

ANNUAL FINANCIAL REPORT
OF THE
CITY OF LAVON, TEXAS

Fiscal Year Ended September 30, 2013

*Mayor
Charles Teske, Jr.*

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

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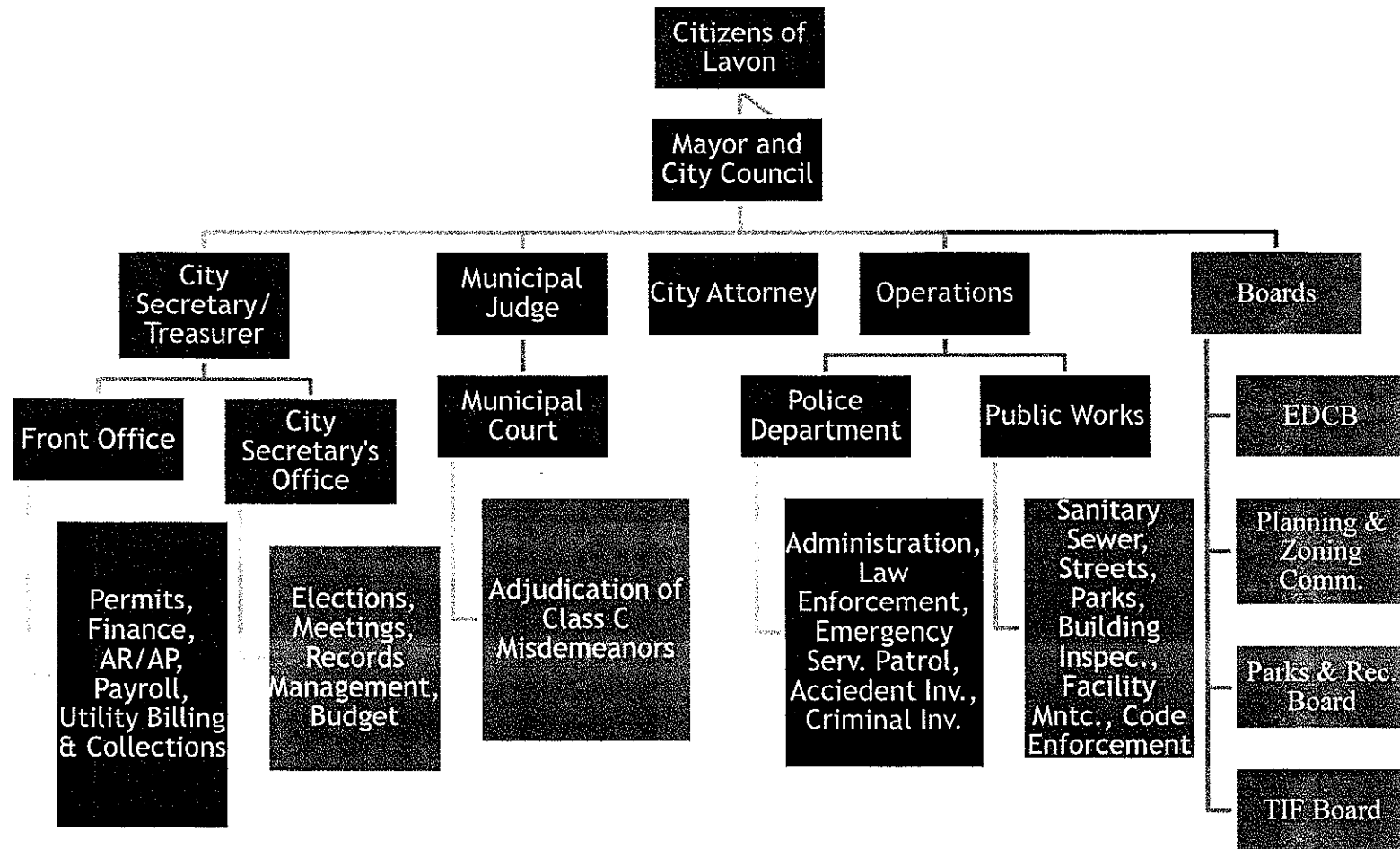
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INTRODUCTORY SECTION

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City of Lavon Organization Chart FY 2012-2013



**City of Lavon, Texas
Principal Officials
September 30, 2013**

City Council

Charles Teske, Jr.	Mayor
Chris Kane	Council member
Deborah Nabors	Council member
Melissa Stroop	Council member
David Hawkins	Council member
Jenny Bodwell	Council member

FINANCIAL SECTION

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Texas Society of CPAs

October 7, 2014

Independent Auditor's Report

Mayor and City Council
City of Lavon
PO Box 340
Lavon, Texas 75166

Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lavon, Texas ("City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lavon, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year 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, the General Fund budgetary comparison schedule, and the TMRS Funding Progress and Contributions on pages 6 to 17, and 53 to 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lavon, Texas' basic financial statements. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2014, on our consideration of the City of Lavon, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lavon, Texas' internal control over financial reporting and compliance.

Respectfully Submitted,
CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

CITY OF LAVON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2013

As management of the City of Lavon ("City"), we offer the readers of the City of Lavon's financial statements this narrative overview and analysis of the financial activities of the City of Lavon for the fiscal year ended September 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Lavon exceeded its liabilities at the close of the fiscal year by \$1,100,729 (net position). Of this amount, \$47,356 is restricted for court and police use. The amount of unrestricted net position is \$565,212.
- The government's total net position increased by \$270,699, excluding prior period adjustments, due to an increase in the collection of special assessment revenues in the governmental activities net position.
- As of the close of the current fiscal year, the City's governmental funds reported an ending fund balance of \$1,758,369, an increase of \$6,370,231, excluding prior period adjustments, in comparison with the prior year.
- As of the close of the current fiscal year, the unassigned fund balance for the General Fund was \$458,617, an increase of \$694,523. This increase in unassigned fund balance was largely due to the special assessment bond proceeds received.
- The City's total debt increased \$8,359,660 due to the issuance of special assessment revenue bonds of \$8,065,000. The bonds are special obligations of the City payable solely from pledged revenues consisting primarily of monies collected through the Heritage Public Improvement District No. 1. The owners of the bonds may not attach to any asset or fund of the City to satisfy this obligation other than the revenues pledged as specified in the Bond Instrument.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lavon'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) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

Basic Financial Statements

The first two statements (pages 21-23) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 24-31) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the Governmental Fund financial statements, 2) the Proprietary Fund financial statements, and 3) the Fiduciary Fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **required supplemental information** (pages 53-54) is provided to show details about the City's budgetary comparison for the General Fund and the City's pension plan. **Supplemental information** (pages 57-61) is also included to provide combining nonmajor fund financial statements for other major governmental funds and component unit information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The Statement of Net Position presents information on all of the City's assets and 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 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 the government-wide financial statements include not only the City itself (known as the primary government) but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component unit activity. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The final category is the component unit.

The government-wide financial statements are on pages 21 - 23 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. 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 all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories as previously described.

CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps to determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the financial statements.

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 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 maintains six 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 Fund and Other Governmental Funds. Data from the other governmental funds is provided in the form of combining statements in the supplementary information. Governmental Fund financial statements can be found on pages 24 – 27 of this report.

The City adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, such as cash flows. The City has only two proprietary funds, the Wastewater Utility Fund and the Solid Waste Utility Fund.

The basic proprietary fund financial statements can be found on pages 28-30 of this report.

Fiduciary Funds – Fiduciary Funds are used to account for amounts held on behalf of other by the City as a trustee, or fiduciary. The City is the trustee, or fiduciary, for certain amounts held on behalf of Collin County. All of the City's fiduciary activities are reported in a separate Statements of Fiduciary Assets and Liabilities. The activities of this fund are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

**CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013**

The fiduciary fund financial statement can be found on page 31.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 32-49 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's budgetary comparison information for the General Fund and progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund statements can be found on pages 57-58 of this report.

New GASB pronouncements

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concessions Arrangements" was issued to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of this statement had no effect on the financial statements.

The GASB has issued Statement No. 61, "The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34". This statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units (blending vs discrete) presentation, and certain disclosure requirements. The implementation of this statement had no effect on the financial statements.

The GASB has issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This statement codifies into GASB accounting and financial reporting standards the "legacy" standards from the private-sector. The implementation of this statement had no effect on the financial statements.

GASB issued the following statements which will be effective in future years as described below:

GASB Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62" will be implemented by the City as required by GASB during the fiscal year ending September 30, 2014. This statement improves financial reporting by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement amends Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" by removing the provision that limits fund-based reporting of an entity's risk financial activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting and operating leases. The implementation of this statement will not result in any changes to the financial statements.

GASB Statement No. 65, "Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25", will be implemented as required by GASB during the fiscal year ending September 30, 2014. The objective of this statement is to improve financial reporting by state and local government pension plans. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

CITY OF LAVON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 7", will be implemented as required by GASB during the fiscal year September 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local government pensions and improve the decision-usefulness of information contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflow of resources, and expense/expenditures. Note disclosure and required supplementary information requirement about pensions also are addressed. This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The City is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013

The City of Lavon Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 6,494,239	\$ 59,056	\$ 2,417,204	\$ 727,502	\$ 8,911,443	\$ 786,558
Capital assets	5,459,573	8,889,677	2,295,248	-	7,754,821	8,889,677
Total assets	11,953,812	8,948,733	4,712,452	727,502	16,666,264	9,676,235
Current liabilities	4,704,242	226,786	2,293,147	192,103	6,997,389	418,889
Long-term liabilities	6,362,500	178,060	2,180,646	-	8,543,146	178,060
Total liabilities	11,066,742	404,846	4,473,793	192,103	15,540,535	596,949
Deferred inflows of resources						
Unavailable revenues- advance lease receipts	25,000	30,000	-	-	25,000	30,000
Net position:						
Net investment in capital assets	373,559	8,843,938	114,602	-	488,161	8,843,938
Restricted	47,356	32,729	-	-	47,356	32,729
Unrestricted	441,155	(362,780)	124,057	535,399	565,212	172,619
Total net position	\$ 862,070	\$ 8,513,887	\$ 238,659	\$ 535,399	\$ 1,100,729	\$ 9,049,286

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The net position of the City exceeded liabilities by \$1,100,729 as of September 30, 2013. The City's net position increased by \$270,699, excluding prior period adjustments, for the fiscal year ended September 30, 2013.

Net investment in capital assets:

The City's net position, 44%, reflects the City's investment in capital assets (e.g. land, buildings, infrastructure, and equipment) less any related debt still outstanding that was issued to acquire those items. The City began residential development of the Public Improvement District. Phase I of this development has been completed. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

Restricted net position:

The restricted net position of \$47,356, or 4%, of total net position represents resources that are subject to external restrictions on their use, or by enabling legislation. Restricted net position is comprised of state imposed restrictions for court use, \$45,920, or 97%, and \$1,436, or 3% for police use.

Unrestricted net position:

Unrestricted net position of \$565,212 is available to fund the City programs to citizens and debt obligations to creditors.

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013

The City of Lavon's Changes in Net Position

	Governmental Activities		Business Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 435,511	\$ 358,639	\$ 792,735	\$ 674,582	\$ 1,228,246	\$ 1,033,221
Capital grants and contributions	49,000	-	-	-	49,000	-
Operating grants and contributions	2,500	-	-	-	2,500	-
General revenues:						
Property tax	794,929	790,511	-	-	794,929	790,511
Special assessment tax	659,759	615,000	-	-	659,759	615,000
Sales tax	102,586	103,885	-	-	102,586	103,885
Franchise tax	74,363	88,270	-	-	74,363	88,270
Investment income	1,271	2,556	58	61	1,329	2,617
Miscellaneous	15,521	-	100	-	15,621	-
Total revenues	<u>2,135,440</u>	<u>1,958,861</u>	<u>792,893</u>	<u>674,643</u>	<u>2,928,333</u>	<u>2,633,504</u>
Expenses:						
Program expenses						
General government	980,590	1,079,992	-	-	980,590	1,079,992
Public services	86,546	93,074	-	-	86,546	93,074
Public safety	607,640	542,979	-	-	607,640	542,979
Public works	315,514	372,504	-	-	315,514	372,504
Interest on long-term debt	19,874	13,900	-	-	19,874	13,900
Sewer and garbage	-	-	647,470	513,636	647,470	513,636
Total expenses	<u>2,010,164</u>	<u>2,102,449</u>	<u>647,470</u>	<u>513,636</u>	<u>2,657,634</u>	<u>2,616,085</u>
Change in net assets before other						
Financing Sources (Uses)	125,276	(143,588)	145,423	161,007	270,699	17,419
Other financing sources (uses):						
Transfers	394,544	(88,114)	(394,544)	88,114	-	-
Total other financing sources (uses)	<u>394,544</u>	<u>(88,114)</u>	<u>(394,544)</u>	<u>88,114</u>	<u>-</u>	<u>-</u>
Total change in net position	519,820	(231,702)	(249,121)	249,121	270,699	17,419
Net position - October 1	8,513,887	8,576,375	535,399	286,278	9,049,286	8,862,653
Prior period adjustments	(8,171,637)	169,214	(47,619)	-	(8,219,256)	169,214
Net position - September 30	<u>\$ 862,070</u>	<u>\$ 8,513,887</u>	<u>\$ 238,659</u>	<u>\$ 535,399</u>	<u>\$ 1,100,729</u>	<u>\$ 9,049,286</u>

Governmental activities increased net position, excluding prior period adjustments, by \$519,820. This is due to an increase in transfers from the Sewer Fund of \$394,544. For this same reason, the business-type activities decreased net position by (\$249,121). A slight increase in charge for services of \$118,153 offset this increase in transfers to the General Fund.

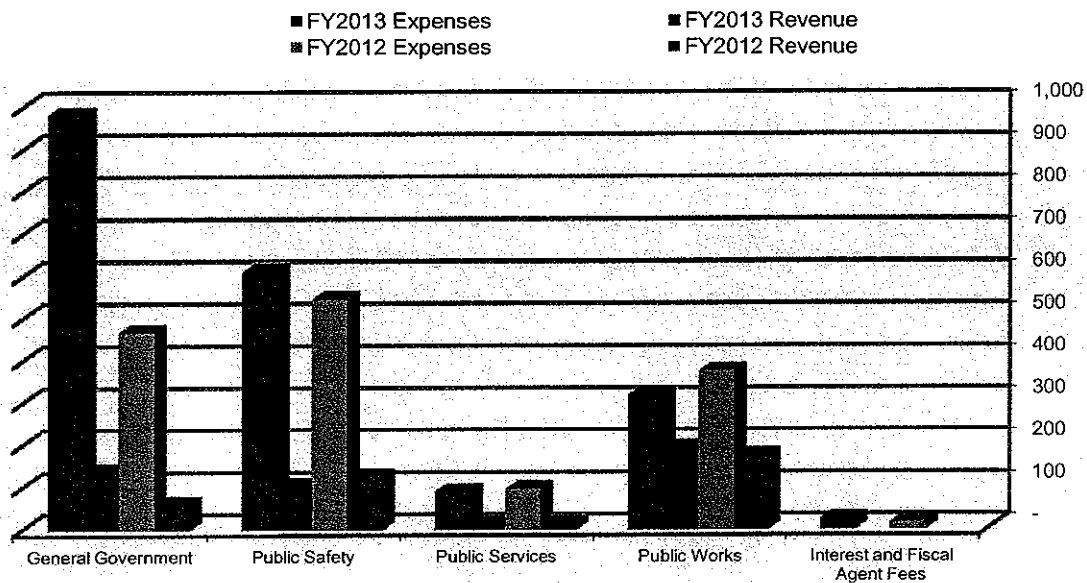
CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013

Governmental-type activities - Governmental-type activities increased the City's net position by \$519,820, excluding prior period adjustments. One key element of this increase is as follows:

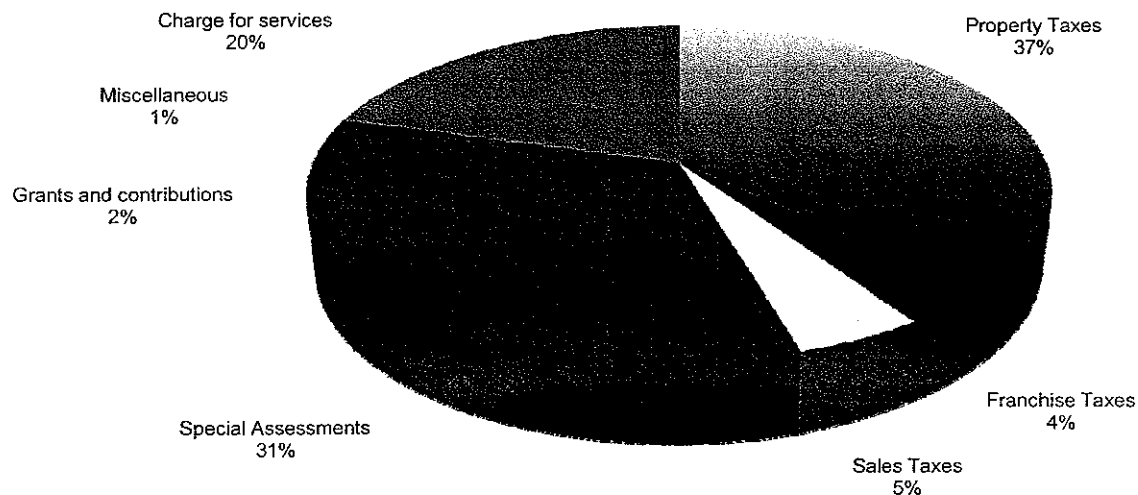
Special assessment revenues reported of \$659,759.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



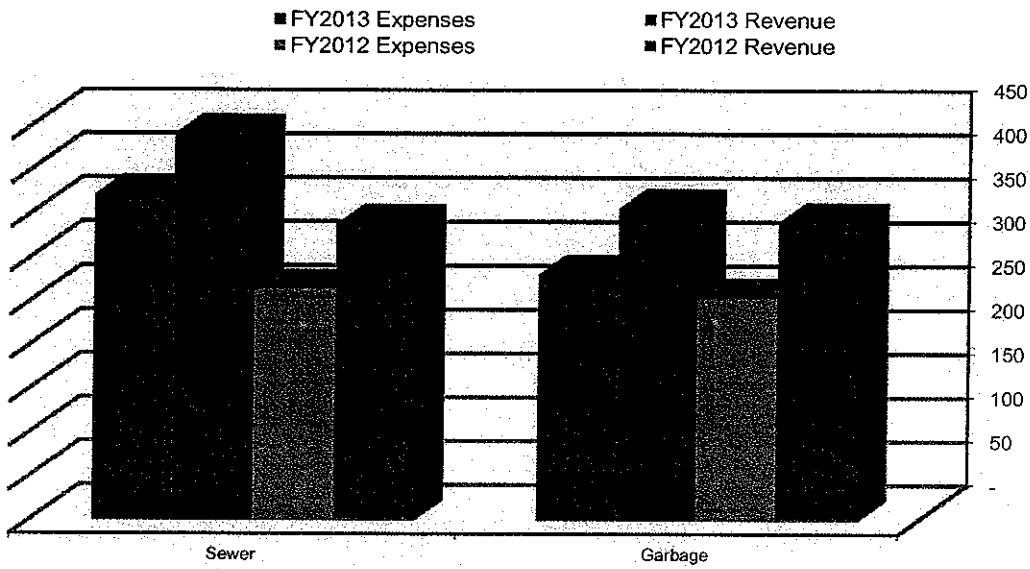
CITY OF LAVON, TEXAS
 MANAGEMENT DISCUSSION AND ANALYSIS (continued)
 SEPTEMBER 30, 2013

Business-type activities - Business-type activities decreased the City's net position by (\$249,121), excluding prior period adjustments. One key element of this decrease is as follows:

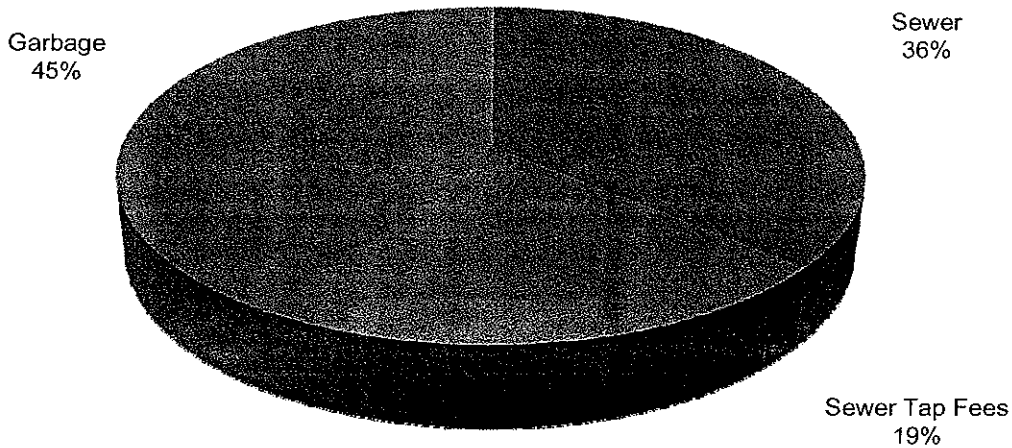
Contractual expense increased \$176,731, or 34%

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues by Source - Governmental Activities



CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013

Financial Analysis of the City's Funds

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

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending as they represent the portion of fund balance which has not been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been granted authority to assign resources for a particular purpose for the City.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$458,617. This is an increase of \$1,945,005, including prior period adjustments. The largest portion of this increase is due to bond proceeds. The unspendable fund balance in the amount of \$1,250,482 is the difference between the amount of bond proceeds receivable and the payment due to the developer, World Land.

The restricted fund balance of \$47,356, included in the Other Governmental funds is to be used for court and police use.

General Fund Budgetary Highlights: During the fiscal year, the City did not make revisions to the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Overall, revenues were more than the budgeted amounts. Expenditures were significantly more than the budgeted amounts.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$124,057.

CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2013

Capital Asset and Debt Administration

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, totals \$7,754,821 (net of accumulated depreciation). These assets include land, buildings and improvements, infrastructure, vehicles and equipment.

Major capital asset transactions during the year include the following additions:

- Purchase of fire truck
- Renovations to City Hall
- Sewer line project along Highway 78

City of Lavon
Capital Assets
September 30, 2013
(net of accumulated depreciation)

	Governmental		Business-type		Total	
	2013	2012	2013	2012	2013	2012
Land	\$1,496,119	\$1,871,344	\$ -	\$ -	\$1,496,119	\$1,871,344
Buildings & Improvements	449,462	426,397	-	-	449,462	426,397
Infrastructure	3,151,513	6,472,512	2,214,895	-	5,366,408	6,472,512
Machinery & Equipment	279,357	119,424	-	-	279,357	119,424
Construction in Progress	83,122	-	80,353	-	163,475	-
Total	\$5,459,573	\$8,889,677	\$2,295,248	\$ -	\$7,754,821	\$8,889,677

More detailed information about the City's capital assets is presented in Note E to the financial statements.

Long-Term Debt - As of September 30, 2013, the City had outstanding long-term debt in the amount of \$8,517,142, an increase of \$8,359,660. This is due to the City issuing special assessment bonds of \$8,065,000.

City of Lavon
Outstanding Debt
As of September 30, 2013

	Governmental		Business-type		Total	
	2013	2012	2013	2012	2013	2012
Special Assessment Bonds	\$5,884,354	\$ -	\$2,180,646	\$ -	\$8,065,000	\$ -
Capital Leases Payable	223,402	45,739	-	-	223,402	45,739
Notes Payable	228,740	111,743	-	-	228,740	111,743
	\$6,336,496	\$157,482	\$2,180,646	\$ -	\$8,517,142	\$157,482

More detailed information about the City's long-term debt is presented in Note G to the financial statements.

**CITY OF LAVON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2013**

Economic Factors and Next Year's Budgets and Rates

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council and administration set the direction of the City, allocate its resources, and establish its priorities.

The City annually reviews all of its fees as part of the budget adoption process. Fees for general government as well as user charges are evaluated and, if needed, adjusted to meet the needs of the operations of the systems. The budget is adopted and a tax rate is approved to meet the demands of the budget. For 2014, rates set for fees and taxes are estimated to meet operational demand similar to the current year.

The adopted tax rate for FY 2013-2014 will remain the same as the current year, a tax rate of \$0.4557 per \$100 valuation. Tax revenue is expected to increase due to new property being added to the tax roll.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Lavon, PO Box 340, Lavon, Texas 75166.

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BASIC FINANCIAL STATEMENTS

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CITY OF LAVON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		
ASSETS				
Cash and cash equivalents	\$ 522,892	\$ 203,159	\$ 726,051	\$ 183,902
Receivables (net of allowance for uncollectibles)	39,637	33,399	73,036	8,740
Bond receivable	5,884,354	2,180,646	8,065,000	-
Prepaid items	-	-	-	25,000
Restricted assets:				
Cash and cash equivalents	47,356	-	47,356	-
Capital assets not being depreciated:				
Land	1,496,119	-	1,496,119	-
Construction in process	83,122	80,353	163,475	-
Capital assets net of accumulated depreciation:				
Building & improvements	449,462	-	449,462	-
Infrastructure & improvements	3,151,513	2,214,895	5,366,408	-
Machinery & equipment	279,357	-	279,357	-
Total assets	11,953,812	4,712,452	16,666,264	217,642
LIABILITIES				
Accounts payable	41,085	112,501	153,586	3,890
Payroll liabilities	17,178	-	17,178	-
Other liabilities	12,107	-	12,107	-
Payable to developer	4,633,872	2,180,646	6,814,518	-
Non-current liabilities:				
Due within one year:				
Compensated absences	2,600	-	2,600	-
Capital lease payable	40,664	-	40,664	-
Special assessment bonds	160,600	59,400	220,000	-
Note payable	83,016	-	83,016	-
Due in more than one year:				
Compensated absences	23,404	-	23,404	-
Capital lease payable	182,738	-	182,738	-
Special assessment bonds	5,723,754	2,121,246	7,845,000	-
Note payable	145,724	-	145,724	-
Total liabilities	11,066,742	4,473,793	15,540,535	3,890
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-advance lease receipts	25,000	-	25,000	-
Total deferred inflows of resources	25,000	-	25,000	-
NET POSITION				
Net investment in capital assets	373,559	114,602	488,161	-
Restricted for:				
Court uses	45,920	-	45,920	-
Police	1,436	-	1,436	-
Unrestricted	441,155	124,057	565,212	213,752
Total net position	\$ 862,070	\$ 238,659	\$ 1,100,729	\$ 213,752

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

CITY OF LAVON, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

		Program Revenues		
		Charges for	Capital	Operating
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Function/Program Activities				
Primary Government				
Governmental Activities:				
General government	\$ 980,590	\$ 136,530	\$ 49,000	\$ -
Public service	86,546	7,018	-	-
Public safety	607,640	100,688	-	2,500
Public works	315,514	191,275	-	-
Interest on long-term debt	19,874	-	-	-
Total governmental activities	2,010,164	435,511	49,000	2,500
Business-type Activities:				
Wastewater	368,852	438,695	-	-
Solid waste	278,618	354,040	-	-
Total business-type activities	647,470	792,735	-	-
Total primary government	\$ 2,657,634	\$ 1,228,246	\$ 49,000	\$ 2,500
Component unit:				
Economic Development Corporation	\$ 87,764	\$ -	\$ -	\$ -
Total component unit:	\$ 87,764	\$ -	\$ -	\$ -

General revenues:
 Property tax
 Special assessment tax
 Sales & mixed beverage tax
 Franchise tax
 Investment income
 Miscellaneous
 Transfers
 Total general revenues
 Change in net position
 Net position - beginning
 Prior period adjustments
 Net position - ending

**Net (Expense) Revenue
and Changes in Net Position**

Primary Government			Component Unit
Governmental Activities	Business Activities	Total	
\$ (795,060)	\$ -	\$ (795,060)	\$ -
(79,528)	-	(79,528)	-
(504,452)	-	(504,452)	-
(124,239)	-	(124,239)	-
(19,874)	-	(19,874)	-
<u>(1,523,153)</u>	<u>-</u>	<u>(1,523,153)</u>	<u>-</u>
-	69,843	69,843	-
-	75,422	75,422	-
-	145,265	145,265	-
<u>\$ (1,523,153)</u>	<u>\$ 145,265</u>	<u>\$ (1,377,888)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (87,764)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (87,764)</u>
\$ 794,929	\$ -	\$ 794,929	\$ -
659,759	-	659,759	-
102,586	-	102,586	51,248
74,363	-	74,363	-
1,271	58	1,329	-
15,521	100	15,621	-
394,544	(394,544)	-	-
<u>2,042,973</u>	<u>(394,386)</u>	<u>1,648,587</u>	<u>51,248</u>
519,820	(249,121)	270,699	(36,516)
8,513,887	535,399	9,049,286	250,268
<u>(8,171,637)</u>	<u>(47,619)</u>	<u>(8,219,256)</u>	<u>-</u>
<u>\$ 862,070</u>	<u>\$ 238,659</u>	<u>\$ 1,100,729</u>	<u>\$ 213,752</u>

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

CITY OF LAVON, TEXAS
 BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$ 520,978	\$ 1,914	\$ 522,892
Receivables (net of allowance for uncollectibles)	39,637	-	39,637
Bond receivable	5,884,354	-	5,884,354
Cash and cash equivalents - restricted	-	47,356	47,356
Total assets	<u>6,444,969</u>	<u>49,270</u>	<u>6,494,239</u>
LIABILITIES			
Accounts payable	41,085	-	41,085
Payroll accrual	17,178	-	17,178
Other liabilities	12,107	-	12,107
Liabilities payable from restricted assets	4,633,872	-	4,633,872
Total liabilities	<u>4,704,242</u>	<u>-</u>	<u>4,704,242</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - advance lease receipts	25,000	-	25,000
Unavailable revenue - property tax revenue	6,628	-	6,628
Total deferred inflows of resources	<u>31,628</u>	<u>-</u>	<u>31,628</u>
FUND BALANCES			
Nonspendable	1,250,482	-	1,250,482
Restricted for:			
Court use	-	45,920	45,920
Police	-	1,436	1,436
Designated for:			
Police	-	1,914	1,914
Unassigned	458,617	-	458,617
Total fund balances	<u>1,709,099</u>	<u>49,270</u>	<u>1,758,369</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,444,969</u>	<u>\$ 49,270</u>	<u>\$ 6,494,239</u>

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

**CITY OF LAVON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Total fund balances - governmental funds balance sheet	\$ 1,758,369
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,490,111
Accumulated depreciation has not been included in the governmental fund financial statements.	(1,030,538)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(26,004)
Revenue reported as deferred inflow of resources in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	6,628
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(6,336,496)</u>
Net position of governmental activities - statement of net position	<u>\$ 862,070</u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property	\$ 794,841	\$ -	\$ 794,841
Sales	102,586	-	102,586
Franchise	74,363	-	74,363
Special assessment	659,759	-	659,759
Charge for services	139,516	-	139,516
Intergovernmental revenue	49,000	-	49,000
Licenses and permits	191,275	-	191,275
Fines and fees	100,057	4,439	104,496
Contributions and grants	2,500	-	2,500
Donations	870	-	870
Miscellaneous	12,122	-	12,122
Investment income	1,271	-	1,271
Total revenues	2,128,160	4,439	2,132,599
EXPENDITURES			
Current operating:			
General government	986,695	-	986,695
Public services	83,725	2,821	86,546
Public safety	544,772	1,605	546,377
Public works	207,656	-	207,656
Debt service:			
Principal retirement	220,714	-	220,714
Interest	20,963	-	20,963
Capital outlays		-	
General government	30,947	-	30,947
Public safety	210,000	-	210,000
Public works	166,372	-	166,372
Parks	83,122	-	83,122
Total expenditures	2,554,966	4,426	2,559,392
Excess (deficiency) of revenues over (under) expenditures	(426,806)	13	(426,793)
Other revenues and financing sources (uses)			
Transfers	385,314	9,230	394,544
Sale of assets	225	-	225
Insurance reimbursement	2,529	-	2,529
Special assessment bond proceeds	5,884,354	-	5,884,354
Note proceeds	515,372	-	515,372
Total other financing sources (uses)	6,787,794	9,230	6,797,024
Net change in fund balances	6,360,988	9,243	6,370,231
Fund balances, October 1	(235,906)	32,729	(203,177)
Prior period adjustments	(4,415,983)	7,298	(4,408,685)
Fund balances, September 30	\$ 1,709,099	\$ 49,270	\$ 1,758,369

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

**CITY OF LAVON, 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, 2013**

Net change in fund balances - statement of revenues, expenditures and changes in fund balances - governmental funds	\$ 6,370,231
Amounts reported for governmental activities in the statement of activities are different because:	
Current year capital outlays are expenditures in the fund financial statements, but these are shown as an increase in capital assets in the government-wide financial statements. The effect of removing the 2013 capital outlays is to increase net position.	490,441
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.	(166,083)
Current year long-term debt principal payments on contractual obligations, are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	220,714
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.	(88)
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.	5,421
Current year bond proceeds are other financing sources in the governmental funds financial statements but are shown as an increase in liabilities in the government-wide financial statements.	(5,884,354)
In governmental fund financial statements the proceeds from notes payable are shown as other financing sources but are shown as an increase in liabilities in the government-wide statements.	(515,372)
Accrued interest in the prior year has been reversed in the government-wide financial statements.	(1,090)
Change in net position - statement of activities	<u>\$ 519,820</u>

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

CITY OF LAVON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Wastewater Fund	Solid Waste Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 203,159	\$ -	\$ 203,159
Receivables (net of allowance for uncollectibles)	15,985	17,414	33,399
Bond receivable	2,180,646	-	2,180,646
Total current assets	<u>2,399,790</u>	<u>17,414</u>	<u>2,417,204</u>
Noncurrent assets:			
Capital assets:			
Construction in progress	80,353	-	80,353
Infrastructure	2,511,869	-	2,511,869
Less: accumulated depreciation	(296,974)	-	(296,974)
Total capital assets (net of accumulated depreciation)	<u>2,295,248</u>	<u>-</u>	<u>2,295,248</u>
Total assets	<u><u>4,695,038</u></u>	<u><u>17,414</u></u>	<u><u>4,712,452</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	71,723	40,778	112,501
Payables from restricted funds:			
Developer payable	2,180,646	-	2,180,646
Special assessment bonds - current	59,400	-	59,400
Total current liabilities	<u>2,311,769</u>	<u>40,778</u>	<u>2,352,547</u>
Noncurrent liabilities:			
Special assessment bonds	2,121,246	-	2,121,246
Total noncurrent liabilities	<u>2,121,246</u>	<u>-</u>	<u>2,121,246</u>
Total liabilities	<u><u>4,433,015</u></u>	<u><u>40,778</u></u>	<u><u>4,473,793</u></u>
NET POSITION			
Net investment in capital assets	114,602	-	114,602
Unrestricted	147,421	(23,364)	124,057
Total net position	<u><u>\$ 262,023</u></u>	<u><u>\$ (23,364)</u></u>	<u><u>\$ 238,659</u></u>

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

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Wastewater Utility	Solid Waste Utility	Total
OPERATING REVENUES:			
Charges for services	\$ 438,695	\$ 354,040	\$ 792,735
Miscellaneous income	100	-	100
Total operating revenues	<u>438,795</u>	<u>354,040</u>	<u>792,835</u>
OPERATING EXPENSES:			
Supplies and materials	-	34,395	34,395
Contractual services	120,000	244,223	364,223
Repairs and maintenance	25,402	-	25,402
Utilities	160,653	-	160,653
Depreciation	62,797	-	62,797
Total operating expenses	<u>368,852</u>	<u>278,618</u>	<u>647,470</u>
Operating income (loss)	<u>69,943</u>	<u>75,422</u>	<u>145,365</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment income	58	-	58
Transfers	(103,379)	(291,165)	(394,544)
Total non-operating revenues (expenses)	<u>(103,321)</u>	<u>(291,165)</u>	<u>(394,486)</u>
Change in net position	<u>(33,378)</u>	<u>(215,743)</u>	<u>(249,121)</u>
Net position, October 1	236,766	298,633	535,399
Prior period adjustments	58,635	(106,254)	(47,619)
Net position, September 30	<u>\$ 262,023</u>	<u>\$ (23,364)</u>	<u>\$ 238,659</u>

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

CITY OF LAVON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Wastewater Utility	Solid Waste Utility	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 556,098	\$ 458,863	\$ 1,014,961
Cash received from other sources	100	-	100
Cash paid to suppliers	(408,218)	(256,057)	(664,275)
Net cash provided by (used for) operating activities	<u>147,980</u>	<u>202,806</u>	<u>350,786</u>
Cash Flows from Noncapital Financing Activities			
Transfers to Other Funds	(103,379)	(291,165)	(394,544)
Net cash provided by (used for) noncapital financial activities	<u>(103,379)</u>	<u>(291,165)</u>	<u>(394,544)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(2,299,410)	-	(2,299,410)
Proceeds from special assessment bonds	2,180,646	-	2,180,646
Net cash provided by (used for) capital and related financing activities	<u>(118,764)</u>	<u>-</u>	<u>(118,764)</u>
Cash Flows from Investing Activities			
Interest income	58	-	58
Net cash provided by (used for) investing activities	<u>58</u>	<u>-</u>	<u>58</u>
Net increase (decrease) in cash and cash equivalents	(74,105)	(88,359)	(162,464)
Cash and cash equivalents at beginning of year	277,264	88,359	365,623
Cash and cash equivalents at end of year	<u>\$ 203,159</u>	<u>\$ -</u>	<u>\$ 203,159</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 69,943	\$ 75,422	\$ 145,365
Adjustment to reconcile operating income to net cash provided by operating activities			
Depreciation	62,797	-	62,797
Changes in assets and liabilities:			
(Decrease) increase in:			
Receivables	117,403	104,823	222,226
Increase (decrease) in:			
Accounts payable	(102,163)	22,561	(79,602)
Total adjustments	78,037	127,384	205,421
Net cash provided by operating activities	<u>\$ 147,980</u>	<u>\$ 202,806</u>	<u>\$ 350,786</u>

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

CITY OF LAVON, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2013

	Collin County PID Fund
ASSETS	
Cash and cash equivalents	<u>\$ 134,166</u>
Total assets	<u><u>134,166</u></u>
LIABILITIES	
Other liabilities	<u>134,166</u>
Total liabilities	<u><u>\$ 134,166</u></u>

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

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

A. Summary of Significant Accounting Policies

The City of Lavon, Texas ("City") is a municipal corporation governed by an elected mayor and five-member council and provides the following services to its citizens: Public Safety (Police and Fire), Public Works, Waste Water Utilities, Solid Waste Utilities and General Administrative Services.

The accounting reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards Board when applicable. The more significant accounting policies of the City are described below:

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by GASB in its Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39 "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component unit may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component unit, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component unit, is entitled to, or has the ability to otherwise access, are significant to the primary government.

The financial statement of the following component unit has been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

The Lavon Economic Development Corporation ("EDC") is a discretely presented component unit of the City. The EDC is governed by a board of seven directors, all of whom are appointed by the City Council of the City and whom can be removed from office by the City Council at its will. The EDC was incorporated in the State of Texas in 2004. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financial statements to be misleading or incomplete. The EDC is legally separate, but due to the City appointing the voting majority of the EDC board, it is classified as a discretely presented component unit. The funding for the EDC occurs by the City transferring 1/3 of City sales tax collections to the EDC.

In addition, GASB Statement No. 61 considers an organization that does not meet the financial accountability criteria may be included as a component unit if management's professional judgment determines it to be necessary and misleading if omitted. This evaluation includes consideration of whether a financial benefit or burden exists in the relationship between the entities. Management has not identified any additional organizations that fit this criteria.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and the discretely presented component unit.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies (continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented in the required supplementary section that compares the budget with actual results.

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City and its component unit, entities for which the City is considered to be financially accountable. The discretely presented component unit has been reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the City.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Fire, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the capital requirements of a particular function or program, and c) grants and contributions that are restricted to meeting the operational requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenue. Internally dedicated resources are also reported as general revenues rather than as program revenues.

The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise fees, and interest income).

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the funds financial statements. The major governmental fund is the general fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and proprietary combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are franchise fees and other charges between the government's wastewater function 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.

TY OF LAVON, TEXAS
OTES TO THE BASIC FINANCIAL STATEMENTS
OR THE YEAR ENDED SEPTEMBER 30, 2013

Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting
a. Basis of Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the wastewater and solid waste funds are charges to customers for sales and services. The wastewater utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for business-type funds include the cost of sales and service and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The City's Fiduciary Fund is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and proprietary categories, as well as the fiduciary fund. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

b. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements and fiduciary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund level 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 measureable 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 when 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 and payable shortly after year end as required by GASB Interpretation No. 6.

Ad valorem, franchise and sales tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measureable. Investment earnings are recorded as earned since they are measureable and available. In applying the susceptible to accrual concept to inter-governmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting
 - b. Measurement Focus, Basis of Accounting (continued)

The City reports the following major governmental fund:

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

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or purposes. The following are descriptions of the proprietary funds of the City:

The *Wastewater Utility Fund* accounts for the operation of the City's wastewater utility system, a self-supporting activity, which renders services on a user charge basis to residents and businesses located in and outside of Lavon.

The *Solid Waste Fund* accounts for the operation of the City's solid waste collection activity. The City collects monthly user charges from subscribers and contracts with a third party for the collection of solid waste.

Agency funds account for amounts held on behalf of others by the City as a trustee, or fiduciary. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The activities of these funds are excluded from the City's other financial statements because the City cannot use them to finance its operations. The City is responsible for ensuring that the assets reported are used for their intended purpose. The following is a description of the fiduciary fund of the City:

The *Collin County TIF* is used to account for assets held by the City in an agency capacity for Collin County. This fiduciary fund records only assets and liabilities and therefore has no measurement focus.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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.

b. Prepaid Items

Prepaid balances are for payments made by the City for which benefits extend beyond the fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of the fund balance is not available for other subsequent expenditures. Prepaid items are recorded using the consumption method.

c. Receivable and Payable

Trade and property tax receivables are shown net of an allowance for uncollectible.

The City issued Special Assessment Revenue bonds in September, 2013. However, these funds were not received until October, 2013. A receivable for the total bond proceeds has been recorded in the Statement of Net Position.

CITY OF LAVON, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

d. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

e. Capital Assets

Capital assets, which include land, buildings, equipment, vehicles and infrastructure, purchased or acquired, are reported in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund type financial statements. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings, structures and improvements	5-40 years
Equipment, including vehicles	5-10 years
Infrastructure	20-40 years

f. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation and overtime not paid (comp time). All vacation and comp time is accrued at the close of the fiscal year end in the government-wide and proprietary fund financial statements.

g. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed during the year they are incurred.

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

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

h. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any deferred outflows of resources for the fiscal year ended September 30, 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of a net position that applies to that time. The government has two items of deferred inflow. Advance lease receipts occurs in both the government-wide statements and the governmental fund statements. Deferred revenue from property taxes is shown only in the governmental fund statements. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

i. Net Position Flow Assumption

Sometimes the City 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 City's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

j. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance* - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by laws through constitutional provisions or enabling legislation that stipulates amounts can only be spent for specific purposes.
- *Committed fund balance* - amounts that can only be used for specific purposes determined by a resolution of the City Council and remains binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance* - amounts that are constrained by the City's intent to be used for specific purposes. Assignment of fund balance is much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum intended to be used.
- *Unassigned fund balance* - the residual classification for the City's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The City Council establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unassigned resources are available for use, it is the City's policy to use restricted resources first, followed by the committed, assigned and unassigned resources as they are needed.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts

j. Fund Balance Policies (continued)

The City believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the City considers an unassigned fund balance of 10% of expenditures should be maintained. The City considers an unassigned fund balance of less than 5% of expenditures to be cause for concern and a plan to adjust budget resources in subsequent fiscal years will be done to restore the balance.

The purpose of the City's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Compliance with the provisions of the policy shall be reviewed as part of the annual operating budget adoption process and subsequent review will be included in the annual audit and financial statement preparation procedures. The City is in compliance with the policy at the end of the current fiscal period.

k. Fund Balance Flow Assumption

Sometimes the City 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 City'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.

l. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 in population limits the ad valorem tax rate to \$2.50 per \$100 assessed value. The City's property tax rate for the current fiscal year is \$0.455700 per \$100 assessed value.

m. Comparative Data/Reclassification

Comparative total data for the current year to budget for the General Fund have been presented in the required supplementary section of the financial statement in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

n. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

o. Use of Estimates

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

p. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

q. Program Expenses

Certain indirect costs such as administrative costs are included in the program expense reported for individual functional activities.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
General Fund	Overexpenditures were funded by greater than anticipated revenues

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

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Explanation</u>
Solid Waste Fund	\$ (23,364)	Prior period adjustment to correct allocation of cash

**TY OF LAVON, TEXAS
OTES TO THE BASIC FINANCIAL STATEMENTS
OR THE YEAR ENDED SEPTEMBER 30, 2013**

Compliance and Accountability (continued)

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget is included in the Required Supplementary Section.

The following procedures are followed in establishing the budgetary data:

- No later than the fifteenth day of each August, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- The budget for the General Fund is legally adopted on a basis consistent with GAAP. The majority of the City's capital projects are budgeted on an annual basis.
- According to the City Charter, total estimated expenditures of the General Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Council is the only body that can change the budgeted amounts from one line account to another.

Cash and Investments

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

Cash Deposits

At September 30, 2013, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$773,407 and the bank balance was \$786,580. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013, were covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. Cash and cash equivalents as of September 30, 2013 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:

Primary Government	
Cash and cash equivalents	\$ 726,051
Restricted assets-cash and cash equivalents	47,356
Total cash and cash equivalents	<u>\$ 773,407</u>
Governmental - Restricted Cash	
Court use	\$ 45,920
Police Use	1,436
Total Restricted Cash	<u>\$ 47,356</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by national recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

C. Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities.

As of September 30, 2013, the City's deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

Foreign Currency Risk

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

D. Receivables

Receivables as of year end for the government's individual major funds and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>
Receivables:			
Taxes	\$ 33,868	\$ -	\$ 33,868
Fees and Charges	342,635	37,109	379,744
Special Assessment Bonds	5,884,354	2,180,646	8,065,000
Gross Receivables	6,260,857	2,217,755	8,478,612
Less: allowance for uncollectibles	(336,866)	(3,710)	(340,576)
Net Total Receivables	<u>\$ 5,923,991</u>	<u>\$ 2,214,045</u>	<u>\$ 8,138,036</u>

Special Assessment Revenue Bonds, Series 2013, were finalized in September, 2013; however, the monies were not received until October, 2013.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Capital Assets

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

	Beginning Balances	Prior Period Adjustments	Additions	Decreases	Ending Balances
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 1,871,344	\$ (375,225)	\$ -	\$ -	\$ 1,496,119
Construction in progress	-	-	83,122	-	83,122
Total capital assets, not being depreciated	1,871,344	(375,225)	83,122	-	1,579,241
Capital assets, being depreciated:					
Buildings & Improvements	592,067	11,185	39,437	-	642,689
Infrastructure	7,422,761	(3,884,482)	166,372	-	3,704,651
Machinery & Equipment	353,530	-	210,000	-	563,530
Total capital assets being depreciated	8,368,358	(3,873,297)	415,809	-	4,910,870
Less accumulated depreciation for:					
Buildings & Improvements	(165,670)	-	(27,558)	-	(193,228)
Infrastructure	(950,249)	485,569	(88,457)	-	(553,137)
Machinery & Equipment	(234,105)	-	(50,068)	-	(284,173)
Total accumulated depreciation	(1,350,024)	485,569	(166,083)	-	(1,030,538)
Total capital assets, being depreciated, net	7,018,334	(3,387,728)	249,726	-	3,880,332
Governmental activities capital assets, net	\$ 8,889,678	\$ (3,762,953)	\$ 332,848	\$ -	\$ 5,459,573
Business-type Activities					
Capital assets, not being depreciated					
Construction in progress	\$ -	\$ -	\$ 80,353	\$ -	\$ 80,353
Total capital assets, not being depreciated	-	-	80,353	-	80,353
Capital assets, being depreciated:					
Infrastructure	-	2,511,869	-	-	2,511,869
Total capital assets being depreciated	-	2,511,869	-	-	2,511,869
Less accumulated depreciation for:					
Infrastructure	-	(234,177)	(62,797)	-	(296,974)
Total accumulated depreciation	-	(234,177)	(62,797)	-	(296,974)
Total capital assets, being depreciated, net	-	2,277,692	(62,797)	-	2,214,895
Business-type activities capital assets, net	\$ -	\$ 2,277,692	\$ 17,556	\$ -	\$ 2,295,248

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

Governmental activities:	
General government	\$ 1,769
Public safety	57,442
Public works	106,872
Total depreciation expense - governmental activities	<u>\$ 166,083</u>
Business-type activities:	
Wastewater services	<u>\$ 62,797</u>

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

F. Construction Commitments

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
City Hall Park Project	\$ 83,122	\$ 250,000
Sewer improvements-PID#1	80,353	-
Total	\$ 163,475	\$ 250,000

G. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2013, is as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Special Assessment Bonds	\$ -	\$ 5,884,354	\$ -	\$ 5,884,354	\$ 160,600
Total bonds payable	-	5,884,354	-	5,884,354	160,600
Capital Leases Payable	45,740	199,000	(21,338)	223,402	47,140
Notes Payable	111,743	316,372	(199,375)	228,740	83,016
Compensated Absences	20,578	46,683	(41,257)	26,004	2,600
Governmental activity					
Total long-term liabilities	\$ 178,061	\$ 6,446,409	\$ (261,970)	\$ 6,362,500	\$ 293,356
Business-type Activities					
Special Assessment Bonds	\$ -	\$ 2,180,646	\$ -	\$ 2,180,646	\$ 59,400
Total long-term liabilities	\$ -	\$ 2,180,646	\$ -	\$ 2,180,646	\$ 59,400

Changes in Governmental Long-term Debt

<u>Description</u>	<u>Interest Rate</u>	<u>Amounts</u>		<u>Amounts</u>		<u>Due Within One Year</u>
		<u>Issue</u>	<u>Outstanding September 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	
Special Assessment	4.00%	\$ 5,884,354	\$ -	\$ 5,884,354	\$ -	\$ 160,600
Interlocal Agreement	5.38%	180,129	111,743	-	(46,834)	51,935
Interlocal Agreement	3.50%	166,372	-	166,372	(2,541)	31,081
Total Bonds & Notes		6,230,855	111,743	6,050,726	(49,375)	243,616
CNH Capital	6.79%	22,930	14,427	-	(5,659)	4,801
Ford Motor Company	6.50%	25,055	8,340	-	(8,340)	-
Motorola Solutions	4.28%	30,010	22,973	-	(7,339)	7,653
Community FNB	3.56%	199,000	-	199,000	-	28,210
Tax Note	4.47%	150,000	-	150,000	(150,000)	-
Total Long Term Obligations		\$ 6,657,850	\$ 157,483	\$ 6,399,726	\$ (220,713)	\$ 284,280

Debt service requirements are as follows:

<u>Year Ending September 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2014	\$ 243,616	\$ 287,406	\$ 531,022
2015	191,160	277,780	468,940
2016	182,981	270,679	453,660
2017	191,466	263,508	454,974
2018	196,967	256,002	452,969
2019-2023	911,765	1,174,205	2,085,970
2024-2028	1,119,815	968,104	2,087,919
2029-2033	1,415,465	670,368	2,085,833
2034-2038	1,539,565	263,249	1,802,814
2039	120,294	3,174	123,468
Totals	\$ 6,113,094	\$ 4,434,475	\$ 10,547,569

CITY OF LAVON, TEXAS
 SUPPLEMENTAL NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Long-Term Obligations (continued)

Special Assessment Revenue Bonds, Series 2013 were issued in September, 2013 for the purpose to pay a portion of costs of certain improvement projects funded by the developer, World Land Development, for the benefit of Heritage Public Improvements District No. 1 (residential), to fund the Debt Service Reserve Fund requirements, payment for a portion of costs to the organization of the District, and costs to issue bonds. These bonds are payable solely from and secured by pledged revenues consisting primarily of monies collected from Phase I assessments levied against the existing lots in District No. 1.

Notes Payable

The City incurred a note payable with Collin County in the amount of \$180,129 for the reconstruction of Lake Road on April 6, 2010. This note is to be repaid over a period of five years with an interest rate of 5.38%.

The City incurred a note payable with Collin County in the amount of \$166,372 for road improvements in the City of Lavon on February 19, 2013. This note is to be repaid over a period of five years with an interest rate of 3.50%.

The City incurred a note payable with Regions Bank in October 2012 in the amount of \$150,000 with an interest rate of 4.47%. This note was repaid in February 2013.

Capital Leases

The City has the following lease agreements:

The City incurred a capital lease payable with CNH Capital in the amount of \$22,930 for the purchase of one tractor.

The City incurred a capital lease payable with Ford Motor Credit Company in the amount of \$25,055 for the purchase of one vehicle for the public works department. This was paid in full during the current fiscal year.

The City incurred a capital lease payable with Motorola Solutions, Inc. in the amount of \$30,010 for the purchase of a radio for the police department.

The City incurred a capital lease payable with Community First National Bank in the amount of \$199,000 for the purchase of a pumper truck for the fire department.

Capital lease requirements are as follows:

Year Ending September 30	General Fund	Total Requirements
2014	\$ 48,678	\$ 48,678
2015	36,203	36,203
2016	22,501	22,501
2017	22,501	22,501
2018	22,501	22,501
2019-2023	112,507	112,507
Totals	264,891	264,891
Less: Amount Representing Interest	(41,489)	(41,489)
Present Value of Minimum Lease Payments	\$ 223,402	\$ 223,402

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

G. Long-Term Obligations (continued)

Changes in Business-type Long-term Debt

Description	Interest Rate Payable	Amounts Issue	Amounts Outstanding September 30 2012	Issued	Retired	Amounts Outstanding September 30 2013	Due Within One Year
Special Assessment	4.00%	\$ 2,180,646	\$ -	\$ 2,180,646	\$ -	\$ 2,180,646	\$ 59,400
Total Long Term Obligations		\$ 2,180,646	\$ -	\$ 2,180,646	\$ -	\$ 2,180,646	\$ 59,400

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2014	\$ 59,400	\$ 103,545	\$ 162,945
2015	54,000	101,169	155,169
2016	55,350	99,009	154,359
2017	58,050	96,795	154,845
2018	60,750	94,473	155,223
2019-2023	338,235	434,295	772,530
2024-2028	415,185	358,066	773,251
2029-2033	524,535	247,944	772,479
2034-2038	570,435	96,146	666,581
2039	44,706	2,395	47,101
Totals	\$ 2,180,646	\$ 1,633,837	\$ 3,814,483

H. Operating Leases

The City has an operating lease with the Lavon Economic Development Corporation to rent office space to the Corporation for \$5,000 annually beginning March 1, 2012 and ending in seven years.

I. Pension Plan

1. Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information ("RSI") for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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

	Plan year 2012	Plan year 2013
Deposit Rate:	5%	5%
Matching Ratio (City to Employee):	2-1	2-1
A member is vested after	5 yrs	5 yrs
Service retirement eligibility	5 yrs/age 60, 20 yrs/any age	5 yrs/age 60, 20 yrs/any age
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

**TY OF LAVON, TEXAS
OTES TO THE BASIC FINANCIAL STATEMENTS
OR THE YEAR ENDED SEPTEMBER 30, 2013**

Pension Plan (continued)

2. 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 for 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 at the basis of the rate and the calendar year when the rate goes into effect.

3. Annual Pension Cost

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

Schedule of Actuarial Liabilities and Funding Progress (unaudited)

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Value of Assets	\$ 359,159	\$ 452,161	\$ 519,869
Actuarial Accrued Liability	412,813	467,925	585,188
Percentage Funded	87%	96.6%	88.8%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	53,654	15,764	65,319
Annual Covered Payroll	745,485	710,880	624,770
UAAL as a Percentage of Covered Payroll	7.2%	2.2%	10.5%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost:			
Annual required contribution (ARC)	Plus \$ 16,458	\$ 32,204	\$ 17,816
Contributions Made	Less (16,458)	(32,204)	(17,816)
NPO at the end of the period	\$ -	\$ -	\$ -
Actuarial Cost Method	12/31/10 Projected Unit Credit	12/31/11 Projected Unit Credit	12/31/12 Projected Unit Credit
Amortization method	Level % of payroll	Level % of payroll	Level % of payroll
GASB 25 Equivalent Single Amortization Period	21.7 yrs-closed	20.4 yrs-closed	19.3 yrs-closed
Amortization Period for new Gains/Losses	21 years	19 years	19 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 increase *	varies by age & yr	varies by age & yr	varies by age & yr
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	0.0%	0.0%	0.0%

Actuarial valuation 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.

**CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

I. Pension Plan (continued)

4. Group-term Life Insurance

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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 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 contribution to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$780, \$785 and \$775, respectively.

J. Health Care Coverage

During the year ended September 30, 2013, employees of the City were covered by a health insurance plan with TML Intergovernmental Employee Benefits Pool-United Health Care Choice Plan Plus ("Plan"). The City contributed \$482 per month per employee and \$0 of the cost for dependent's. Employees, at their option, authorized payroll withholdings to pay contributions for dependents coverage. All contributions were paid to TML-IEBP. The Plan was authorized by article 3.51-2, Texas Insurance Code and is documented by contractual agreement.

K. Insurance Coverage

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2012, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

L. Risk Management

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

M. Litigation

Currently, management is unaware of significant pending litigation against the City of Lavon, Texas.

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Interfund Transactions

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Funds</u>		
General Fund	\$ 385,314	\$ -
Other Governmental Funds	9,230	-
Wastewater Utility Fund	-	(103,379)
Solid Waste Utility Fund	-	(291,165)
Total Funds Transfers	<u>\$ 394,544</u>	<u>\$ (394,544)</u>

Transfers are used to 1) reconcile fund balances, 2) transfer fixed assets and fixed asset purchases, and 3) transfer sewer tap fees to the General Fund.

Prior Period Adjustment

Several prior period adjustments were made for the governmental activities and business-type activities. Below is the detail of these transactions:

Governmental activities:		
\$ (4,633,872)	To record payable to World Land Developer	
(2,277,692)	To reclassify wastewater infrastructure, net of accumulated depreciation	
208,114	To correct prior year due to business-type funds	
(1,468,187)	To correct infrastructure and depreciation recorded in prior years	
<u>\$ (8,171,637)</u>		
Business-type activities:		
\$ (2,180,646)	To record payable to World Land Developer	
2,277,692	To reclassify wastewater infrastructure, net of accumulated depreciation	
(208,114)	To correct prior year due from governmental funds	
63,449	To correct fund balances	
<u>\$ (47,619)</u>		

Subsequent Events

The City has evaluated all events or transactions that occurred after September 30, 2013 up through October 7, 2014, the date the financial statements were available to be issued. During this period, management was unaware of subsequent events requiring disclosure.

Lavon Economic Development Corporation

The Lavon Economic Development Corporation ("LEDC") was incorporated December 20, 2004. The LEDC is a non-profit industrial development corporation formed under the Texas Revised Civil Statutes Development Corporation Act of 1979. The LEDC has no members and is a non-stock corporation.

In accordance with GASB Statement No. 14, the Financial Reporting Entity, as amended by GASB Statement No. 39, the LEDC is a discretely presented component unit on the combined financial statements. The funding for LEDC occurs by the City transferring 1/3 sales tax revenues collected by the City.

1. Deposits and Investments

Cash and cash equivalents as of September 30, 2013 consist of and are classified in the accompanying financial statements as follows:

Unrestricted Cash and Cash Equivalents	\$ 183,902
Total	<u>\$ 183,902</u>

CITY OF LAVON, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Q. Lavon Economic Development Corporation

1. Deposits and Investments (continued)

Credit Risk

State law restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further required full insurance of collateralization from these depositories (banks only).

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

2. Receivables

Receivables at the year end for the LEDC were \$8,740. This is sales tax receivable due from the City. There is no allowance for uncollectible accounts.

3. Prepaid Items

Prepaid balances are for payments made by the LEDC for which benefits extend beyond September 30, 2013, and the related nonspendable fund balance amount has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. The cost of governmental fund type prepaid balances are recorded as an expenditure when consumed rather than when purchased.

3. Operating Leases

The LEDC has an operating lease with the City of Lavon to rent office space for \$5,000 annually beginning March 1, 2012 and ending in seven years.

4. Litigation

Currently, management is unaware of significant pending litigation against the EDC.

5. Subsequent Events

The LECC has evaluated all events or transactions that occurred after September 30, 2013 up through October 7, 2014, the date the financial statements were available to be issued. During this period management noted there were no subsequent events requiring disclosure.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LAVON, TEXAS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budget			Variance with Final Budget - Positive (Negative)
	Adopted	Amended	Actual	
REVENUES				
Taxes:				
Property	\$ 800,000	\$ 800,000	\$ 794,841	\$ (5,159)
Sales	99,900	99,900	102,586	2,686
Franchise	91,000	91,000	74,363	(16,637)
Special assessments	-	-	659,759	659,759
Charge for services	33,000	33,000	139,516	106,516
Intergovernmental revenue	-	-	49,000	49,000
Licenses and permits	142,700	142,700	191,275	48,575
Fines and forfeitures	114,725	114,725	100,057	(14,668)
Contributions and grants	-	-	2,500	2,500
Donations	-	-	870	870
Investment income	1,000	1,000	1,271	271
Miscellaneous	65,700	65,700	12,122	(53,578)
Total revenues	1,348,025	1,348,025	2,128,160	780,135
EXPENDITURES				
Current operating:				
General government	432,380	432,380	986,695	(554,315)
Public works	213,288	213,288	207,656	5,632
Municipal court	97,900	97,900	83,725	14,175
Public safety	558,662	558,662	544,772	13,890
Debt service:				
Principal retirement	238,382	238,382	220,714	17,668
Interest	-	-	20,963	(20,963)
Capital outlays:				
General government	-	-	30,947	(30,947)
Public safety	19,000	19,000	210,000	(191,000)
Public works	-	-	166,372	(166,372)
Parks	100,000	100,000	83,122	16,878
Total expenditures	1,659,612	1,659,612	2,554,966	(895,354)
Excess of revenues over expenditures	(311,587)	(311,587)	(426,806)	(115,219)
Other financing sources (uses)				
Transfers	281,915	281,915	385,314	103,399
Sale of assets	16,000	16,000	225	(15,775)
Insurance reimbursement	2,491	2,491	2,529	38
Special assessment bond proceeds	-	-	5,884,354	5,884,354
Note proceeds	150,000	150,000	515,372	365,372
Total other financing sources (uses)	450,406	450,406	6,787,794	6,337,388
Net change in fund balances	138,819	138,819	6,360,988	6,222,169
Fund balance, October 1	(235,906)	(235,906)	(235,906)	
Prior period adjustments	(4,415,983)	(4,415,983)	(4,415,983)	
Fund balance, September 30	\$ (4,513,070)	\$ (4,513,070)	\$ 1,709,099	

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TMRS FUNDING PROGRESS AND CONTRIBUTIONS
LAST SEVEN FISCAL YEARS (UNAUDITED)

Fiscal Year	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) -Unit Credit	(3) Unfunded Actuarial Accrued Liability UAAL (2)-(1)	(4) Funded Percent (1)/(2)	(5) Covered Payroll	(6) UAAL as Percent of Covered Payroll (3)/(5)	(7) Annual Required Contributions	(8) Actual Contributions	Percent Contributed (8)/(7)
2007	12/31/2006	\$ 128,963	\$ 137,504	\$ 8,541	93.8%	\$ 505,769	1.7%	\$ 13,325	\$ 13,325	100%
2008	12/31/2007	172,399	188,658	16,259	91.4%	711,948	2.3%	17,288	17,288	100%
2009	12/31/2008	228,418	240,607	12,189	94.9%	753,591	1.6%	18,939	18,435	97%
54 2010	12/31/2009	276,767	355,220	78,453	77.9%	758,161	10.3%	23,078	23,078	100%
2011	12/31/2010	359,159	412,813	53,654	87.0%	791,339	6.8%	22,332	22,332	100%
2012	12/31/2011	452,161	467,925	15,764	96.6%	710,880	2.2%	19,264	19,264	100%
2013	12/31/2012	519,869	585,188	65,319	88.8%	624,770	10.5%	17,816	17,816	100%

SUPPLEMENTARY INFORMATION

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CITY OF LAVON, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Funds	Total Other Governmental Funds
ASSETS						
Cash and cash equivalents	\$ -	\$ 1,914	\$ -	\$ -	\$ -	\$ 1,914
Cash and cash equivalents - restricted	16,472	-	1,436	2,674	26,774	47,356
Total assets	<u>16,472</u>	<u>1,914</u>	<u>1,436</u>	<u>2,674</u>	<u>26,774</u>	<u>49,270</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Accounts payable	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:						
Restricted for:						
Court	16,472	-	-	2,674	26,774	45,920
Police	-	-	1,436	-	-	1,436
Designated for:						
Police	-	1,914	-	-	-	1,914
Total fund balance	<u>16,472</u>	<u>1,914</u>	<u>1,436</u>	<u>2,674</u>	<u>26,774</u>	<u>49,270</u>
Total liabilities and fund balances	<u>\$ 16,472</u>	<u>\$ 1,914</u>	<u>\$ 1,436</u>	<u>\$ 2,674</u>	<u>\$ 26,774</u>	<u>\$ 49,270</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Municipal Court Tech Fund	Police TCLEOSE Fund	Police Seized Asset Fund	Municipal Court Security Fund	Court Funds	Total Other Governmental Funds
REVENUES						
Fines and forfeitures	\$ 2,316	\$ -	\$ -	\$ 1,741	\$ 382	\$ 4,439
Total Revenues	<u>2,316</u>	<u>-</u>	<u>-</u>	<u>1,741</u>	<u>382</u>	<u>4,439</u>
EXPENDITURES						
Current:						
Court	1,153	-	-	909	759	2,821
Police	-	-	1,605	-	-	1,605
Total Expenditures	<u>1,153</u>	<u>-</u>	<u>1,605</u>	<u>909</u>	<u>759</u>	<u>4,426</u>
Excess of revenues over expenditures	1,163	-	(1,605)	832	(377)	13
Other Financing Sources (uses)						
Transfers	-	-	-	-	9,230	9,230
Total Other Financing Sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,230</u>	<u>9,230</u>
Net Change in Fund Balances	1,163	-	(1,605)	832	8,853	9,243
Fund Balances, October 1	15,459	1,914	2,729	1,821	10,806	32,729
Prior Period Adjustments	(150)	-	312	21	7,115	7,298
Fund Balances, September 30	<u>\$ 16,472</u>	<u>\$ 1,914</u>	<u>\$ 1,436</u>	<u>\$ 2,674</u>	<u>\$ 26,774</u>	<u>\$ 49,270</u>

**CITY OF LAVON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Collin County TIF	Balance September 30, 2012	Additions	Deductions	Balance September 30, 2013
ASSETS				
Cash and cash equivalents	\$ 133,872	\$ 294	\$ -	\$ 134,166
Total Assets	<u>133,872</u>	<u>294</u>	<u>-</u>	<u>134,166</u>
LIABILITIES				
Collin County TIF	133,872	294	-	134,166
Total Liabilities	<u>\$ 133,872</u>	<u>\$ 294</u>	<u>\$ -</u>	<u>\$ 134,166</u>

CITY OF LAVON, TEXAS
BALANCE SHEET - COMPONENT UNIT
SEPTEMBER 30, 2013

	<u>Economic Development</u>
ASSETS	
Cash and cash equivalents	\$ 183,902
Receivable-sales tax	8,740
Prepaid Expenses	25,000
Total assets	<u>217,642</u>
LIABILITIES	
Accounts payable	3,890
Total liabilities	<u>3,890</u>
FUND BALANCE	
Fund Balance:	
Nonspendable	25,000
Unassigned	188,752
Total fund balance	<u>213,752</u>
Total liabilities and fund balance	<u>\$ 217,642</u>

**CITY OF LAVON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - COMPONENT UNIT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>Economic Development</u>
REVENUES	
Sales tax	\$ 51,248
Total revenues	<u>51,248</u>
EXPENDITURES	
Current:	
Advertising	3,570
Professional and legal	44,848
Contractual services	8,843
Dues and subscriptions	970
Office expenses	7,608
Travel and training	1,925
Intergovernmental expense	20,000
Total expenditures	<u>87,764</u>
Net change in fund balance	(36,516)
Fund balance, October 1	<u>250,268</u>
Fund balance, September 30	<u>\$ 213,752</u>

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