285</u>	<u>172,000</u>	<u>-</u>	<u>1,866,868</u>	<u>1,831,601</u>
<b>Operating expenses:</b>							
Personal services	341,997	-	-	105,924	-	447,921	462,090
Supplies	57,611	-	1,673	13,601	-	72,885	84,783
Contractual Services	208,845	155,359	49,171	2,310	-	415,685	562,261
Well utilities	57,626	-	45,542	-	-	103,168	68,359
Depreciation	257,342	92,423	98,597	-	-	448,362	418,539
Total operating expenses	<u>923,421</u>	<u>247,782</u>	<u>194,983</u>	<u>121,835</u>	<u>-</u>	<u>1,488,021</u>	<u>1,596,032</u>
Operating income (loss)	<u>198,686</u>	<u>92,694</u>	<u>37,302</u>	<u>50,165</u>	<u>-</u>	<u>378,847</u>	<u>235,569</u>
<b>Nonoperating revenues (expenses)</b>							
Interest income	432	358	24	-	-	814	182
Interest expense	(76,484)	(5,630)	(97,835)	-	-	(179,949)	(184,523)
Debt issuance costs	-	(35,000)	-	-	-	(35,000)	-
Economic development grants	-	-	-	-	-	-	(150,000)
Total nonoperating revenues (expenses)	<u>(76,052)</u>	<u>(40,272)</u>	<u>(97,811)</u>	<u>-</u>	<u>-</u>	<u>(214,135)</u>	<u>(334,341)</u>
Income (loss) before transfers	<u>122,634</u>	<u>52,422</u>	<u>(60,509)</u>	<u>50,165</u>	<u>-</u>	<u>164,712</u>	<u>(98,772)</u>
<b>Contributions and transfers:</b>							
Capital Contribution	113,440	-	-	-	-	113,440	82,450
Transfer In	16,383	-	-	-	(16,383)	-	93
Transfer out	-	(64,971)	(16,968)	(50,000)	16,383	(115,556)	-
Change in net position	<u>252,457</u>	<u>(12,549)</u>	<u>(77,477)</u>	<u>165</u>	<u>-</u>	<u>162,596</u>	<u>(16,229)</u>
Net Position, Beginning	<u>3,511,461</u>	<u>2,162,139</u>	<u>(137,152)</u>	<u>168,344</u>	<u>-</u>	<u>5,704,792</u>	<u>5,822,237</u>
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(101,216)</u>
Net Position, Ending	<u>\$ 3,763,918</u>	<u>\$ 2,149,590</u>	<u>\$ (214,629)</u>	<u>\$ 168,509</u>	<u>\$ -</u>	<u>\$ 5,867,388</u>	<u>\$ 5,704,792</u>

**CITY OF HUDSON OAKS, TEXAS**  
Water and Wastewater Fund  
Department Combining Statement of Cash Flows  
For the Year Ended September 30, 2014  
(With Comparative Totals for the Year Ended September 30, 2013)

	Waterworks	Wastewater	Dyegard Water System	Deer Creek Management	Total	
					2014	2013
<b>Cash flows from operating activities:</b>						
Cash received from customers and users	\$ 1,122,432	\$ 354,293	\$ 235,588	\$ 172,370	\$ 1,884,683	\$ 1,839,650
Cash paid to suppliers	(385,227)	(204,269)	(81,762)	(18,653)	(689,911)	(599,899)
Cash paid to employees	(340,173)	-	-	(106,804)	(446,977)	(459,618)
Net cash provided (used) by operating activities	<u>397,032</u>	<u>150,024</u>	<u>153,826</u>	<u>46,913</u>	<u>747,795</u>	<u>780,133</u>
<b>Cash flow from noncapital financing activities:</b>						
Due to other funds	-	-	-	-	-	193
Due from other funds	-	-	-	-	-	(19,305)
Transfers in (out)	16,383	(64,971)	(16,968)	(50,000)	(115,556)	93
Economic development grant payments	-	-	-	-	-	(150,000)
Net cash provided (used) by noncapital financing activities	<u>16,383</u>	<u>(64,971)</u>	<u>(16,968)</u>	<u>(50,000)</u>	<u>(115,556)</u>	<u>(169,019)</u>
<b>Cash flows from capital and related financing activities:</b>						
Principal payments - certificates of obligation	(217,600)	-	(90,000)	-	(307,600)	(298,950)
Principal payments - capital leases	(33,972)	-	-	-	(33,972)	(31,772)
Purchase of property, plant and equipment	(46,835)	(191,381)	-	-	(238,216)	(600,380)
Proceeds from bond issuance	-	1,200,000	-	-	1,200,000	-
Interest payments	(82,360)	-	(102,549)	-	(184,909)	(193,088)
Net cash flows provided by (used in) capital and related financing activities	<u>(380,767)</u>	<u>1,008,619</u>	<u>(192,549)</u>	<u>-</u>	<u>435,303</u>	<u>(1,124,190)</u>
<b>Cash flows from investing activities:</b>						
Interest received	432	358	24	-	814	182
(Purchase) sale of investments	(29)	-	-	-	(29)	(83)
Net cash provided by (used in) investing activities	<u>403</u>	<u>358</u>	<u>24</u>	<u>-</u>	<u>785</u>	<u>99</u>
<b>Net increase (decrease) in cash</b>	<b>33,051</b>	<b>1,094,030</b>	<b>(55,667)</b>	<b>(3,087)</b>	<b>1,068,327</b>	<b>(512,977)</b>
<b>Cash, October 1</b>	<b>1,175,991</b>	<b>495,244</b>	<b>6,828</b>	<b>155,372</b>	<b>1,833,435</b>	<b>2,346,412</b>
<b>Cash, September 30</b>	<b><u>\$ 1,209,042</u></b>	<b><u>\$ 1,589,274</u></b>	<b><u>\$ (48,839)</u></b>	<b><u>\$ 152,285</u></b>	<b><u>\$ 2,901,762</u></b>	<b><u>\$ 1,833,435</u></b>
<b>Reconciliation of income from operations to net cash provided by operating activities:</b>						
Income (loss) from operations	\$ 198,686	\$ 92,694	\$ 37,302	\$ 50,165	\$ 378,847	\$ 235,569
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities						
Depreciation	257,342	92,423	98,597	-	448,362	418,539
(Increase) decrease in accounts receivable	325	13,817	3,303	370	17,815	8,049
Increase (decrease) in accounts payable	(61,145)	(48,910)	14,624	(2,742)	(98,173)	115,504
Increase (decrease) in accrued payroll	1,631	-	-	(880)	751	(7,214)
Increase (decrease) in compensated absences	193	-	-	-	193	9,686
Net adjustments	<u>198,346</u>	<u>57,330</u>	<u>116,524</u>	<u>(3,252)</u>	<u>368,948</u>	<u>544,564</u>
Net cash provided by operating activities	<u>\$ 397,032</u>	<u>\$ 150,024</u>	<u>\$ 153,826</u>	<u>\$ 46,913</u>	<u>\$ 747,795</u>	<u>\$ 780,133</u>
<b>Noncash Investing, Capital and Financing Activities</b>						
Contributions of capital assets	<u>\$ 113,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,440</u>	<u>\$ 82,450</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, 2014  
(With Comparative Actual Amounts For The Year Ended September 30, 2013)

	2014			2013
	Budget	Actual Amounts Budgetary Basis	Vairance Positive (Negative)	Actual
<b>Operating revenue:</b>				
Water sales	\$ 937,617	\$ 1,011,033	\$ 73,416	\$ 980,713
Late payment charges	8,000	10,028	2,028	8,833
Tap fees	7,000	17,000	10,000	20,500
Water impact fees	15,000	30,657	15,657	19,143
Customer assessment fees	2,000	640	(1,360)	1,840
Meter Fees	-	1,096	1,096	6,984
Service charges	44,605	51,653	7,048	48,795
Total operating revenue	<u>1,014,222</u>	<u>1,122,107</u>	<u>107,885</u>	<u>1,086,808</u>
<b>Operating expenses:</b>				
<b>Personal Services:</b>				
Salaries	273,717	286,783	(13,066)	289,946
Payroll taxes	3,796	4,045	(249)	4,073
Worker's compensation	4,134	3,629	505	3,004
Group insurance	34,702	16,632	18,070	18,047
Retirement	30,266	30,908	(642)	27,203
Total personal services	<u>346,615</u>	<u>341,997</u>	<u>4,618</u>	<u>342,273</u>
<b>Supplies:</b>				
General office	2,500	204	2,296	2,756
Meters, chemicals, etc.	33,990	39,361	(5,371)	90,391
Postage and printing	7,000	10,398	(3,398)	9,853
Miscellaneous	3,800	7,648	(3,848)	3,541
Total supplies	<u>47,290</u>	<u>57,611</u>	<u>(10,321)</u>	<u>106,541</u>
<b>Contractual services:</b>				
Audit/accounting	3,200	5,113	(1,913)	5,774
Professional services	41,000	75,962	(34,962)	48,824
Contract labor	12,240	4,855	7,385	7,426
Legal/advertising	250	-	250	136
Utilities	5,000	7,909	(2,909)	10,540
Telephone	7,000	10,712	(3,712)	10,711
Equipment rental	2,550	333	2,217	-
Dues/subscriptions	500	2,750	(2,250)	-
Building repairs/maint and improvements	4,080	1,596	2,484	1,350
Equipment repairs/maint.	4,000	3,302	698	918
Vehicle repairs/maintenance.	7,650	2,614	5,036	2,214
Gas/oil - vehicle	9,884	14,357	(4,473)	18,375
System repairs/maintenance.	14,160	38,435	(24,275)	16,521
Water well repair/maintenance	20,808	-	20,808	37,925
Water tank inspections	8,160	2,159	6,001	-
Pre-employment screening	200	-	200	-
Regional water purchase	100,000	39,579	60,421	169,692
Laboratory fees	5,610	4,514	1,096	3,333
Software maintenance	500	18,072	(17,572)	5,746
Seminars, training and awards	800	1,161	(361)	1,866
Travel	1,000	1,256	(256)	350
UTGCD Expense	42,576	21,001	21,575	23,823
Total contractual services	<u>291,168</u>	<u>255,680</u>	<u>35,488</u>	<u>365,524</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, 2014  
 (With Comparative Actual Amounts For The Year Ended September 30, 2013)

	2014			2013
	Budget	Actual Amounts Budgetary Basis	Vairance Positive (Negative)	Actual
Other operating expenses:				
Well utilities	65,000	57,626	7,374	49,884
Total other operating expenses	<u>65,000</u>	<u>57,626</u>	<u>7,374</u>	<u>49,884</u>
 Total operating expenses	 <u>750,073</u>	 <u>712,914</u>	 <u>37,159</u>	 <u>864,222</u>
 Operating income (loss)	 <u>264,149</u>	 <u>409,193</u>	 <u>145,044</u>	 <u>222,586</u>
Nonoperating revenues (expenses):				
Interest income	-	432	432	144
Interest expense	(106,750)	(76,484)	30,266	(83,535)
Economic development grants	-	-	-	(75,000)
Debt retirement	(273,000)	(251,572)	21,428	(245,722)
Total nonoperating revenue(expenses)	<u>(379,750)</u>	<u>(327,624)</u>	<u>52,126</u>	<u>(404,113)</u>
 Income (loss) before transfers	 <u>(115,601)</u>	 <u>81,569</u>	 <u>197,170</u>	 <u>(181,527)</u>
Contributions and transfers:				
Capital contributions	-	113,440	113,440	37,930
Transfer In	-	356,501	356,501	227,004
Transfer Out	(300,241)	(340,118)	(39,877)	(690,997)
 Change in net position	 <u>(415,842)</u>	 <u>211,392</u>	 <u>627,234</u>	 <u>(607,590)</u>
 Net Position, Beginning	 <u>3,511,461</u>	 <u>3,511,461</u>	 <u>-</u>	 <u>3,707,495</u>
 Prior Period Adjustment	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>(101,216)</u>
 Net Position, Ending	 <u>\$ 3,095,619</u>	 <u>\$ 3,722,853</u>	 <u>\$ 627,234</u>	 <u>\$ 2,998,689</u>
Reconciliation from Budgetary Basis to GAAP Basis				
Debt retirement		\$ 251,572		\$ 245,722
Capital outlay		46,835		511,738
Depreciation		(257,342)		(244,688)
		<u>\$ 3,763,918</u>		<u>\$ 3,511,461</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, 2014  
(With Comparative Actual Amounts For The Year Ended September 30, 2013)

	2014			2013
	Budget	Actual Amounts Budgetary Basis	Vairance Positive (Negative)	Actual
Operating revenue:				
Wastewater charges	\$ 300,000	\$ 333,476	\$ 33,476	\$ 334,771
Tap fees	-	7,000	7,000	9,000
Total operating revenue	<u>300,000</u>	<u>340,476</u>	<u>40,476</u>	<u>343,771</u>
Operating expenses:				
Contractual services:				
Wastewater treatment services	452,640	346,739	105,901	164,555
Total contractual services	<u>452,640</u>	<u>346,739</u>	<u>105,901</u>	<u>164,555</u>
Total operating expenses	<u>452,640</u>	<u>346,739</u>	<u>105,901</u>	<u>164,555</u>
Operating income (loss)	<u>(152,640)</u>	<u>(6,263)</u>	<u>146,377</u>	<u>179,216</u>
Nonoperating revenues (expenses):				
Interest income	-	358	358	-
Interest expense	-	(5,630)	(5,630)	-
Economic development grants	-	-	-	(75,000)
Debt issuance costs	-	(35,000)	(35,000)	-
Total nonoperating revenue(expenses)	<u>-</u>	<u>(40,272)</u>	<u>(40,272)</u>	<u>(75,000)</u>
Income (loss) before transfers	(152,640)	(46,535)	106,105	104,216
Contributions and transfers:				
Capital contributions	-	-	-	44,520
Transfer In	107,890	-	(107,890)	-
Transfer Out	-	(64,972)	(64,972)	-
Change in net position	(44,750)	(111,507)	(66,757)	148,736
Net Position, Beginning	<u>2,162,139</u>	<u>2,162,139</u>	<u>-</u>	<u>2,089,114</u>
Net Position, Ending	<u>\$ 2,117,389</u>	<u>\$ 2,050,632</u>	<u>\$ (66,757)</u>	<u>\$ 2,237,850</u>
Reconciliation from Budgetary Basis to GAAP Basis				
Capital outlay		\$ 191,381		\$ -
Depreciation		(92,423)		(75,711)
		<u>\$ 2,149,590</u>		<u>\$ 2,162,139</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, 2014  
(With Comparative Actual Amounts For The Year Ended September 30, 2013)

	2014			2013
	Budget	Actual Amounts Budgetary Basis	Vairance Positive (Negative)	Actual
Operating revenue:				
Wastewater charges	\$ 245,631	\$ 230,619	\$ (15,012)	\$ 227,526
Late payment charges	2,700	1,666	(1,034)	1,496
Total operating revenue	<u>248,331</u>	<u>232,285</u>	<u>(16,046)</u>	<u>229,022</u>
Operating expenses:				
Supplies	11,500	1,673	9,827	7,233
Contractual services:	21,200	49,171	(27,971)	31,745
Well utilities	15,000	45,542	(30,542)	18,475
Total operating expenses	<u>47,700</u>	<u>96,386</u>	<u>(48,686)</u>	<u>57,453</u>
Operating income (loss)	<u>200,631</u>	<u>135,899</u>	<u>(64,732)</u>	<u>171,569</u>
Nonoperating revenues (expenses):				
Interest income	-	24	24	38
Interest expense	(102,550)	(97,835)	4,715	(100,988)
Debt retirement	(90,000)	(90,000)	-	(85,000)
Total nonoperating revenue(expenses)	<u>(192,550)</u>	<u>(187,811)</u>	<u>4,739</u>	<u>(185,950)</u>
Income (loss) before transfers	8,081	(51,912)	(59,993)	(14,381)
Contributions and transfers:				
Transfer In	-	154,307	154,307	-
Transfer Out	-	(171,275)	(171,275)	-
Change in net position	8,081	(68,880)	(76,961)	(14,381)
Net Position, Beginning	<u>(137,152)</u>	<u>(137,152)</u>	<u>-</u>	<u>(109,631)</u>
Net Position, Ending	<u>\$ (129,071)</u>	<u>\$ (206,032)</u>	<u>\$ (76,961)</u>	<u>\$ (124,012)</u>
Reconciliation from Budgetary Basis to GAAP Basis				
Debt retirement		\$ 90,000		\$ 85,000
Depreciation		(98,597)		(98,140)
		<u>\$ (214,629)</u>		<u>\$ (137,152)</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, 2014  
(With Comparative Actual Amounts For The Year Ended September 30, 2013)

	2014			2013
	Budget	Actual Amounts Budgetary Basis	Vairance Positive (Negative)	Actual
Operating revenue:				
Management contract charges	\$ 172,000	\$ 172,000	\$ -	\$ 172,000
Total operating revenue	<u>172,000</u>	<u>172,000</u>	<u>-</u>	<u>172,000</u>
Operating expenses:				
Personnel services	118,002	105,924	12,078	119,817
Supplies	8,000	13,601	(5,601)	12,368
Contractual services	-	2,310	(2,310)	437
Total operating expenses	<u>126,002</u>	<u>121,835</u>	<u>4,167</u>	<u>132,622</u>
Operating income (loss) before transfers	<u>45,998</u>	<u>50,165</u>	<u>4,167</u>	<u>39,378</u>
Contributions and transfers:				
Transfer Out	<u>(56,800)</u>	<u>(50,000)</u>	<u>6,800</u>	<u>(6,293)</u>
Change in net position	(10,802)	165	10,967	33,085
Net Position, Beginning	<u>168,344</u>	<u>168,344</u>	<u>-</u>	<u>135,259</u>
Net Position, Ending	<u>\$ 157,542</u>	<u>\$ 168,509</u>	<u>\$ 10,967</u>	<u>\$ 168,344</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, 2014, 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 18, 2015.

**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.

*George Morgan Smith, P.C.*

Weatherford, Texas

February 18, 2015