

CITY OF SIMONTON, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2011

CITY OF SIMONTON, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2011

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page(s)</u>
<u>INTRODUCTORY SECTION</u>		
Principal Officials		3
<u>FINANCIAL SECTION</u>		
Independent Auditors' Report		7-8
Management's Discussion and Analysis		9-14
Basic Financial Statements		
Government-Wide Financial Statements:		
Statement of Net Assets	A-1	17
Statement of Activities	A-2	18-19
Fund Financial Statements:		
Balance Sheet - Governmental Fund	A-3	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	A-4	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	A-5	22
Notes to the Financial Statements	A-6	23-30
Required Supplementary Information:		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	B-1	32
Notes to Required Supplementary Information	B-2	33

INTRODUCTORY SECTION

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CITY OF SIMONTON, TEXAS

PRINCIPAL OFFICIALS

September 30, 2011

MAYOR

Daniel McJunkin

CITY COUNCIL

Mayor Pro Tem
Alderman
Alderman
Alderman
Alderman

Jane Stockton
Lou Boudreaux
John Bohannon
Mike Kerr
Jeff Young

CITY SECRETARY

Shannon Purcell

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FINANCIAL SECTION

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130 Industrial Blvd, Suite 130 • Sugar Land, Texas 77478 • 281/242-3232 • fax 281/242-3252 • www.sktx.com

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
Simonton, Texas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units and each major fund of the City of Simonton, Texas (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units and each major fund of the City, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 and the budgetary comparison information on page 32 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "Sugar Land & Co.", written in a cursive style.

Sugar Land, Texas
November 8, 2012

Management's Discussion and Analysis

As management of the City of Simonton, 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 year ended September 30, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City, excluding component units, exceeded its liabilities at the close of the fiscal year by \$702,853 (net assets). Of this amount, \$637,001 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets, excluding component units, decreased by \$51,007 during the fiscal year ending September 30, 2011.
- Excluding component units, the City's total expenses were \$391,130. Program revenues of \$47,594 reduced the net cost of the City's functions to be financed from the City's general revenues to \$343,536.
- At the end of the fiscal year, unassigned fund balance for the General Fund was \$629,100, or 165.8 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's most significant funds. The fund financial statements provide more information about the City's most significant funds - not the City as a whole.

The City has one type of fund:

Governmental Fund - Some of the City's basic services are included in the governmental fund, which focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's major programs.

The City maintains one individual governmental fund, the General Fund, for financial reporting purposes. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for this fund, which is considered to be a major fund as of September 30, 2011.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 30 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget. Required supplementary information can be found on pages 32 through 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, excluding component units, assets exceeded liabilities by \$702,853 as of September 30, 2011.

The largest portion of the City's net assets (90.6 percent) represents unrestricted financial resources available for future operations.

Additionally, a portion of the City's net assets (9.0 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.

SUMMARY OF STATEMENT OF NET ASSETS As of September 30, 2011

	Governmental Activities	
	2011	2010
Current and other assets	\$ 682,705	\$ 691,090
Capital assets, net	63,437	75,083
Total Assets	746,142	766,173
Accounts payable and accrued liabilities	31,311	1,183
Due to component units	11,978	11,130
Total Liabilities	43,289	12,313
Net Assets:		
Invested in capital assets, net of related debt	63,437	75,083
Restricted	2,415	3,029
Unrestricted	637,001	675,748
Total Net Assets	\$ 702,853	\$ 753,860

Net assets of the City, excluding component units, which relate to governmental activities, decreased by \$51,007 during the year ended September 30, 2011. Key elements of the decrease are as follows:

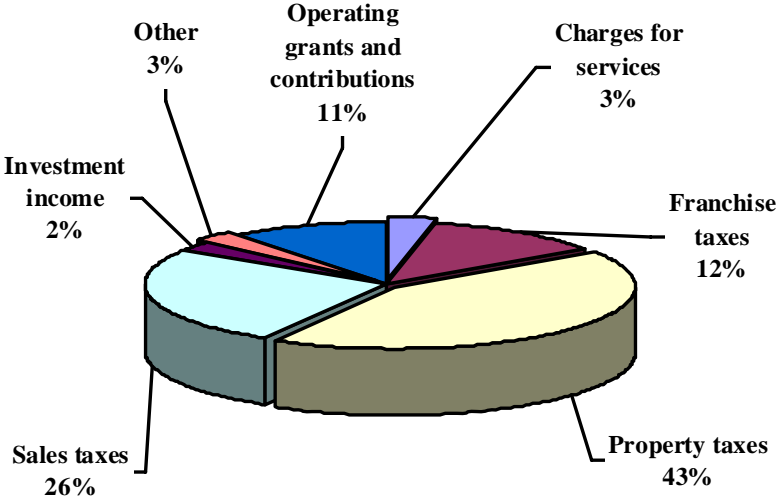
CHANGES IN NET ASSETS
For the Year Ended September 30, 2011

	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 11,774	\$ 8,238
Operating grants and contributions	35,820	38,686
General revenues:		
Property taxes	145,452	144,123
Franchise taxes	41,372	38,193
Sales taxes	87,746	69,822
Investment income	7,959	5,300
Other	10,000	
Total Revenues	340,123	304,362
Expenses		
General government	74,295	28,452
Public safety	171	241
Public works	316,664	66,655
Total Expenses	391,130	95,348
Change in Net Assets	(51,007)	209,014
Net Assets, Beginning	753,860	544,846
Net Assets, Ending	\$ 702,853	\$ 753,860

The City's governmental net assets decreased \$51,007. This decrease in net assets can be mainly attributed to an increase from the prior fiscal year of approximately \$250,000 in public work expenses.

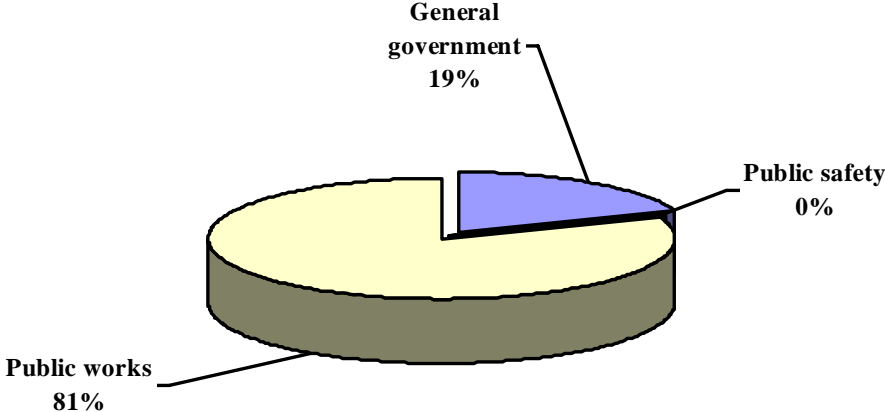
Graphic presentations of selected data from the changes in net assets table follow to assist in the analysis of the City's activities.

GOVERNMENTAL REVENUES



For the year ended September 30, 2011, revenues from governmental activities totaled \$340,123.

GOVERNMENTAL FUNCTIONAL EXPENSES



For the year ended September 30, 2011, expenses from governmental activities totaled \$391,130, the largest portion of which related to public works (81.0%).

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City’s governmental fund is discussed below:

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

As of September 30, 2011, the City’s governmental fund reported an ending fund balance of \$631,515. As a measure of the General Fund’s liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 165.8 percent of total General Fund expenditures.

CAPITAL ASSETS

The City’s investment in capital assets as of September 30, 2011 amounts to \$63,437 (net of accumulated depreciation). This investment in capital assets includes furniture and related equipment.

**SCHEDULE OF CAPITAL ASSETS
(Net of Accumulated Depreciation)
September 30, 2011**

	Governmental Activities
Depreciable Capital Assets:	
Furniture and equipment	\$ 63,437
Total	\$ 63,437

Additional information on the City’s capital assets can found in Note 4 in the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were greater than budgeted revenues by \$48,792. One of the largest positive revenue variances was sales taxes, which totaled \$26,486 more than was budgeted.

During the year ended September 30, 2011, there were no increases or decreases in appropriations between the original and final amended budget for revenues and expenditures of the General Fund except for public safety expenditures which decreased from \$13,500 to \$171 and public works expenditures which increased from \$209,560 to \$277,027.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

As of September 30, 2011, the General Fund had an ending fund balance of \$631,515. Of this amount, \$2,415 is restricted for child safety. Fund balance decreased by \$42,414 during the fiscal year. This decrease is primarily due to an increase in public works expenditures in the current fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Simonton, Texas' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Simonton, Texas: Shannon Purcell, City Secretary, 35011 FM 1093 Houston, Texas 77476.

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BASIC FINANCIAL STATEMENTS

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CITY OF SIMONTON, TEXAS

Exhibit A-1

STATEMENT OF NET ASSETS

September 30, 2011

	Primary	Component Units	
	Government	Simonton	City of Simonton
	Governmental	Development	Development
	Activities	Corporation	Corporation
Assets			
Cash	\$ 154,206	\$ 45,883	\$ 23,013
Investments	489,399		
Receivables	39,100		
Due from primary government		7,985	3,993
Capital assets, net of accumulated depreciation:			
Furniture and equipment	63,437		
Total Assets	<u>746,142</u>	<u>53,868</u>	<u>27,006</u>
Liabilities			
Accounts payable and other current liabilities	31,311		
Due to component units	11,978		
Total Liabilities	<u>43,289</u>		
Net Assets			
Invested in capital assets, net of related debt	63,437		
Restricted for:			
Child safety	2,415		
Economic development		53,868	27,006
Unrestricted	637,001		
Total Net Assets	<u>\$ 702,853</u>	<u>\$ 53,868</u>	<u>\$ 27,006</u>

See Notes to the Financial Statements.

CITY OF SIMONTON, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants & Contributions
Governmental Activities			
General government	\$ 74,295	\$ 11,774	\$ 35,820
Public safety	171		
Public works	316,664		
Total Governmental Activities	391,130	11,774	35,820
Component Units			
Simonton Development Corporation	7,076		
City of Simonton Development Corporation	3,608		
Total Component Units	\$ 10,684	\$	\$

General Revenues:

Taxes

Property taxes

Franchise taxes

Sales taxes

Investment income

Other

Total General Revenues

Change in Net Assets

Net Assets, Beginning

Net Assets, Ending

Net (Expense) Revenue and Changes in Net Assets		
Primary Government	Component Units	
Governmental Activities	Simonton Development Corporation	City of Simonton Development Corporation
\$ (26,701)	\$	\$
(171)		
(316,664)		
(343,536)		
	(7,076)	
		(3,608)
<u>\$</u>	<u>\$ (7,076)</u>	<u>\$ (3,608)</u>
\$ 145,452	\$	\$
41,372		
87,746	37,193	20,545
7,959		34
10,000		
292,529	37,193	20,579
(51,007)	30,117	16,971
753,860	23,751	10,035
<u>\$ 702,853</u>	<u>\$ 53,868</u>	<u>\$ 27,006</u>

CITY OF SIMONTON, TEXAS

Exhibit A-3

BALANCE SHEET GOVERNMENTAL FUND

September 30, 2011

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 154,206
Investments	489,399
Receivables, net:	
Taxes	5,018
Accounts	34,082
Total Assets	<u>\$ 682,705</u>
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 31,311
Deferred revenue	7,901
Due to component unit	11,978
Total Liabilities	<u>51,190</u>
<u>Fund Balance</u>	
Fund Balance:	
Restricted	2,415
Unassigned	629,100
Total Fund Balance	<u>631,515</u>
Total Liabilities and Fund Balance	<u>\$ 682,705</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	63,437
Revenues that do not provide current financial resources are reported as deferred are not reported in the funds.	7,901
Net Assets of Governmental Activities	<u>\$ 702,853</u>

See Notes to the Financial Statements.

CITY OF SIMONTON, TEXAS

Exhibit A-4

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

For the Year Ended September 30, 2011

	General Fund
<u>Revenues</u>	
Taxes:	
Property taxes	\$ 142,399
Franchise taxes	41,372
Sales taxes	87,746
Licenses and permits	3,776
Intergovernmental	35,820
Investment income	7,959
Other	17,998
Total Revenues	337,070
<u>Expenditures</u>	
Current:	
General government	74,295
Public safety	171
Public works	305,018
Total Expenditures	379,484
Net Change in Fund Balance	(42,414)
Fund Balance - Beginning	673,929
Fund Balance - Ending	\$ 631,515

See Notes to the Financial Statements.

CITY OF SIMONTON, TEXAS

Exhibit A-5

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2011

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

Net change in fund balance - total governmental fund	\$ (42,414)
The governmental fund reports 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. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(11,646)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. This adjustment reflects the net change in property taxes receivable on the accrual basis of accounting.	3,053
Change in Net Assets of Governmental Activities	<u>\$ (51,007)</u>

See Notes to the Financial Statements.

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Simonton, Texas (the “City”) was organized as the Village of Simonton, Texas and incorporated in 1986. The City operates as a “general law” city, which provides for a “mayor-council” form of government.

The City provides the following services: general government, public safety (including police, fire, and emergency medical services on a contract basis) and public works.

A. Financial Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these 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. The component units, listed below, although legally separate, are considered part of the reporting entity. These component units have not been presented in the City's reporting entity as required by generally accepted accounting principles. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

Discrete Component Units

Simonton Higher Education Facilities Corporation

Simonton Higher Education Facilities Corporation (the “SEFC”) has not been included in the reporting entity as a discretely presented component unit, as it has been deemed immaterial to the financial statements of the City. In 2004, the City authorized and created the SEFC, which was evidenced by ordinance of City Council.

The SEFC is governed by the provisions of section 53.35(b) of the Higher Education Authority Act (Chapter 53, Texas Education Code) referred to as the “Act” for the purpose of benefiting and accomplishing public purposes of, and to act on behalf of, the City pursuant to the Act. The Board of Directors is appointed and serves at the discretion of the City Council. City Council approval is required for debt issuance. In the event of dissolution, net assets shall be conveyed to the City.

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO THE FINANCIAL STATEMENTS

Simonton Development Corporation

The citizens of the City approved an additional one half of one percent sales and use tax on November 4, 2008 for economic development under the provisions of Section 4B of the Development Corporation Act of 1979. The Simonton Development Corporation (the “SDC”) was created for the public purpose of aiding, promoting and furthering the economic development of the City. The SDC may issue bonds or incur other forms of debt to fulfill its public purpose. The SDC began collecting sales tax in April 2009. The Board of Directors is appointed by the City Council and includes seven board members. City Council approval is required for annual budgets. In the event of dissolution, net assets of the SDC shall be conveyed to the City. The SDC does not have separately issued financial statements.

City of Simonton Development Corporation

The citizens of the City approved an additional one quarter of one percent sales and use tax on November 4, 2008 for economic development under the provisions of Section 4A of the Development Corporation Act of 1979. The City of Simonton Development Corporation (the “Corporation”) was created for the public purpose of aiding, promoting and furthering the economic development of the City. The Corporation began collecting sales tax in April 2009. The Corporation may issue bonds or incur other forms of debt to fulfill its public purpose. The Board of Directors is appointed by the City Council and includes five board members. City Council approval is required for annual budgets. In the event of dissolution, net assets of the Corporation shall be conveyed to the City. The Corporation does not have separately issued financial statements.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 – Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments.

Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the City’s governmental activities.
- Fund financial statements focusing on the major fund.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components-invested in capital assets, net of related debt; restricted; and unrestricted.

These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO THE FINANCIAL STATEMENTS

laws or regulation of other governments or constraints imposed by law through contractual provisions or enabling legislation.

- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the City as a whole. These statements include all non-fiduciary activities of the primary government and its component units, if applicable. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use of directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As applicable, separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements, when applicable.

In September 1993, the Governmental Accounting Standards Board issued Statement No. 29, “Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting” which is effective for the City’s financial statements for the year ended September 30, 2011. This statement provides guidance on accounting and financial reporting for business-type and enterprise fund activities. As of September 30, 2011, the City does not report any business-type activities.

D. Measurement Focus and Basis of Accounting

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, if applicable, 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.

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. 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

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO THE FINANCIAL STATEMENTS

current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

When applicable, property taxes, franchise taxes, sales taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the government.

The government reports the following major governmental fund:

General Fund

The General Fund accounts for the resources used to finance the fundamental operations of the City. The principal sources of revenue of the General Fund are local property taxes, sales taxes, franchise taxes, licenses and permits and charges for services. Expenditures are for general government, public safety and public works.

E. 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.

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 cost. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in direct obligations of the U.S. government and the State of Texas or their agencies or instrumentalities, fully collateralized certificates of deposit, mutual funds of specific type and investment pools.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. 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 activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO 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. Major outlays for capital assets and improvements are capitalized as projects as constructed.

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	17 years
Furniture and equipment	3-8 years

H. Fund Equity

Restricted equity balances represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Unrestricted fund balances represent available balances for the City's future use.

I. 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 financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. Restricted/Unrestricted Net Assets

It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Date of Management's Review

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through October 4, 2012, the date that the financial statements were available to be issued.

NOTE 2 – DEPOSITS AND INVESTMENTS

As of September 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Certificates of deposit	\$ 489,399	271

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO THE FINANCIAL STATEMENTS

Credit Risk

State law and the City's investment policy limits investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Further, commercial paper must be rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies. All investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuer U.S. agency.

Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of bank failure, the City's deposits may not be returned to it. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the City's deposits is required to be held in the City's name by the trust department of a bank other than the pledging bank (the City's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the City during the year. As of September 30, 2011, the City had sufficient coverage from the Federal Deposit Insurance Corporation (FDIC).

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 possession of an outside party. 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.

NOTE 3 - RECEIVABLES

As of September 30, 2011, receivables for the government's individual major fund are as follows:

	<u>Governmental Activities</u>
	<u>General Fund</u>
Net Receivables:	
Taxes	\$ 5,018
Accounts	34,082
Total	<u>\$ 39,100</u>

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2011:

	<u>Balance</u> <u>Oct. 1, 2010</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance</u> <u>Sept. 30, 2011</u>
Governmental Activities:				
Capital assets being depreciated:				
Buildings and improvements	\$ 153,772			153,772
Furniture and equipment	124,129	5,202		129,331
Total capital assets being depreciated	<u>277,901</u>	<u>5,202</u>		<u>283,103</u>
Less accumulated depreciation for:				
Buildings and improvements	(153,772)			(153,772)
Furniture and equipment	(49,046)	(16,848)		(65,894)
Total accumulated depreciation	<u>(202,818)</u>	<u>(16,848)</u>		<u>(219,666)</u>
Total capital assets being depreciated, net	<u>75,083</u>	<u>(11,646)</u>		<u>63,437</u>
Governmental activities capital assets, net	<u>\$ 75,083</u>	<u>\$ (11,646)</u>	<u>\$</u>	<u>\$ 63,437</u>

Depreciation was charged to governmental activities as follows:

Public works	<u>\$ 16,848</u>
Total Governmental Activities Depreciation Expense	<u>\$ 16,848</u>

NOTE 5 – FUND BALANCES

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following five fund balance categories:

Nonspendable:

To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:

To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed:

To indicate fund balance that can be used only for the specific purposes determined by a formal action of the City Council (the City's highest level of decision-making authority). The City Council must place an item on the Council's agenda, followed by a formal action to approve such, in order to establish, modify or rescind a fund balance commitment.

Assigned:

To indicate fund balance to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Currently, only the City Council has the authority to assign fund balances.

CITY OF SIMONTON, TEXAS

Exhibit A-6

NOTES TO THE FINANCIAL STATEMENTS

Unassigned:

To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

Fund balances for all the major and nonmajor governmental funds as of September 30, 2011, were distributed as follows:

	<u>General Fund</u>
Restricted for:	
Child safety	\$ 2,415
Subtotal	<u>2,415</u>
Unassigned	629,100
Total	<u>\$ 631,515</u>

GASB 54 requires disclosure of any formally adopted minimum fund balance policies. The City does not currently have any such policies.

NOTE 6 - RISK MANAGEMENT

The City is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by insurance purchased from Texas Municipal League. The City has not significantly reduced insurance coverage or had settlements, which exceeded coverage amounts since inception. The City had no material unpaid claims liabilities at the end of the inception period.

NOTE 7 – CONTINGENT LIABILITIES

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SIMONTON, TEXAS

Exhibit B-1

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

GENERAL FUND

Year Ended September 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 139,000	\$ 139,000	\$ 142,399	\$ 3,399
Franchise taxes	38,577	38,577	41,372	2,795
Sales taxes	61,260	61,260	87,746	26,486
Licenses and permits	1,400	1,221	3,776	2,555
Intergovernmental	39,530	35,820	35,820	
Investment income	6,300	6,300	7,959	1,659
Other	6,145	6,100	17,998	11,898
Total Revenues	292,212	288,278	337,070	48,792
<u>Expenditures</u>				
Current:				
General government	64,100	66,813	74,295	(7,482)
Public safety	13,500	171	171	
Public works	209,560	277,027	305,018	(27,991)
Total Expenditures	287,160	344,011	379,484	(35,473)
Net Change in Fund Balance	5,052	(55,733)	(42,414)	13,319
Fund Balance, Beginning	673,929	673,929	673,929	
Fund Balance, Ending	\$ 678,981	\$ 618,196	\$ 631,515	\$ 13,319

CITY OF SIMONTON, TEXAS

Exhibit B-2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended September 30, 2011

Budgets and Budgetary Accounting

An annual appropriated budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end. The Mayor prepares a budget for the General Fund in a form and style as deemed desirable by City Council. The budget, as adopted, must set forth the appropriations for services provided by the City and shall meet all requirements provided by law.

Expenditures may not legally exceed budgeted appropriations at the line-item level. City Council must vote to approve any budget increases to accommodate expenditure requests, which would exceed total budgeted appropriations. At any time during the fiscal year, City Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. City Council has the power to transfer any unencumbered funds allocated by the budget from one line-item to another line-item, to re-estimate revenues and expenditures, and to amend the budget.

For the year ended September 30, 2011, general government and public works expenditures exceeded appropriations in the General Fund by \$7,482 and \$27,991, respectively. These overexpenditures were funded by current year revenues in excess of the amounts budgeted in the General Fund.

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