

CITY OF IVANHOE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Davis, Heinemann & Company, P.C.

Certified Public Accountants

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Introductory Section

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City of Ivanhoe, Texas
 Annual Financial Report
 For The Year Ended September 30, 2014

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Financial Section

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Davis, Heinemann & Company, P.C.

A Professional Corporation

Certified Public Accountants

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HUNTSVILLE, TEXAS 77342

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Independent Auditor's Report

To the City Council
City of Ivanhoe, Texas
880 Charmaine Drive East, Suite A
Woodville, Texas 75979

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Ivanhoe, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Ivanhoe, Texas as of September 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Respectfully submitted,

Davis, Heinemann & Co.

Davis, Heinemann & Company, P.C.

Huntsville, TX
January 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Ivanhoe, Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal period ended September 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

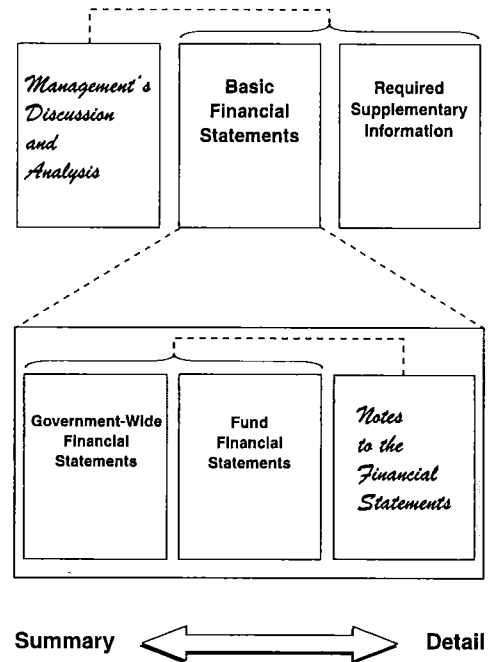
- The City's total combined net position was \$578,441 at September 30, 2014.
- During the year, the City's expenses were \$178,448 less than the \$408,404 generated in taxes, fees and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$203,681.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general administration, public safety, streets and bridges, buildings and grounds, and financial and professional. Property, sales and franchise taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$578,441 at September 30, 2014 (see Table A-1). The increase in capital assets was due to three dam projects, one of which was begun in FYE 2013 and completed in FYE 2014, and the other two which were begun and completed in FYE 2014. In addition, a capital lease was totally paid off in 2014 for the City Hall building.

Table A-1
City's Net Position
(in thousands of dollars)

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 202.7	\$ 258.3
Taxes receivable	120.2	91.7
Other receivables	1.0	1.0
Total Current Assets:	<u>323.9</u>	<u>351.0</u>
Non-current Investments:		
Capital assets:		
Land	16.5	16.5
Construction in progress	-	50.3
Buildings, less accumulated depreciation	40.6	42.7
Infrastructure improvements, net	197.4	-
Total Non-Current Assets	<u>254.5</u>	<u>109.5</u>
Total Assets	<u>578.4</u>	<u>460.5</u>
Liabilities:		
Accounts payable & other current liabilities	-	46.5
Capital leases payable	-	14.0
Total Liabilities	<u>-</u>	<u>60.5</u>
Net Position:		
Invested in capital assets	254.5	109.5
Unrestricted	323.9	290.5
Total Net Position	<u>\$ 578.4</u>	<u>\$ 400.0</u>

Changes in net position. The City's total revenues were \$408,404 and total expenses were \$229,956, which resulted in an increase of net position of \$178,448 (see Table A-2). The increase in revenue is primarily attributable to the increase in franchise fees collected.

Table A-2
Changes in City's Net Position
(in thousands of dollars)

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Program Revenues:		
Donations/grants	\$ 0.1	\$ -
Office fees	8.2	4.9
General Revenues:		
Property taxes	355.2	350.5
Sales taxes	6.6	3.6
Franchise fees	38.0	23.9
Investment earnings	0.3	0.3
Total Revenues:	<u>408.4</u>	<u>383.2</u>
Program Expenses:		
General government	104.2	107.9
Public safety	31.3	22.1
Roads and dams	94.4	170.8
Total Program Expenses	<u>229.9</u>	<u>300.8</u>
Change in Net Position	<u>\$ 178.5</u>	<u>\$ 82.4</u>

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid).

Table A-3
Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of <u>Services</u>			Net Cost of <u>Services</u>		
	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2014</u>	<u>2013</u>	<u>Change</u>
General Government	\$ 104.2	\$ 107.9	\$ (3.7)	\$ 99.5	\$ 103.0	\$ (3.5)
Public Safety	31.3	22.1	9.2	31.3	22.1	9.2
Roads and Dams	94.4	170.8	(76.4)	90.9	170.8	(79.9)
Total	<u>\$ 229.9</u>	<u>\$ 300.8</u>	<u>\$ (70.9)</u>	<u>\$ 221.7</u>	<u>\$ 295.9</u>	<u>\$ (74.2)</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget one time. Actual expenditures were \$40,809 less than final budget amounts and revenues were \$29,078 greater than final budget amounts. The difference in revenues is due to property tax collections and franchise fees which were higher than anticipated during the current year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2015 budget preparation is expected to remain approximately the same compared to the previous year. Property tax rates did not increase over the prior year.
- No substantial construction is anticipated in the 2015 budget year which would cause an increase in property tax revenues.

These indicators were taken into account when adopting the general fund budget for 2015. Amounts available for appropriation in the general fund budget are \$366,311, an increase of four (4) percent over the final 2014 budget of \$350,750. Property tax revenue is projected to increase slightly (\$2,761) and sales tax and franchise tax fees are expected to increase by \$12,800. The City will use any increases in revenues to finance programs it currently offers.

Expenditures are budgeted to increase four (4) percent to \$366,311. Street maintenance is expected to be higher in 2015 and dam repair lower due to the extensive repairs made in 2014. The City has added no major new programs or initiatives to the 2015 budget.

If these estimates are realized, the General Fund's budgetary fund balance is expected to remain unchanged by the close of 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Business Services Department.

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Basic Financial Statements

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CITY OF IVANHOE, TEXAS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014

	<u>Governmental Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 202,656
Receivables:	
Property Taxes	120,255
Sales Taxes	1,025
Capital Assets (net of accumulated depreciation):	<u>254,505</u>
Total Assets	<u>578,441</u>
LIABILITIES:	
Accounts Payable	<u>--</u>
Total Liabilities	<u>--</u>
NET POSITION:	
Net Investment in Capital Assets	254,505
Unrestricted	323,936
Total Net Position	<u>\$ 578,441</u>

The accompanying notes are an integral part of this statement.

CITY OF IVANHOE, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	\$ 104,174	\$ 4,577	\$ 140	\$ (99,457)
Public Safety	31,342	--	--	(31,342)
Roads and Dams	94,440	3,589	--	(90,851)
Total Governmental Activities	<u>229,956</u>	<u>8,166</u>	<u>140</u>	<u>(221,650)</u>
Total Primary Government	<u>\$ 229,956</u>	<u>\$ 8,166</u>	<u>\$ 140</u>	<u>(221,650)</u>
General Revenues:				
Property Taxes				355,151
Sales Taxes				6,615
Franchise Fees				38,021
Unrestricted Investment Earnings				311
Total General Revenues				<u>400,098</u>
Change in Net Position				178,448
Net Position - Beginning				399,993
Net Position - Ending				<u>\$ 578,441</u>

The accompanying notes are an integral part of this statement.

CITY OF IVANHOE, TEXAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2014

	<u>General Fund</u>
ASSETS AND OTHER DEBITS	
Assets:	
Cash and Cash Equivalents	\$ 202,656
Receivables:	
Property Taxes	120,255
Sales Taxes	1,025
Total Assets	<u>\$ 323,936</u>
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Deferred Inflows of Resources:	
Deferred Revenue	\$ 120,255
Total Deferred Inflows of Resources	<u>120,255</u>
Fund Balance:	
Unassigned	203,681
Total Fund Balance	<u>203,681</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 323,936</u>

The accompanying notes are an integral part of this statement.

CITY OF IVANHOE, TEXASRECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2014

Total fund balances - governmental funds balance sheet	\$ 203,681
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	254,505
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	<u>120,255</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 578,441</u>

The accompanying notes are an integral part of this statement.

CITY OF IVANHOE, TEXASSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund
Revenue:	
Property Taxes	\$ 326,575
General Sales and Use Taxes	5,292
Fees	8,166
Investment Earnings	311
Franchise Fees	38,021
Contributions and Donations	140
Restricted Sales Tax	1,323
Total Revenues	<u>379,828</u>
Expenditures:	
Current:	
General Government	97,032
Public Safety	31,342
Roads and Dams	246,567
Total Expenditures	<u>374,941</u>
Net Change in Fund Balances	4,887
Fund Balances - Beginning	198,794
Fund Balances - Ending	<u>\$ 203,681</u>

The accompanying notes are an integral part of this statement.

CITY OF IVANHOE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances - total governmental funds	\$ 4,887
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	-
Capital outlays are not reported as expenses in the SOA.	152,127
The depreciation of capital assets used in governmental activities is not reported in the funds.	(7,142)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	<u>28,576</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 178,448</u>

The accompanying notes are an integral part of this statement.

CITY OF IVANHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

A. Summary of Significant Accounting Policies

The combined financial statements of City of Ivanhoe, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City of Ivanhoe began in the early 1960s as a Homeowners Association. In 2009 two separate cities were formed, the City of Ivanhoe and the City of Ivanhoe North, under Texas Local Code Section 8.001 as Type C cities. In November 2010, the two cities voted to consolidate and became a Type A city.

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- 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
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

CITY OF IVANHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

CITY OF IVANHOE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the 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. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental

CITY OF IVANHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

The City formally adopted a Fund Balance Policy on March 10, 2012.

f. Deferred Outflows and Inflows of Resources

During fiscal year 2013, the City implemented GASB 63 and GASB 65, which address deferred outflows and deferred inflows of resources. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future period. They are required to be reported in the statement of financial position in a separate section following assets. Deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. They should be reported in the statement of financial position or balance sheet in a separate section following liabilities. GASB 65 identifies certain items previously reported as assets and liabilities that the GASB determined should be recognized as revenues, expenses or expenditures when incurred and not reported in the statements of net position or balance sheets.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

4. Budgetary Data

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

5. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

The City had no outstanding end-of-year encumbrances.

CITY OF IVANHOE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$202,656 and the bank balance was \$206,672. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

D. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 16,457	\$ --	\$ --	\$ 16,457
Construction in progress	50,372	--	50,372	--
Total capital assets not being depreciated	<u>66,829</u>	<u>--</u>	<u>50,372</u>	<u>16,457</u>
Capital assets being depreciated:				
Buildings	44,458	--	--	44,458
Infrastructure improvements	--	202,499	--	202,499
Total capital assets being depreciated	<u>44,458</u>	<u>202,499</u>	<u>--</u>	<u>246,957</u>
Less accumulated depreciation for:				
Buildings	(1,767)	(2,080)	--	(3,847)
Infrastructure improvements	--	(5,062)	--	(5,062)
Total accumulated depreciation	<u>(1,767)</u>	<u>(7,142)</u>	<u>--</u>	<u>(8,909)</u>
Total capital assets being depreciated, net	<u>42,691</u>	<u>195,357</u>	<u>--</u>	<u>238,048</u>
Governmental activities capital assets, net	<u>\$ 109,520</u>	<u>\$ 195,357</u>	<u>\$ 50,372</u>	<u>\$ 254,505</u>

CITY OF IVANHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Depreciation was charged to functions as follows:

General Government \$ 7,142

E. Short-Term Debt Activity

The City accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

On September 4, 2013, the City of Ivanhoe agreed to buy a 16' by 60' Singlewide Trailer from Standard Buildings, to use as the City's office building, paying \$10,000 down and making monthly payments of \$1,198.50 until the final payment was made in September 2014. The interest rate is 5% and the transaction is treated as a short-term capital lease.

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Short-term Capital Lease	\$ 14,000	\$ --	\$ (14,000)	\$ --
Total Short-term Debt	<u>14,000</u>	<u>--</u>	<u>(14,000)</u>	<u>--</u>

F. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2014, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City also carries commercial insurance with TML for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

G. Commitments and Contingencies

1. Litigation

No reportable litigation was pending against the City at September 30, 2014.

H. Subsequent Events

The City did not have any subsequent events through January 2, 2015, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended September 30, 2014.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

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CITY OF IVANHOE, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Property Taxes	\$ 316,000	\$ 316,000	\$ 326,575	\$ 10,575
General Sales and Use Taxes	1,200	1,200	5,292	4,092
Fees	3,850	3,850	8,166	4,316
Investment Earnings	600	600	311	(289)
Franchise Fees	28,800	28,800	38,021	9,221
Contributions and Donations	--	--	140	140
Restricted Sales Tax	300	300	1,323	1,023
Total Revenues	<u>350,750</u>	<u>350,750</u>	<u>379,828</u>	<u>29,078</u>
Expenditures:				
Current:				
General Government	131,750	131,750	97,032	34,718
Public Safety	34,000	34,000	31,342	2,658
Roads and Dams	185,000	250,000	246,567	3,433
Total Expenditures	<u>350,750</u>	<u>415,750</u>	<u>374,941</u>	<u>40,809</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	--	(65,000)	4,887	69,887
 Net Change in Fund Balances	--	(65,000)	4,887	69,887
 Fund Balances - Beginning	198,794	198,794	198,794	--
Fund Balances - Ending	<u>\$ 198,794</u>	<u>\$ 133,794</u>	<u>\$ 203,681</u>	<u>\$ 69,887</u>

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