

ANNUAL FINANCIAL REPORT

of the

City of Diboll, Texas

**For the Year Ended
September 30, 2014**

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City of Diboll, Texas

TABLE OF CONTENTS

September 30, 2014

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	7

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	19
Statement of Activities	20

Fund Financial Statements

Governmental Funds:

Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29

Proprietary Funds:

Statement of Net Position	30
Statement of Revenues, Expenses, and Changes in Fund Net Position	31
Statement of Cash Flows	32

Fiduciary Funds:

Statement of Fiduciary Net Position	34
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Notes to Financial Statements	35
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – General Fund	63
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – Debt Service Fund	65
Schedule of Funding Progress-Texas Municipal Retirement System	67

City of Diboll, Texas

TABLE OF CONTENTS

September 30, 2014

COMBINING AND INDIVIDUAL FUND STATEMENTS

Combining Balance Sheet – Nonmajor Governmental Funds	70
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	72

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Diboll, 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 Diboll, 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

The City's 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 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 opinion

Opinion

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 and budgetary comparison information 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 Supplementary 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 accompanying supplementary information, such as the combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the

basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
March 13, 2015

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*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Diboll, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2014

As management of the City of Diboll, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2014.

Financial Highlights

- The City's total combined net position was \$12,962,363 at September 30, 2014. Of this, \$3,540,799 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,044,083, a decrease of \$1,417,088.
- As of the end of the year, the unassigned fund balance of the general fund was \$613,329 or 16% of total general fund expenditures.
- The City had an overall increase in net position of \$162,465, which is due to an increase in revenues that occurred in the current year combined with a decrease in current expenses compared to prior year.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide 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 financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 City'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

City of Diboll, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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, community development, and public works. The business-type activities of the City include a water and sewer operations.

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 year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Diboll, Texas maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, street improvement fund and the civic center renovation fund, which are considered to be major funds. The debt service fund is considered nonmajor, but the City has chosen to present the fund as a major fund. Fund data for the remaining nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City of Diboll, Texas adopts an annual appropriated budget for its general, debt service and utility funds. A budgetary comparison schedule has been provided to demonstrate compliance with general and debt service fund budgets.

City of Diboll, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment and water construction operations. The proprietary fund financial statements provide separate information for the water distribution, and wastewater collection/treatment fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the maintenance and purchase of equipment.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* (RSI) concerning the City's progress in funding its obligation to provide pension and other post employment benefits to its employees.

Government-Wide Financial Analysis

As noted previously, net position over time, may serve as a useful indicator of the City's financial position. For the City of Diboll, Texas, assets exceed liabilities by \$12,962,363 as of September 30, 2014.

The largest portion of the City's net position, \$8,992,757, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Diboll, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2014

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2014			2013		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 3,766,345	\$ 1,792,367	\$ 5,558,712	\$ 4,927,611	\$ 1,973,097	\$ 6,900,708
Capital assets, net	6,369,808	10,648,987	17,018,795	4,793,740	11,388,837	16,182,577
Total Assets	10,136,153	12,441,354	22,577,507	9,721,351	13,361,934	23,083,285
Other liabilities	658,874	755,696	1,414,570	569,073	296,943	866,016
Long-term liabilities	3,206,615	4,993,959	8,200,574	3,426,443	5,990,928	9,417,371
Total Liabilities	3,865,489	5,749,655	9,615,144	3,995,516	6,287,871	10,283,387
Net Position:						
Net investment in capital assets	3,825,230	5,167,527	8,992,757	4,158,463	3,450,476	7,608,939
Restricted	428,807	-	428,807	1,550,786	-	1,550,786
Unrestricted	2,016,627	1,524,172	3,540,799	16,586	3,623,587	3,640,173
Total Net Position	\$ 6,270,664	\$ 6,691,699	\$ 12,962,363	\$ 5,725,835	\$ 7,074,063	\$ 12,799,898

City of Diboll, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2014

Statement of Activities:

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

	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,877,701	\$ 2,620,205	\$ 4,497,906	\$ 1,950,739	\$ 2,350,157	\$ 4,300,896
Grants and contributions	797,721	-	797,721	387,327	-	387,327
General revenues:						
Property tax	1,012,447	-	1,012,447	1,014,434	-	1,014,434
Sales tax	649,347	-	649,347	633,581	-	633,581
Franchise and local taxes	547,433	-	547,433	516,956	-	516,956
Other taxes	61,701	-	61,701	61,914	-	61,914
Investment income	1,424	-	1,424	2,446	1,109	3,555
Other revenues	77,441	793	78,234	30,700	-	30,700
Total Revenues	5,025,215	2,620,998	7,646,213	4,598,097	2,351,266	6,949,363
Expenses						
General government	1,478,303	-	1,478,303	1,396,935	-	1,396,935
Municipal court	81,438	-	81,438	74,626	-	74,626
Public safety	1,606,361	-	1,606,361	1,353,451	-	1,353,451
Public works	488,539	-	488,539	489,659	-	489,659
Cultural and recreation	652,236	-	652,236	1,356,757	-	1,356,757
Interest and fiscal charges	81,036	-	81,036	93,677	-	93,677
Water & sewer	-	2,150,686	2,150,686	-	2,175,769	2,175,769
Golf course	-	945,149	945,149	-	-	-
Total Expenses	4,387,913	3,095,835	7,483,748	4,765,105	2,175,769	6,940,874
Change in Net Position						
Before Transfers	637,302	(474,837)	162,465	(167,008)	175,497	8,489
Transfers in (out)	(92,473)	92,473	-	106,692	(106,692)	-
Total	(92,473)	92,473	-	106,692	(106,692)	-
Change in Net Position	544,829	(382,364)	162,465	(60,316)	68,805	8,489
Beginning Net Position	5,725,835	7,074,063	12,799,898	5,786,151	7,005,258	12,791,409
Ending Net Position	\$ 6,270,664	\$ 6,691,699	\$ 12,962,363	\$ 5,725,835	\$ 7,074,063	\$ 12,799,898

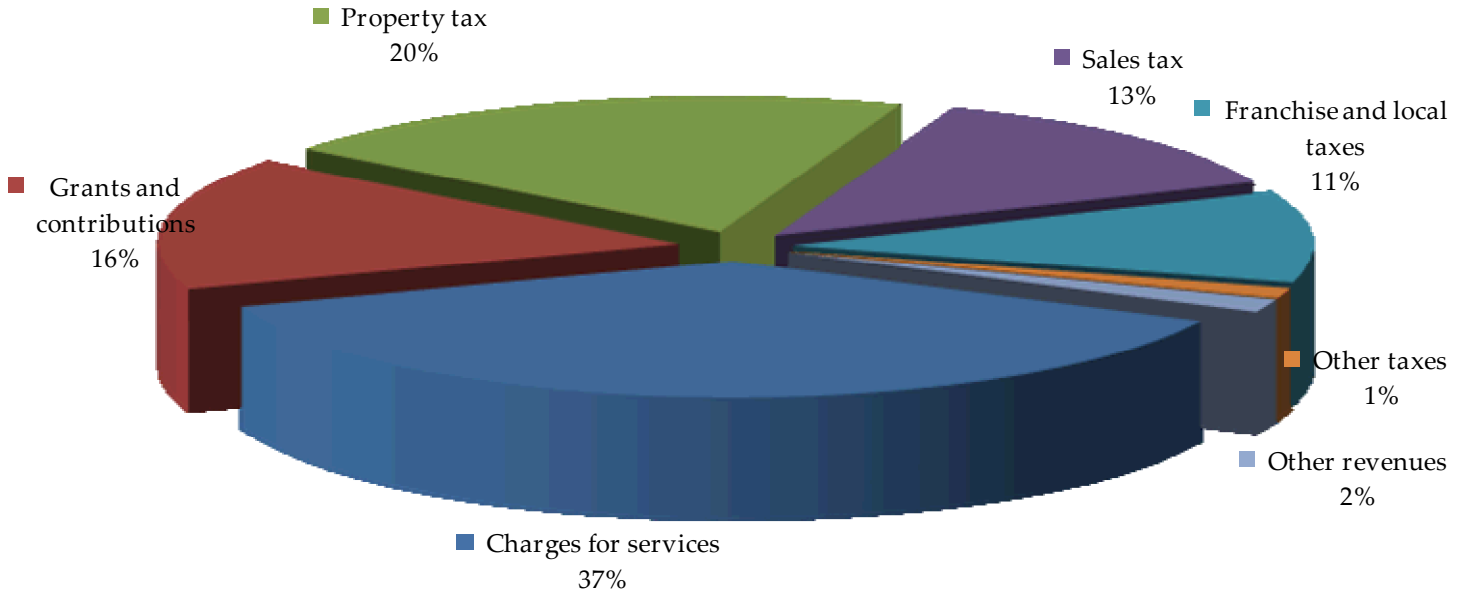
City of Diboll, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

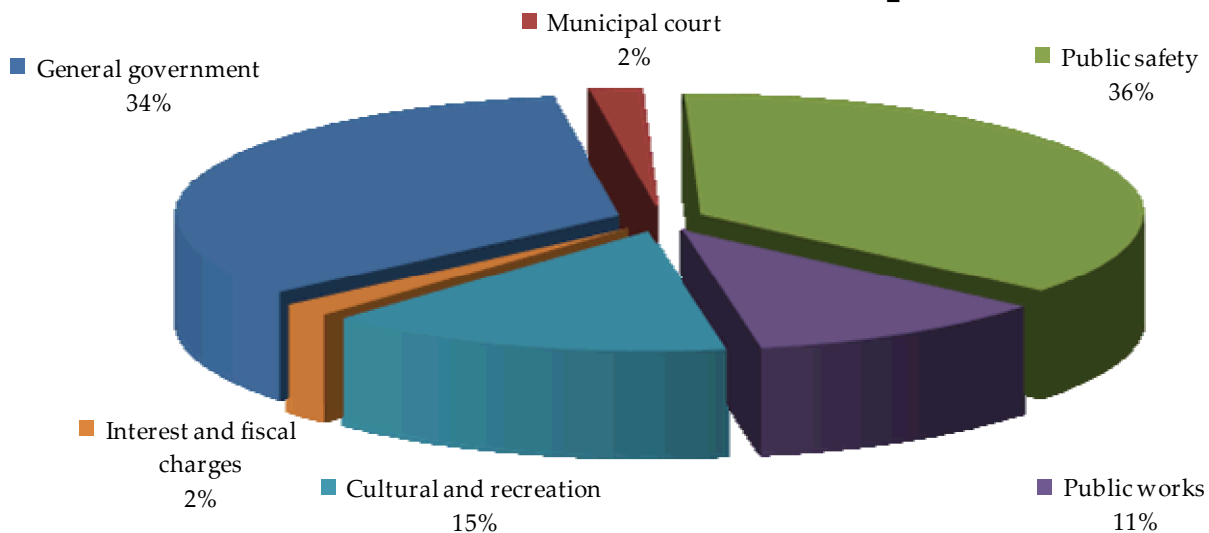
Governmental Activities - Revenues



For the year ended September 30, 2014, revenues from governmental activities totaled \$5,025,215. Property tax, charges for services, and grants and contributions were the City's largest revenue sources. Grants and contributions increased \$410,394 or 51% and property taxes decreased by \$1,987, a negligible amount. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



City of Diboll, Texas

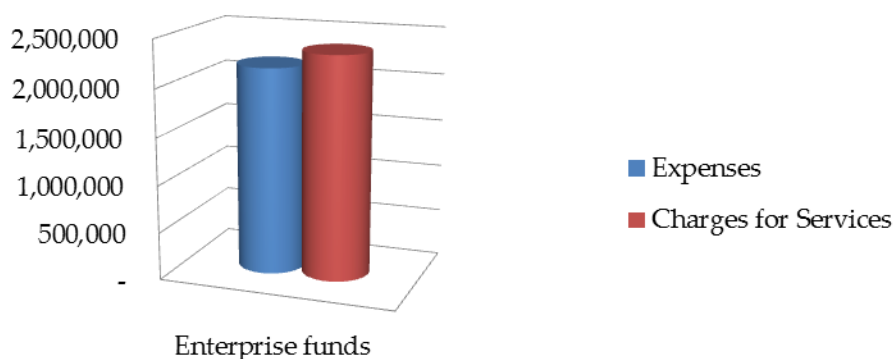
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

For the year ended September 30, 2014, expenses for governmental activities totaled \$4,387,913. This represents a decrease of \$377,192 or 3% from the prior year. General government, public safety and cultural and recreation are the City's largest functional expenses of \$1,478,303, \$1,606,361 and \$652,236 respectively. General government expenses increased by \$81,368 or 6% compared to the previous year predominantly due to the increase in garbage service contracts, and cultural and recreation expenses decreased by \$704,521 or 108% compared to the previous year primarily due to a change in accounting. Golf course expenses are now demonstrated in their own fund. All other expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2014, charges for services by business-type activities totaled \$2,620,205. This is an increase of \$270,048, or 11%, from the previous year. This decrease directly relates to golf course revenue now being reported as business-type activities.

Water and sewer as well as golf course fund expenses were relatively stable when compared to prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

City of Diboll, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2014

As of the end of the year the general fund reflected a total fund balance of \$620,276. The general fund demonstrated a decrease in fund balance of \$290,106 due to the increase in capital asset expenditures.

The street improvement fund demonstrated a reduction in fund balance in the amount of \$1,167,823 due to capital improvement expenditures funded by prior year debt.

The civic center renovation fund demonstrated an increase in fund balance in the amount of \$23,649 due to contributions and grants exceeding expenditures.

There was a decrease in governmental fund balance of \$1,417,088 over the prior year. The decrease is directly related to the increase of capital assets expenditures in the current year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total negative budget variance of \$278,789 in the general fund. All revenue sources received more revenue than anticipated with the exception of other taxes and interest income. Expenditures for general government, public safety, and cultural and recreation exceeded that which was budgeted.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$6,369,808 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$10,648,987 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- The completion of street improvements for \$3,079,491.
- The addition of four vehicles for \$93,370

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

City of Diboll, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2014

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$7,515,000. During the year, the City had a net reduction in the long-term debt of \$559,231. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council strive to present a fiscally responsible budget while continuing to provide quality service to their community, in addition to increasing tourism and the use of the City's exceptional public facilities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Diboll, Texas's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Administrator, 400 Kenley St., Diboll, Texas 75941.

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FINANCIAL STATEMENTS

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City of Diboll, Texas
STATEMENT OF NET POSITION
September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,156,195	\$ 494,783	\$ 1,650,978
Restricted cash	-	1,262,769	1,262,769
Receivables, net	2,405,817	202,290	2,608,107
Due from agency fund	19,125	-	19,125
Internal balances	178,261	(178,261)	-
Inventory	6,947	10,786	17,733
Total Current Assets	3,766,345	1,792,367	5,558,712
Capital assets:			
Non-depreciable	14,950	214,887	229,837
Net depreciable capital assets	6,354,858	10,434,100	16,788,958
	6,369,808	10,648,987	17,018,795
Total Assets	10,136,153	12,441,354	22,577,507
Liabilities			
Current liabilities:			
Accounts payable	358,742	104,828	463,570
Accrued liabilities	145,069	28,877	173,946
Accrued interest payable	9,599	16,154	25,753
Deferred revenue	-	6,296	6,296
Customer deposits	6,100	81,340	87,440
Noncurrent liabilities			
due within one year	139,364	518,201	657,565
	658,874	755,696	1,414,570
Noncurrent liabilities:			
Due in more than one year	3,206,615	4,993,959	8,200,574
Total Liabilities	3,865,489	5,749,655	9,615,144
Net Position			
Net investment in capital assets	3,825,230	5,167,527	8,992,757
Restricted for:			
Debt service	148,155	-	148,155
Special revenue	280,652	-	280,652
Unrestricted	2,016,627	1,524,172	3,540,799
Total Net Position	\$ 6,270,664	\$ 6,691,699	\$ 12,962,363

See Notes to Financial Statements.

City of Diboll, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 1,478,303	\$ 1,249,375	\$ 4,700
Municipal court	81,438	597,246	-
Public safety	1,606,361	-	-
Public works	488,539	-	479,772
Cultural and recreation	652,236	31,080	313,249
Interest and fiscal charges	81,036	-	-
Total Governmental Activities	4,387,913	1,877,701	797,721
Business-Type Activities			
Water & Sewer	2,150,686	2,309,213	-
Golf Course	945,149	310,992	-
Total Business-Type Activities	3,095,835	2,620,205	-
Total Primary Government	\$ 7,483,748	\$ 4,497,906	\$ 797,721

General Revenues:

Taxes
 Property tax
 Sales tax
 Franchise and local taxes
 Other taxes
 Investment income
 Other revenues

Transfers:

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (224,228)	\$ -	\$ (224,228)
515,808	-	515,808
(1,606,361)	-	(1,606,361)
(8,767)	-	(8,767)
(307,907)	-	(307,907)
(81,036)	-	(81,036)
<u>(1,712,491)</u>	<u>-</u>	<u>(1,712,491)</u>
-	158,527	158,527
-	(634,157)	(634,157)
-	(475,630)	(475,630)
<u>(1,712,491)</u>	<u>(475,630)</u>	<u>(2,188,121)</u>
1,012,447	-	1,012,447
649,347	-	649,347
547,433	-	547,433
61,701	-	61,701
1,424	-	1,424
77,441	793	78,234
(92,473)	92,473	-
<u>2,257,320</u>	<u>93,266</u>	<u>2,350,586</u>
544,829	(382,364)	162,465
5,725,835	7,074,063	12,799,898
<u>\$ 6,270,664</u>	<u>\$ 6,691,699</u>	<u>\$ 12,962,363</u>

City of Diboll, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2014

	General Fund	Street Improvement Fund	Civic Center Renovation Fund	Debt Service Fund
<u>Assets</u>				
Cash and cash equivalents	\$ 708,626	\$ -	\$ 116,911	\$ 148,155
Receivables, net	2,390,769	-	-	13,661
Due from agency fund	19,125	-	-	-
Due from other funds	262,311	-	-	-
Prepays	6,947	-	-	-
Total Assets	\$ 3,387,778	\$ -	\$ 116,911	\$ 161,816
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - court fines	\$ 2,147,563	\$ -	\$ -	\$ -
Unavailable revenue - property taxes	56,638	-	-	13,661
	2,204,201	-	-	13,661
<u>Liabilities</u>				
Accounts payable	337,904	-	-	-
Accrued liabilities	145,069	-	-	-
Due to other funds	74,228	-	8,849	-
Customer deposits	6,100	-	-	-
Total Liabilities	563,301	-	8,849	-
<u>Fund Balances</u>				
Nonspendable:				
Prepays	6,947	-	-	-
Restricted for:				
Debt service	-	-	-	148,155
Special revenue	-	-	108,062	-
Unassigned reported in:				
General fund	613,329	-	-	-
Total Fund Balances	620,276	-	108,062	148,155
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,387,778	\$ -	\$ 116,911	\$ 161,816

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 182,227	\$ 1,155,919
1,387	2,405,817
-	19,125
8,879	271,190
-	6,947
<u>\$ 192,493</u>	<u>\$ 3,858,998</u>
\$ -	\$ 2,147,563
-	70,299
-	2,217,862
20,838	358,742
-	145,069
4,065	87,142
-	6,100
<u>24,903</u>	<u>597,053</u>
-	6,947
-	148,155
172,590	280,652
(5,000)	608,329
<u>167,590</u>	<u>1,044,083</u>
<u>\$ 192,493</u>	<u>\$ 3,858,998</u>

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City of Diboll, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2014

Fund Balances - Total Governmental Funds	\$ 1,044,083
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	14,950
Capital assets - net depreciable	6,354,858
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Court fines receivable	2,147,563
Property tax receivable	70,299
Internal service funds are used by management to charge the cost of equipment services and replacement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
Net position - governmental activities	(5,511)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(9,599)
Premiums on bonds payable	(31,200)
Net pension obligation	(122,801)
Non-current liabilities due in one year	(139,364)
Non-current liabilities due in more than one year	(3,052,614)
Net Position of Governmental Activities	<u>\$ 6,270,664</u>

See Notes to Financial Statements.

City of Diboll, Texas

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

For the Year Ended September 30, 2014

	General Fund	Street Improvement Fund	Civic Center Renovation Fund
Revenues			
Property tax	\$ 861,150	\$ -	\$ -
Sales tax	649,347	-	-
Franchise and local taxes	540,188	-	-
Other taxes	61,701	-	-
License and permits	9,730	-	-
Charges for services	1,454,939	-	-
Contributions and grants	4,700	-	313,249
Intergovernmental	-	-	-
Investment income	872	315	-
Other revenues	77,441	-	-
Total Revenues	3,660,068	315	313,249
Expenditures			
Current:			
General government	1,357,396	-	-
Municipal court	81,438	-	-
Public safety	1,541,412	-	-
Public works	402,659	1,235,346	-
Cultural and recreation	345,087	-	289,600
Debt service:			
Principal	30,399	-	-
Interest and fiscal charges	4,717	-	-
Paid to state	31,200	-	-
Capital outlay	48,518	-	-
Total Expenditures	3,842,826	1,235,346	289,600
Excess of Revenues Over (Under) Expenditures	(182,758)	(1,235,031)	23,649
Other Financing Sources (Uses)			
Transfers in	106,368	67,208	-
Transfers (out)	(258,993)	-	-
Proceeds from capital lease issued	45,277	-	-
Total Other Financing Sources (Uses)	(107,348)	67,208	-
Net Change in Fund Balances	(290,106)	(1,167,823)	23,649
Beginning fund balances	910,382	1,167,823	84,413
Ending Fund Balances	\$ 620,276	\$ -	\$ 108,062

See Notes to Financial Statements.

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 152,969	\$ -	\$ 1,014,119
-	-	649,347
-	7,245	547,433
-	-	61,701
-	-	9,730
-	48,086	1,503,025
-	-	317,949
-	479,772	479,772
141	96	1,424
-	-	77,441
<u>153,110</u>	<u>535,199</u>	<u>4,661,941</u>
-	-	1,357,396
-	-	81,438
-	31,439	1,572,851
-	484,772	2,122,777
-	-	634,687
70,000	-	100,399
77,850	-	82,567
-	-	31,200
-	-	48,518
<u>147,850</u>	<u>516,211</u>	<u>6,031,833</u>
5,260	18,988	(1,369,892)
-	-	173,576
-	(7,056)	(266,049)
-	-	45,277
<u>-</u>	<u>(7,056)</u>	<u>(47,196)</u>
5,260	11,932	(1,417,088)
142,895	155,658	2,461,171
<u>\$ 148,155</u>	<u>\$ 167,590</u>	<u>\$ 1,044,083</u>

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City of Diboll, 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

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

Net changes in fund balances - total governmental funds \$ (1,417,088)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,959,065
Capital disposals and reclassifications	(11,278)
Depreciation expense	(371,719)

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

Fines and fees	364,946
Property taxes	(1,672)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of capital lease	(45,277)
Principal payments	131,599
Accrued interest	175
Amortization of bond premium	1,356

Internal service funds are used by management to charge the cost of certain activities individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities. Excluding capital outlay.

(58,064)

The (increase) decrease in the net pension obligation is reported in the statement of activities but does not require the use of current financial resources; therefore, it is not reported as an expenditure in the governmental funds

(7,214)

Change in Net Position of Governmental Activities \$ 544,829

See Notes to Financial Statements.

City of Diboll, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2014

	Business-type Activities			Governmental
				Activities
	Water and Sewer Fund	Golf Course Fund	Total Enterprise Funds	Internal Service Fund
Assets				
Current Assets				
Cash and cash equivalents	\$ 494,783	\$ -	\$ 494,783	\$ 276
Restricted cash	1,262,769	-	1,262,769	-
Accounts and other receivables	197,909	4,381	202,290	-
Inventory	-	10,786	10,786	-
Due from other funds	66,219	-	66,219	-
Total Current Assets	2,021,680	15,167	2,036,847	276
Noncurrent Assets				
Capital assets:				
Non-depreciable	4,772	210,115	214,887	-
Net depreciable capital assets	8,842,416	1,591,684	10,434,100	1,133,772
Total Noncurrent Assets	8,847,188	1,801,799	10,648,987	1,133,772
Total Assets	10,868,868	1,816,966	12,685,834	1,134,048
Liabilities				
Current Liabilities				
Accounts payable	100,922	3,906	104,828	-
Accrued liabilities	18,421	10,456	28,877	-
Customer deposits	81,340	-	81,340	-
Accrued interest	16,154	-	16,154	-
Current maturities of long-term liabilities	518,201	-	518,201	-
Deferred revenue	6,296	-	6,296	-
Due to other funds	-	244,480	244,480	5,787
Total Current Liabilities	741,334	258,842	1,000,176	5,787
Noncurrent Liabilities				
Long-term liabilities	4,963,259	-	4,963,259	-
Net pension obligation	30,700	-	30,700	-
Total Liabilities	5,735,293	258,842	5,994,135	5,787
Net Position				
Net investment in capital assets	3,365,728	1,801,799	5,167,527	1,133,772
Unrestricted	1,767,847	(243,675)	1,524,172	(5,511)
Total Net Position	\$ 5,133,575	\$ 1,558,124	\$ 6,691,699	\$ 1,128,261

See Notes to Financial Statements.

City of Diboll, Texas

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

For the Year Ended September 30, 2014

	Business-type Activities			Governmental
				Activities
	Water and Sewer Fund	Golf Course Fund	Total Enterprise Funds	Internal Service Fund
<u>Operating Revenues</u>				
Water sales	\$ 1,225,195	\$ -	\$ 1,225,195	\$ -
Sewer revenue	1,018,195	-	1,018,195	-
Penalties and reconnect fees	59,462	-	59,462	-
Membership fees	-	185,862	185,862	-
Green fees	-	14,298	14,298	-
Rental fees	-	76,674	76,674	-
Other taxes and permits	6,361	-	6,361	435
Other revenue	-	34,158	34,158	-
Total Operating Revenues	2,309,213	310,992	2,620,205	435
<u>Operating Expenses</u>				
Personnel	588,287	383,448	971,735	-
Materials and supplies	128,466	178,431	306,897	-
Utilities	192,325	68,888	261,213	-
Contractual	225,639	20,633	246,272	-
Maintenance	180,839	80,835	261,674	-
Sundry charges	36,335	-	36,335	-
Depreciation	601,593	212,914	814,507	152,424
Total Operating Expenses	1,953,484	945,149	2,898,633	152,424
Operating Income (Loss)	355,729	(634,157)	(278,428)	(151,989)
<u>Non-Operating Revenues (Expenses)</u>				
Investment income	793	-	793	-
Interest expense	(197,202)	-	(197,202)	(9)
Gain on sale of capital assets	-	-	-	34,889
Total Nonoperating Revenues (Expenses)	(196,409)	-	(196,409)	34,880
Income Before Transfers	159,320	(634,157)	(474,837)	(117,109)
Transfers in	-	191,785	191,785	-
Transfers (out)	(99,312)	-	(99,312)	-
Change in Net Position	60,008	(442,372)	(382,364)	(117,109)
Beginning net position	5,073,567	2,000,496	7,074,063	1,245,370
Ending Net Position	\$ 5,133,575	\$ 1,558,124	\$ 6,691,699	\$ 1,128,261

See Notes to Financial Statements.

City of Diboll, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2014

	Business-type Activities			Governmental Activities
	Water and Sewer Fund	Golf Course Fund	Total Enterprise Funds	Internal Service Fund
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 2,392,839	\$ 564,474	\$ 2,957,313	\$ 3,468
Payments to employees	(586,484)	(383,448)	(969,932)	-
Payments to suppliers and contractors	(841,130)	(334,427)	(1,175,557)	(1,586)
Net Cash Provided (Used) by Operating	965,225	(153,401)	811,824	1,882
<u>Cash Flows from Noncapital Financing</u>				
Transfer in	-	191,785	191,785	-
Transfer (out)	(99,312)	-	(99,312)	-
Net Cash (Used) by Noncapital Financing	(99,312)	191,785	92,473	-
<u>Cash Flows from Capital and Related</u>				
Purchases of capital assets	(9,814)	(38,384)	(48,198)	(89,849)
Principal paid on capital debt	(497,636)	-	(497,636)	-
Interest paid on capital debt	(204,101)	-	(204,101)	(9)
Proceeds from the sale of capital assets	-	-	-	34,889
Net Cash (Used) by Capital and Related	(711,551)	(38,384)	(749,935)	(54,969)
<u>Cash Flows from Investing Activities</u>				
Interest on investments	792	-	792	-
Net Cash Provided by Investing Activities	792	-	792	-
Net Increase (Decrease) in Cash and Cash Equivalents	155,154	-	155,154	(53,087)
Beginning cash and cash equivalents	1,602,398	-	1,602,398	53,363
Ending Cash and Cash Equivalents	\$ 1,757,552	\$ -	\$ 1,757,552	\$ 276
<u>Schedule of Non-cash Capital and Related Financing Activities:</u>				
Issuance of capital lease	\$ 26,459	\$ -	\$ 26,459	\$ -

See Notes to Financial Statements.

City of Diboll, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2014

	Business-type Activities			Governmental
	Water and Sewer Fund	Golf Course Fund	Total Enterprise Funds	Internal Service Fund
Reconciliation of Operating Income (Loss)				
to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ 355,729	\$ (634,157)	\$ (278,428)	\$ (151,989)
Adjustments to reconcile operating income (loss) to net cash provided by (used):				
Depreciation	601,593	212,914	814,507	152,424
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	10,216	9,002	19,218	(2,754)
Increase (Decrease) in:				
Accounts payable and accrued liabilities	(81,437)	14,360	(67,077)	(1,586)
Deferred revenue	3,911	-	3,911	-
Customer deposits	1,220	-	1,220	-
Due from other funds	72,190	244,480	316,670	5,787
Net pension obligation	1,803	-	1,803	-
Net Cash Provided				
(Used) by Operating Activities	<u>\$ 965,225</u>	<u>\$ (153,401)</u>	<u>\$ 811,824</u>	<u>\$ 1,882</u>

See Notes to Financial Statements.

City of Diboll, Texas
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2014

		Endowment Trust Fund
<u>Assets</u>		
Cash and cash equivalents	\$	65,125
Investments		525,643
Total Assets		590,768
<u>Liabilities</u>		
Due to other funds		19,125
Total Liabilities		19,125
<u>Net Position</u>		
Net position held in trust for the operations of the civic center, park and cemeteries		571,643
Total Net Position	\$	571,643

See Notes to Financial Statements.

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Diboll, Texas (the "City") was incorporated in 1962. The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. The City provides a full range of municipal services including public safety, streets, parks and recreation, community development, planning and zoning, and general administrative services. In addition, the City provides water and sewer service as an enterprise function of the City.

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

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

B. Basis of Presentation - Government-Wide and Fund Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category; governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

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

Street Improvement Fund

The street improvement fund is used to account for funds received and expended for construction, renovation, expansion and major improvements of City street and infrastructure projects.

Civic Center Renovation Fund

The civic center renovation fund is used to account for funds received and expended for construction, renovation, expansion and major improvements of the City's Civic Center.

Debt Service Fund

The debt service fund is considered a nonmajor fund; however, management has elected to present it as a major fund. The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes.

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The City reports the following major enterprise funds:

Water and Sewer Fund

This fund is used to account for the provision of water, sewer & sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

Golf Course Fund

The golf fund is used to account for revenues received and expenses for maintenance, repairs, upkeep and associated personnel costs of the City's golf course.

Additionally the government reports the following fund types:

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. These funds consist of the hotel/motel tax, municipal court security fund and technology fund, drug seizure fund, CDBG grant fund and the PEG fund.

Internal Service Fund

Revenues and expenses related to services provided to organizations inside the City on a cost reimbursement basis are accounted for in an internal service fund. The City's internal service funds include the equipment replacement fund.

Fiduciary Fund

The fiduciary fund accounts for donations made and held in trust by the city until the funds are expended per donor's intent.

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

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

C. Measurement Focus and Basis of Accounting

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

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

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as

City of Diboll, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

D. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

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

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

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

2. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

3. 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. Penalties are calculated after February 1 up to the date collected. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than

City of Diboll, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

\$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and equipment	5 - 10 years
Infrastructure	50 years
Water and sewer system	5 - 40 years
Buildings and improvements	25 years

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through the following spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by City Council or by an official or body to which the Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

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

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

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

10. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Diboll, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

A. Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control and as follows:

General Fund:

General government	\$165,336
Municipal court	\$3,288
Public safety	\$122,421
Culture and recreation	\$50,582
Principal	\$30,399
Interest	\$4,717
Capital outlay	\$48,518
Transfers out	\$67,208

B. Deficit Fund Equity

At September 30, 2014, the CDBG Grant fund, a nonmajor fund, has a deficit fund balance of \$5,000. The deficit will be eliminated in the future with additional grant money or a transfer from another fund.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2014, the primary government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Trust Fund Certificates of deposit	\$ 525,643	1.93
External investment pools	784,945	0.0
Total fair value	<u>\$ 1,310,588</u>	
Portfolio weighted average maturity		0.77

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed one year; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance

City of Diboll, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The City’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2014, the City’s investment in TexPool was rated AAAM by Standard & Poor’s.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2014, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, 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 investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

C. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Water & Sewer</u>	<u>Golf Course</u>	<u>Total</u>
Taxes						
Property taxes	\$ 56,638	\$ 13,661	\$ -	\$ -	\$ -	\$ 70,299
Sales taxes	84,958	-	-	-	-	84,958
Franchise taxes	36,049	-	-	-	-	36,049
Court fines	4,096,703	-	-	-	-	4,096,703
Other	65,561	-	1,387	234,221	18,062	319,231
Less allowance for uncollectibles	(1,949,140)	-	-	(36,312)	-	(1,985,452)
Total	\$ 2,390,769	\$ 13,661	\$ 1,387	\$ 197,909	\$ 18,062	\$ 2,621,788

D. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 14,950	\$ -	\$ -	\$ 14,950
Construction in progress	1,334,365	-	(1,334,365)	-
Total capital assets not being depreciated	<u>1,349,315</u>	<u>-</u>	<u>(1,334,365)</u>	<u>14,950</u>
Capital assets, being depreciated:				
Buildings and improvements	3,263,606	-	(18,223)	3,245,383
Furniture and equipment	5,028,221	213,939	(320,592)	4,921,568
Infrastructure	246,699	1,745,126	1,334,365	3,326,190
Total capital assets being depreciated	<u>8,538,526</u>	<u>1,959,065</u>	<u>995,550</u>	<u>11,493,141</u>
Less accumulated depreciation				
Buildings and improvements	(2,028,031)	(59,990)	18,223	(2,069,798)
Furniture and equipment	(3,043,688)	(286,563)	309,314	(3,020,937)
Infrastructure	(22,382)	(25,166)	-	(47,548)
Total accumulated depreciation	<u>(5,094,101)</u>	<u>(371,719)</u>	<u>327,537</u>	<u>(5,138,283)</u>
Net capital assets being depreciated	<u>3,444,425</u>	<u>1,587,346</u>	<u>1,323,087</u>	<u>6,354,858</u>
Total Capital Assets	\$ 4,793,740	\$ 1,587,346	\$ (11,278)	\$ 6,369,808

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Depreciation was charged to governmental functions as follows:

General government	\$	55,629
Public works		85,971
Public safety		98,461
Culture and recreation		131,658
Total Governmental Activities Depreciation Expense	\$	<u>371,719</u>

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 214,887	\$ -	\$ -	\$ 214,887
Total capital assets not being depreciated	<u>214,887</u>	<u>-</u>	<u>-</u>	<u>214,887</u>
Capital assets, being depreciated:				
Buildings and improvements	2,872,520	38,384	-	2,910,904
Furniture and equipment	517,868	-	(47,755)	470,113
Utility systems and structures	17,289,322	36,273	-	17,325,595
Total capital assets being depreciated	<u>20,679,710</u>	<u>74,657</u>	<u>(47,755)</u>	<u>20,706,612</u>
Less accumulated depreciation				
Buildings and improvements	(1,267,340)	(199,878)	-	(1,467,218)
Furniture and equipment	(355,389)	(13,363)	47,755	(320,997)
Utility systems and structures	(7,883,031)	(601,266)	-	(8,484,297)
Total accumulated depreciation	<u>(9,505,760)</u>	<u>(814,507)</u>	<u>47,755</u>	<u>(10,272,512)</u>
Net capital assets being depreciated	<u>11,173,950</u>	<u>(739,850)</u>	<u>-</u>	<u>10,434,100</u>
Total Capital Assets	\$ <u>11,388,837</u>	\$ <u>(739,850)</u>	\$ <u>-</u>	\$ <u>10,648,987</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	\$	601,593
Golf course		212,914
Total Governmental Activities Depreciation Expense	\$	<u>814,507</u>

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

D. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Combination Tax and Revenue Certificates of Obligation	\$ 2,460,000	\$ -	\$ (70,000)	\$ 2,390,000	\$ 75,000
Deferred Amounts					
Issuance Premium	32,556	-	(1,356)	31,200	-
Total Bonds Payable	<u>2,492,556</u>	<u>-</u>	<u>(71,356)</u>	<u>2,421,200</u>	<u>75,000</u>
Due to State	709,800	-	(31,200)	678,600	31,200
Capital Lease	108,500	45,277	(30,399)	123,378	33,164
Net Pension Obligation	115,587	7,214	-	122,801	-
Total Governmental Activities	<u>\$ 3,426,443</u>	<u>\$ 52,491</u>	<u>\$ (132,955)</u>	<u>\$ 3,345,979</u>	<u>\$ 139,364</u>
Long-term Liabilities Due in More than One Year				<u>\$ 3,206,615</u>	
Business-Type Activities:					
General Obligation Refunding Bonds	\$ 2,230,000	\$ -	\$ (345,000)	\$ 1,885,000	\$ 355,000
Tax and Utility System Revenue Certificates of Obligation	3,310,000	-	(70,000)	3,240,000	75,000
Deferred Amounts					
Issuance Premium	85,009	-	(9,393)	75,616	-
Total Bonds Payable	<u>5,625,009</u>	<u>-</u>	<u>(424,393)</u>	<u>5,200,616</u>	<u>430,000</u>
Capital Lease	337,021	26,459	(82,636)	280,844	88,201
Net Pension Obligation	28,897	1,803	-	30,700	-
Total Business-Type Activities	<u>\$ 5,990,927</u>	<u>\$ 28,262</u>	<u>\$ (507,029)</u>	<u>\$ 5,512,160</u>	<u>\$ 518,201</u>
Long-term Liabilities Due in More than One Year				<u>\$ 4,993,959</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities
General Obligation bonds:		
\$3,215,000 General Obligation Refunding Bonds, Series 2010, due in installments through 2019, interest at 2% to 3%	\$ -	\$ 1,885,000
Total General Obligation bonds	\$ -	\$ 1,885,000
Combination Tax and Revenue Certificates of Obligation:		
\$3,400,000 Tax and Utility System Revenue Certificates of Obligation, Series 2010, due in annual installments through 2025, interest at 2% to 4%	\$ -	\$ 3,240,000
\$2,500,000 Combination Tax and Revenue Certificates of Obligation, Series 2012, due in annual installments through 2025, interest at 2% to 4%	\$ 2,390,000	\$ -
Total Combination Tax and Revenue/Certificates of Obligation	\$ 2,390,000	\$ 3,240,000
Due to State:		
\$781,121 sales and use taxes repayment due in installments through 2036, no interest.	\$ 678,600	\$ -
Total Due to State	\$ 678,600	\$ -
Deferred amounts:		
Premiums	\$ 31,200	\$ 75,616
Total deferred amounts	31,200	75,616
Capital leases payable:		
\$71,736 Capital lease payable for vehicles and equipment, due in installments through 2018, interest at 4.95%	\$ 36,448	\$ 21,251
\$607,309 Capital lease payable for meter readers, due in installments through 2017, interest at 5.59%	-	259,593
\$ 62,622 Capital lease payable to John Deere, due in annual installments of \$ 1,298 through 2014, interest at 5.9%	86,930	-
Total Capital Leases Payable	123,378	280,844
Net pension obligation	122,801	30,700
Total Debt	\$ 3,345,979	\$ 5,512,160

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The annual requirements to amortize long-term debt outstanding at year ending were as follows:

Tax and Revenue Certificates of Obligations

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 75,000	\$ 76,050	\$ 75,000	\$ 117,469
2016	75,000	74,550	80,000	115,519
2017	75,000	73,050	80,000	113,119
2018	80,000	71,500	85,000	110,644
2019	80,000	69,900	90,000	108,019
2020	80,000	68,100	475,000	98,950
2021	85,000	65,825	475,000	83,216
2022	85,000	63,275	470,000	65,800
2023	90,000	60,650	470,000	47,000
2024	95,000	57,875	470,000	28,200
2025	95,000	55,025	470,000	9,400
2026	100,000	52,100	-	-
2027	100,000	49,100	-	-
2028	105,000	46,025	-	-
2029	110,000	42,525	-	-
2030	115,000	38,588	-	-
2031	120,000	34,475	-	-
2032	125,000	30,188	-	-
2033	130,000	25,400	-	-
2034	135,000	20,100	-	-
2035	140,000	14,600	-	-
2036	145,000	8,900	-	-
2037	150,000	3,000	-	-
Total	<u>\$ 2,390,000</u>	<u>\$ 1,100,800</u>	<u>\$ 3,240,000</u>	<u>\$ 897,334</u>

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

General Obligation Refunding Bonds

	Business-type Activities		
	Principal	Interest	Total
2015	\$ 355,000	\$ 55,175	\$ 410,175
2016	365,000	44,375	409,375
2017	375,000	33,275	408,275
2018	390,000	20,825	410,825
2019	400,000	7,000	407,000
Total	\$ 1,885,000	\$ 160,650	\$ 2,045,650

Capital Leases Payable

Year ending September 30,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 33,164	\$ 4,040	\$ 37,204
2016	34,461	2,743	37,204
2017	35,812	1,392	37,204
2018	20,441	215	20,656
Total	\$ 123,878	\$ 8,390	\$ 132,268

Year ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2015	\$ 88,201	\$ 15,626	\$ 103,827
2016	93,133	10,693	103,826
2017	98,399	5,428	103,827
2018	1,111	105	1,216
Total	\$ 280,844	\$ 31,852	\$ 312,696

Sales Tax Overpayment Due to State

Year ending September 30,	Principal	Interest
2015	\$ 31,200	\$ -
2016	31,200	-
2017	31,200	-
2018	31,200	-
2019	31,200	-
2020-2024	156,000	-
2025-2029	156,000	-
2030-2034	156,000	-
2035-2036	54,600	-
	\$ 678,600	\$ -

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

E. Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2014, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Golf Course fund	\$ 244,480
	Civic Center Renovation fund	8,849
	Nonmajor funds	3,195
	Internal Service fund	5,787
Nonmajor funds	General	8,009
	Nonmajor funds	870
Water and sewer	General	66,219
		<u>\$ 337,409</u>

F. Interfund Transactions

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

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
Water and sewer	General fund	\$ 99,312
General fund	Street improvement	67,208
General fund	Golf Course fund	191,785
Nonmajor funds	General fund	7,056
		<u>\$ 365,361</u>

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

G. Fund Equity

The City records restricted net position / fund balance to indicate that a portion is legally restricted for a specific future use.

The following is a list of restricted net position / fund balance of the City:

	Governmental Activities
Restricted for:	
Debt service	\$ 148,155
Civic center renovation	108,062
Tourism	66,790
Public education	24,818
Restricted by enabling legislation:	80,982
Total restricted	\$ 428,807

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. The government is a defendant in a lawsuit. Although the outcome of the lawsuit is not presently determinable, potential damages range up to

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

\$250,000. Currently the City's attorneys believe the City will receive a favorable outcome and is vigorously defending the suit.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Pension Plans

1. Texas Municipal Retirement Systems

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 by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

City of Diboll, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the projected unit credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as updated service credits and annuity increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

Three-Year Contribution Information

	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2012</u>
Annual Required Contribution (ARC)	\$ 260,161	\$ 231,549	\$ 226,341
Interest on Net Pension Obligation	10,114	9,745	8,655
Adjustment to the ARC	(9,094)	(8,561)	(7,440)
Annual Pension Cost	261,180	232,732	227,557
Contributions Made	252,163	227,456	211,988
Increase (decrease) in net pension	9,017	5,276	15,568
Beginning Net Pension Obligation/(Asset)	144,484	139,208	123,640
NPO at the End of Period	<u><u>\$ 153,501</u></u>	<u><u>\$ 144,484</u></u>	<u><u>\$ 139,208</u></u>

The required contribution 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:

Valuation Date	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
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	26.2 years; closed period	25.2 years; closed period	30.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
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	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

City of Diboll, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2014

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 7,417,542
Actuarial Accrued Liability	\$ 8,945,660
Percentage Funded	82.9%
Annual Covered Payroll	\$ 1,819,744
Unfunded Actuarial Accrued Liability	\$ (1,528,118)
(UAAL) % of Covered Payroll	(84.0)%

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

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

Supplemental Death Benefits Plan

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.

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

City of Diboll, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2014

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 retiree contribution rates to the TMRS SDBF for the years ended 2014, 2013 and 2012 were \$574, \$534 and \$512, respectively, which equaled the required contributions each year.

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2011	0.03%	0.03%	100.0%
2012	0.03%	0.03%	100.0%
2013	0.03%	0.03%	100.0%

E. Restatement

The City has restated beginning fund balance/net position within governmental and business-type activities due to the change in reporting of fixed assets and the golf course. The City separated the golf course activity that was previously contained within the general fund and internal service fund into its own fund in order to provide a more transparent financial representation for the financial statement reader. The restatement of beginning fund balance/net position is as follows:

	<u>Governmental Activities</u>	<u>General</u>	<u>Internal Service</u>
Prior year ending net position/ fund balance as reported	\$ 7,725,554	\$ 934,550	\$ 1,403,596
Change in reporting of golf course fund	(1,818,102)	(24,168)	(158,226)
Change in reporting of fixed assets	(181,617)	-	-
Restated beginning net position/fund balance	<u>\$ 5,725,835</u>	<u>\$ 910,382</u>	<u>\$ 1,245,370</u>
	<u>Business-type Activities</u>	<u>Golf Course</u>	
Prior year ending net position as reported	\$ 5,073,568	-	
Change in reporting of golf course fund	2,000,496	2,000,496	
Restated beginning net position	<u>\$ 7,074,064</u>	<u>\$ 2,000,496</u>	

F. Subsequent Events

There were no material subsequent events through March 13, 2015, the date the financial statements were issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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City of Diboll, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property tax	\$ 858,500	\$ 858,500	\$ 861,150	\$ 2,650
Sales tax	626,200	626,200	649,347	23,147
Franchise and local taxes	500,000	500,000	540,188	40,188
Other taxes	62,000	62,000	61,701	(299)
License and permits	5,500	5,500	9,730	4,230
Charges for services	1,435,700	1,435,700	1,454,939	19,239
Intergovernmental	29,000	29,000	4,700	(24,300)
Investment income	1,600	1,600	872	(728)
Other revenues	-	-	77,441	77,441
Total Revenues	3,518,500	3,518,500	3,660,068	141,568
Expenditures				
Current:				
General government	1,192,060	1,192,060	1,357,396	(165,336) *
Municipal court	78,150	78,150	81,438	(3,288) *
Public safety	1,418,991	1,418,991	1,541,412	(122,421) *
Public works	443,502	443,502	402,659	40,843
Cultural and recreation	683,505	294,505	345,087	(50,582) *
Debt service:				
Principal	-	-	30,399	(30,399) *
Interest	-	-	4,717	(4,717) *
Sales tax liability	31,200	31,200	31,200	-
Capital outlay	-	-	48,518	(48,518) *
Total Expenditures	3,847,408	3,458,408	3,842,826	(384,418)
Excess of Revenues Over (Under)				
(Under) Expenditures	(328,908)	60,092	(182,758)	(242,850)
Other Financing Sources (Uses)				
Transfers in	120,376	120,376	106,368	(14,008)
Transfers (out)	-	(191,785)	(258,993)	(67,208)
Proceeds from capital lease	-	-	45,277	45,277
Total Other Financing Sources (Uses)	-	(71,409)	(107,348)	(35,939)
Net Change in Fund Balance	\$ (328,908)	\$ (11,317)	(290,106)	\$ (278,789)
Beginning fund balance			910,382	
Ending Fund Balance			\$ 620,276	

Notes to Required Supplementary Information:

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

*2. Expenditures exceeded appropriations at legal level of control

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City of Diboll, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL DEBT SERVICE FUND

For the Year Ended September 30, 2014

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Property tax	\$ 148,000	\$ 152,969	\$ 4,969
Investment income	-	141	141
Total Revenues	<u>148,000</u>	<u>153,110</u>	<u>5,110</u>
<u>Expenditures</u>			
Debt service:			
Principal	70,000	70,000	-
Interest	78,000	77,850	150
Total Expenditures	<u>148,000</u>	<u>147,850</u>	<u>150</u>
Net Change in Fund Balance	<u>\$ -</u>	5,260	<u>\$ 5,260</u>
Beginning fund balance		<u>142,895</u>	
Ending Fund Balance		<u>\$ 148,155</u>	

Notes to Required Supplementary Information:

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

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City of Diboll, Texas
SCHEDULE OF FUNDING PROGRESS-
TEXAS MUNICIPAL RETIREMENT SYSTEM

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. The City has paid the minimum "phase in" rate rather than the full rate and net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Actuarial Valuation Date	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Actuarial Value of Assets	\$ 7,417,542	\$ 7,000,578	\$ 6,593,426
Actuarial Accrued Liability	\$ 8,945,660	\$ 8,156,103	\$ 7,749,979
Percentage Funded	82.9%	85.8%	85.1%
Unfunded Actuarial			
Accrued Liability	\$ 1,528,118	\$ 1,155,525	\$ 1,156,553
Annual Covered Payroll	\$ 1,819,744	\$ 1,720,998	\$ 1,699,261
Unfunded Actuarial Accrued Liability			
(UAAL) % of Covered Payroll	84.0%	67.1%	68.1%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 144,484	\$ 139,208	\$ 123,640
Annual Req. Contrib. (ARC)	\$ 261,180	\$ 232,732	\$ 227,556
Contributions Made	\$ 252,163	\$ 227,456	\$ 211,988
NPO at the End of Period	<u>\$ 153,501</u>	<u>\$ 144,484</u>	<u>\$ 139,208</u>

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NONMAJOR GOVERNMENTAL FUNDS

HOTEL/MOTEL OCCUPANCY TAX FUND

This fund accounts for funds derived from hotel/motel occupancy taxes and is legally restricted to promote tourism within the City.

MUNICIPAL COURT SECURITY FUND

This fund accounts for court fees that are legally restricted for court security expenses.

MUNICIPAL COURT TECHNOLOGY FUND

This fund accounts for court fees that are legally restricted for court technology expenses.

DRUG SEIZURE FUND

This fund is used to track drug seizures and related activity necessary for drug seizure operations.

CDBG GRANT FUND

This fund accounts for any community development block grants obtained and are legally restricted to be used toward community development.

PEG FUND

This fund accounts for the restricted use of public access television.

City of Diboll, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2014

	Hotel and Motel Tax Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Drug Seizure Fund
<u>Assets</u>				
Cash and cash equivalents	\$ 69,985	\$ 61,523	\$ -	\$ 28,730
Receivables, net	-	-	-	-
Due from other funds	-	2,509	4,928	-
Total Assets	\$ 69,985	\$ 64,032	\$ 4,928	\$ 28,730
<u>Liabilities</u>				
Accounts payable	\$ -	\$ -	\$ 754	\$ 15,084
Due to other funds	3,195	-	870	-
Total Liabilities	3,195	-	1,624	15,084
<u>Fund Balances</u>				
Restricted for:				
Tourism	66,790	-	-	-
Municipal court security	-	64,032	-	-
Municipal court technology	-	-	3,304	-
Police equipment	-	-	-	13,646
Public education	-	-	-	-
Unrestricted	-	-	-	-
Total Fund Balances	66,790	64,032	3,304	13,646
Total Liabilities and Fund Balances	\$ 69,985	\$ 64,032	\$ 4,928	\$ 28,730

CDBG Grant Fund	PEG Fund	Total Nonmajor Governmental
\$ -	\$ 21,989	\$ 182,227
-	1,387	1,387
-	1,442	8,879
<u>\$ -</u>	<u>\$ 24,818</u>	<u>\$ 192,493</u>
\$ 5,000	\$ -	\$ 20,838
-	-	4,065
<u>5,000</u>	<u>-</u>	<u>24,903</u>
-	-	66,790
-	-	64,032
-	-	3,304
-	-	13,646
-	24,818	24,818
(5,000)	-	(5,000)
<u>(5,000)</u>	<u>24,818</u>	<u>167,590</u>
<u>\$ -</u>	<u>\$ 24,818</u>	<u>\$ 192,493</u>

City of Diboll, Texas

*COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014*

	Hotel and Motel Tax Fund	Municipal Court Security Fund	Municipal Court Technology Fund	Drug Seizure Fund
<u>Revenues</u>				
Franchise taxes	\$ -	\$ -	\$ -	\$ -
Charges for service	16,874	12,593	16,773	1,846
Intergovernmental	-	-	-	-
Interest income	43	40	-	13
Total Revenues	<u>16,917</u>	<u>12,633</u>	<u>16,773</u>	<u>1,859</u>
<u>Expenditures</u>				
Municipal court	-	5,741	24,224	1,474
Public works	-	-	-	-
Total Expenditures	<u>-</u>	<u>5,741</u>	<u>24,224</u>	<u>1,474</u>
Revenues Over (Under) Expenditures	<u>16,917</u>	<u>6,892</u>	<u>(7,451)</u>	<u>385</u>
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	(7,056)	-	-	-
Total Other Financing (Uses)	<u>(7,056)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	9,861	6,892	(7,451)	385
Beginning fund balances	56,929	57,140	10,755	13,261
Ending Fund Balances	<u>\$ 66,790</u>	<u>\$ 64,032</u>	<u>\$ 3,304</u>	<u>\$ 13,646</u>

CDBG Grant Fund	PEG Fund	Total Nonmajor Governmental
\$ -	\$ 7,245	\$ 7,245
-	-	48,086
479,772	-	479,772
-	-	96
<u>479,772</u>	<u>7,245</u>	<u>535,199</u>
-	-	31,439
484,772	-	484,772
<u>484,772</u>	<u>-</u>	<u>516,211</u>
<u>(5,000)</u>	<u>7,245</u>	<u>18,988</u>
-	-	(7,056)
<u>-</u>	<u>-</u>	<u>(7,056)</u>
(5,000)	7,245	11,932
-	17,573	155,658
<u>\$ (5,000)</u>	<u>\$ 24,818</u>	<u>\$ 167,590</u>

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