

ANNUAL FINANCIAL REPORT

of the

CITY OF MONT BELVIEU, TEXAS

For the Year Ended
September 30, 2013

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CITY OF MONT BELVIEU, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Mont Belvieu, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mont Belvieu, Texas (the "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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014 on our consideration of the City's 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's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 28, 2014

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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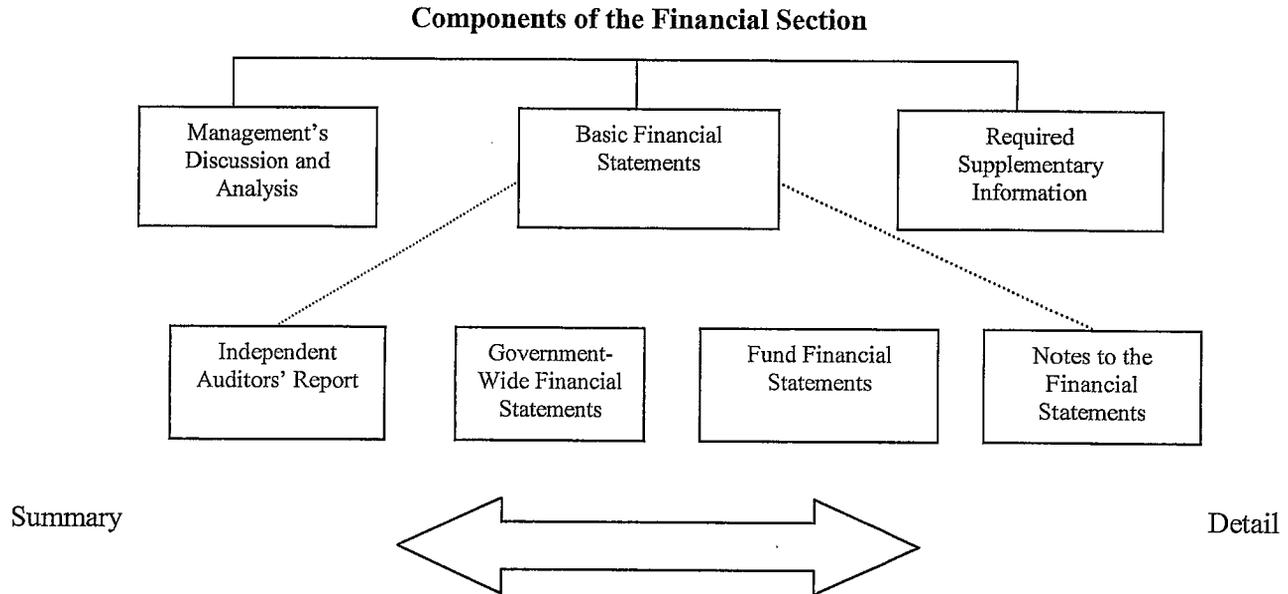
CITY OF MONT BELVIEU, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2013

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Mont Belvieu (the "City") for the year ending September 30, 2013. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police, fire, EMS), community services (building permits/inspection), community development, and general government (City administrator, City secretary, finance, human resources, and information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. *Business-Type Activities* – City-provided services where a fee is paid for those services are reported here. These services include the City's golf course, recreation center, water and wastewater public utility, and beverage corporation.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

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

The City maintains 16 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, the debt service fund, capital projects-CIP fund, and the 2010 GO projects fund, which are considered to be major funds.

The City adopts an annual appropriated budget for its general fund, debt service fund, and certain special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with those budgets.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Proprietary Funds

The City maintains two types of proprietary funds: enterprise funds to account for all "business-like" activities and internal service funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the respective enterprise funds.

The City also uses an internal service fund to account for its health services program. This internal service fund has been included within governmental activities in the government-wide financial statements.

Notes to Financial Statements

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

Other Information

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and a schedule of funding progress for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows exceed liabilities by \$84,203,997 as of year end representing an increase of \$14,289,047 over the prior year.

A portion of the City's net position, 66 percent, reflects its investments in capital assets (e.g., land, City Hall, police station, fleet equipment, drainage systems, as well as the public works facilities) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for *future* spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2013			Total Primary Government
	Governmental Activities	Business-Type Activities	Reconciliation	
Current and other assets	\$ 28,414,795	\$ 5,839,756	\$ -	\$ 34,254,551
Capital assets, net	46,022,924	35,251,488	-	81,274,412
Total Assets	74,437,719	41,091,244	-	115,528,963
Deferred charge on refunding	13,356	-	-	13,356
Total Deferred Outflows Of Resources	13,356	-	-	13,356
Long-term liabilities	28,109,742	37,454	-	28,147,196
Other liabilities	2,433,350	757,776	-	3,191,126
Total Liabilities	30,543,092	795,230	-	31,338,322
Net Position:				
Net investment in capital assets	24,838,708	35,251,488	(4,917,268)	55,172,928
Restricted	2,007,454	-	-	2,007,454
Unrestricted	17,061,821	5,044,526	4,917,268	27,023,615
Total Net Position	\$ 43,907,983	\$ 40,296,014	\$ -	\$ 84,203,997

	2012			Total Primary Government
	Governmental Activities	Business-Type Activities	Reconciliation	
Current and other assets	\$ 28,429,551	\$ 5,407,765	\$ -	\$ 33,929,582
Capital assets, net	39,835,622	33,187,791	-	73,034,511
Total Assets	68,265,173	38,595,556	-	106,964,093
Long-term liabilities	32,750,576	43,146	-	32,793,722
Other liabilities	3,424,287	727,770	-	5,060,770
Total Liabilities	36,174,863	770,916	-	37,854,492
Net Position:				
Net investment in capital assets	21,642,976	33,187,791	(10,044,972)	44,785,795
Restricted	5,183,260	-	-	5,183,260
Unrestricted	5,264,074	4,636,849	10,044,972	19,945,895
Total Net Position	\$ 32,090,310	\$ 37,824,640	\$ -	\$ 69,914,950

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

The City's governmental activities net position increased from \$32,090,310 to \$43,907,983 largely as a result of an increase in capital assets during the year. The net position of business-type activities also increased to \$40,296,014 from \$37,824,640, which was largely a result of transfers in from other funds. The City can use the unrestricted portion of net position of \$27,023,615 to continue providing municipal services. The overall condition of the City improved with higher revenues during the year due to an increase in charges for services, property tax revenue, and sales tax revenue.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$4,917,268 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Statement of Activities

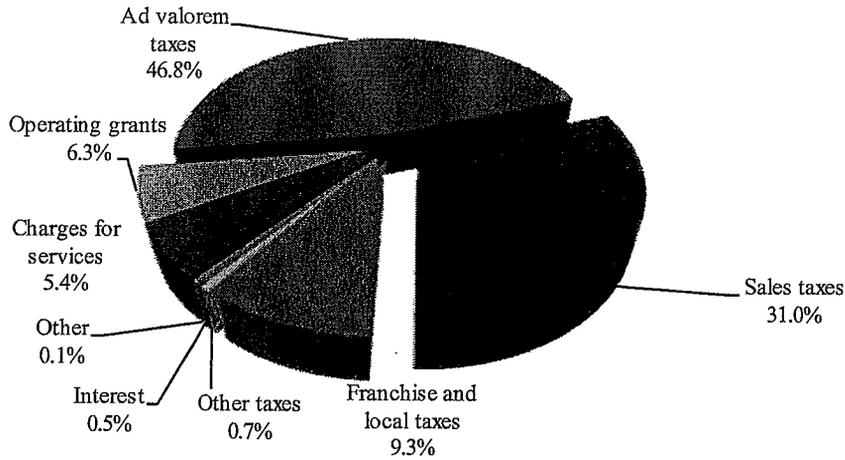
The following table provides a summary of the City's changes in net position.

	For the Year Ended September 30, 2013			For the Year Ended September 30, 2012		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,444,144	\$ 4,764,204	\$ 6,208,348	\$ 844,519	\$ 4,267,597	\$ 5,112,116
Operating grants	1,709,047	-	1,709,047	2,523,428	-	2,523,428
General revenues:						
Ad valorem taxes	12,554,223	-	12,554,223	10,349,585	-	10,349,585
Sales taxes	8,322,385	-	8,322,385	4,674,056	-	4,674,056
Franchise and local taxes	2,499,922	-	2,499,922	2,070,487	-	2,070,487
Other taxes	181,622	-	181,622	150,469	-	150,469
Interest	137,843	4,157	142,000	242,522	15,666	258,188
Other	(21,338)	(563)	(21,901)	4,272,215	-	4,272,215
Total Revenues	26,827,848	4,767,798	31,595,646	25,127,281	4,283,263	29,410,544
Expenses						
General government	2,929,325	-	2,929,325	2,603,080	-	2,603,080
Public safety	3,166,508	-	3,166,508	2,564,921	-	2,564,921
Community development	831,842	-	831,842	450,480	-	450,480
Community services	1,213,378	-	1,213,378	1,073,866	-	1,073,866
Interest and fees on debt	1,045,491	-	1,045,491	1,294,072	-	1,294,072
Golf course	-	2,426,540	2,426,540	-	2,207,082	2,207,082
Recreation center	-	2,727,076	2,727,076	-	2,600,351	2,600,351
Public utilities	-	2,862,791	2,862,791	-	2,112,542	2,112,542
Beverage corporation	-	103,648	103,648	-	102,572	102,572
Total Expenses	9,186,544	8,120,055	17,306,599	7,986,419	7,022,547	15,008,966
Increase (Decrease) in Net						
Position Before Transfers	17,641,304	(3,352,257)	14,289,047	17,140,862	(2,739,284)	14,401,578
Transfers in (out)	(5,823,631)	5,823,631	-	(3,551,160)	3,551,160	-
Change in Net Position	11,817,673	2,471,374	14,289,047	13,589,702	811,876	14,401,578
Beginning net position	32,090,310	37,824,640	69,914,950	18,500,608	37,012,764	55,513,372
Ending Net Position	\$ 43,907,983	\$ 40,296,014	\$ 84,203,997	\$ 32,090,310	\$ 37,824,640	\$ 69,914,950

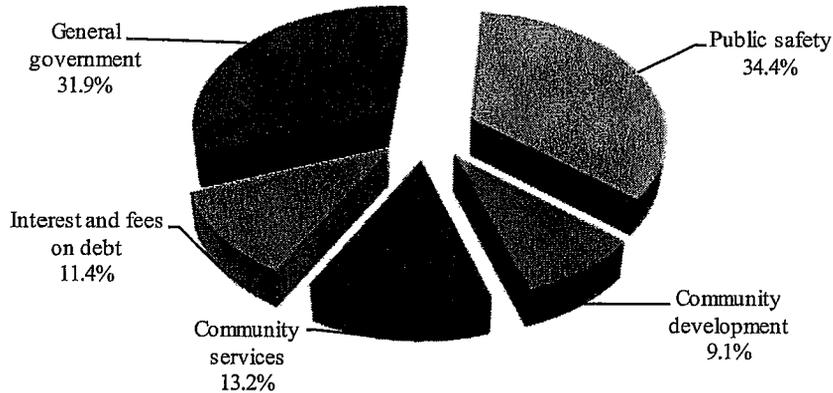
CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
 For the Year Ended September 30, 2013

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

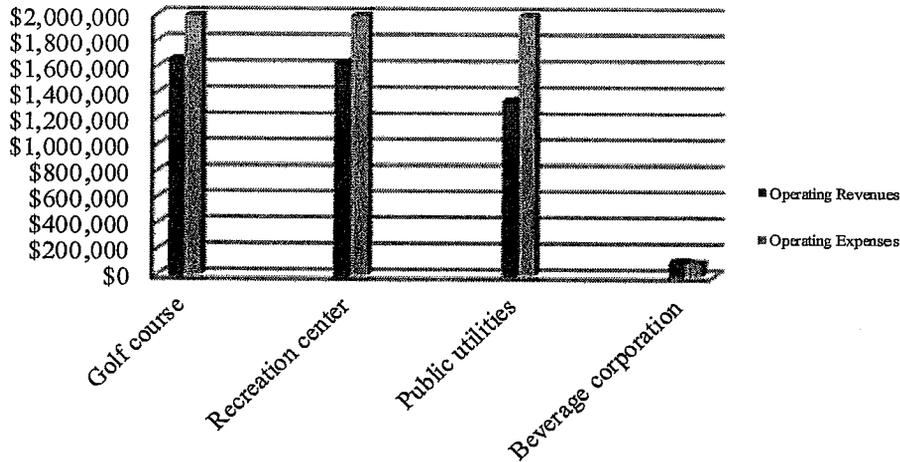
Governmental Activities - Revenues



Governmental Activities - Expenses



**Business-Type Activities
Revenues and Expenses**



CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

For the year ended September 30, 2013, revenue from governmental activities before transfers totaled \$26,827,848, a 7 percent increase from the previous year. The increase in revenue is primarily due to increases in property tax revenue and sales tax revenue. For the year ended September 30, 2013, expenses from governmental activities before transfers totaled \$9,186,544 which was a 15 percent increase from the previous year. The increase is primarily due to the increase in expenses in general government, public safety, community development, and community services.

Business-type activities are shown comparing expenses of \$8,120,055 to program revenues of \$4,767,798 generated by related services. Revenue for charges for services increased due to an increase in golf course and recreation center fees. Public utility expenses increased due to an increase in depreciation expense during the year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$23,871,389. Of this, \$10,091,622 is unassigned and available for day-to-day operations of the City; \$11,744,762 is assigned to capital projects; \$1,309,035 is restricted for debt service; \$698,419 is restricted by legal statutes and for special revenue projects; and \$27,551 is nonspendable.

The general fund is the chief operating fund of the City. At the end of the fiscal year, unassigned fund balance in the general fund was \$14,621,978, while total fund balance reached \$14,644,766. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 215 percent of total general fund expenditures, while total fund balance represents 216 percent of total general fund expenditures.

There was an increase in fund balance of \$5,255,401 from the prior year for the general fund. This increase was due to an increase in property tax revenue and sales tax revenue.

The debt service fund balance totaled \$1,309,035 as of year end, an increase of \$232,410 from the previous year. The increase was primarily due to an increase in property taxes.

There was an increase of \$2,882,722 in the capital projects – CIP fund balance for a total of \$8,534,433 at year end. This increase is primarily the result of transfers in from other funds.

The 2010 GO projects fund balance decreased by \$6,813,592 for a total deficit of \$4,353,980 at year end. This was the result of planned capital project expenditures during the year.

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

All of the City's business-type activities reported losses before taking into account capital contributions and transfers in, with the exception of the beverage corporation. In summary, the business-type activities reported net losses of \$3,352,257 before transfers due to increases in utility costs and depreciation expense.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Golf Course

The golf course had an increase in net position due to transfers from other funds. Operating expenses increased due to higher depreciation expense in the current year.

Recreation Center

Revenue for the recreation center increased from the prior year due to an increase in service fees. Operating expenses increased due to higher depreciation expense in the current year.

Public Utility Fund

In the public utility fund, service fee revenues were up, mainly as a continuing result of a long-term rate restructuring plan designed in 2004 to ensure utility revenues are enough to cover the utility expenses within the fund over the next ten years and an increase in water usage due to a statewide drought.

GENERAL FUND BUDGETARY HIGHLIGHTS

General fund revenues exceeded budgeted revenues by \$5,627,008. This is largely due to actual sales tax revenue exceeding budgeted by \$4,669,674. This increase was due to an increase in construction in the area.

Total expenses in the general fund were less than budgeted by \$466,820 or seven percent. Savings in fuel costs, maintenance, and professional services contributed to the overall savings.

There was a budgeted decrease in fund balance for the general fund of \$838,427. The actual increase in fund balance for the year was \$5,255,401, for a positive variance of \$6,093,828.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$46,022,924 and \$35,251,488, respectively, in a variety of capital assets and infrastructure, net of accumulated depreciation.

Significant capital asset acquisitions during the current year included the following:

- Road improvements
- Purchases of equipment
- Additions and improvements to the water and sewer system

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

LONG-TERM DEBT

At the end of the current year, the City had general obligation debt of \$27,045,000 related to governmental activities.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economic growth that began in 2010 is continuing throughout 2013, and the City's financial picture reflects this growth. Net general fund revenues in 2012-2013 were 42.8 percent over budget and 49.4 percent over the prior year. 2013 net sales tax collection ended at \$8 million, which eclipsed the record amount set in 2012 by 74.8 percent. New housing starts were up 20 percent over last year's prior record of 101, and pipeline and oil and gas permits rose to 78, which was 20 percent higher than the record set in 2012.

2013 saw two tax abatements issued for \$1.7 billion worth of improvements, and the creation of the City's first Industrial Development District (IDD). The largest of these was a \$1 billion plastics plant being built by Exxon Mobil. In 2013, the City revised its approach to tax abatements to increase predictability of revenues. The City began offering 10-year 100 percent tax abatements, with a steady payment-in-lieu of taxes annually throughout the term of the agreement. In the case of Exxon, they will make annual payments of \$1.8 million in exchange for a 10-year 100 percent tax abatement. Applicants maintain the option of a more traditional, declining-scale tax abatement.

In 2025, after all current abatements expire, the tax base will have increased an estimated \$3 billion since 2010, after depreciation. This does not include approximately \$500 million in our IDD, and an additional \$1 billion committed by industry as part of the IDD agreement, or any new projects.

For 2012-2013, the City's tax base increased 21 percent to \$2.8 billion. For 2013-2014, the tax base has fallen back to the 2011-2012 level of \$2.3 billion. The decrease was caused by continued low product values of hydrocarbon inventories and increased amount of product in interstate transportation. The decline in value will cost the City approximately \$2 million in revenue. This has caused a three percent decline in estimated revenues. Half of the loss is covered by additional sales tax collections.

As discussed in the prior years' Management Discussion and Analysis, the City plans for this type of tax base volatility by holding the tax rate steady in years with higher values to build reserves. The estimated days of general fund reserve at the end of 2014 is projected to be 344 days, which is almost double the City policy of 180 days of fund reserve. It is the belief of management that in the coming years, volatility will be reduced with the current industrial expansions because the values of real property improvements are much more predictable than market-driven values of product in storage.

Operating transfers to other funds continue to decline in absolute dollars and as a percentage of general fund expenses. In 2012-13, they fell 14.3 percent, or \$418,953. The annual subsidy to the public utility fund declined 38 percent in fiscal year 2012-13. This is part of an overall 60 percent decrease in the last five years and is a combination of the City's long-range rate plan of putting utilities on a self-funding basis and increasing revenue due to new development. After the rate increase scheduled for October 2015, the operating transfer to the utility fund which once exceeded \$1 million will be eliminated entirely.

Residential growth in the City continues to be strong. In the past, construction has sometimes been constrained by available lot inventory. Now, with three brand new subdivisions actively building homes, buyers have more choices within the City and housing starts are increasing. The quality of the new subdivisions is also increasing, as are home values. Through a combination of changes in development standards and market driven choices, all new subdivisions under construction are being built with concrete streets, underground drainage and many are now featuring amenity lakes and walking paths. This is dramatically different than ten years ago when subdivisions were primarily asphalt streets with open-ditch drainage. The new developments will be much more sustainable and present lower maintenance costs to the City in the long-run. The average value of new homes being built is in the \$250,000 range.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2013

Retail and commercial growth still lag behind housing and industrial growth due to a lack of rooftops. However, the addition of 100,000 square feet of office space for industry in 2013 has led to a large increase in proposed retail space along Eagle Drive. At the end of 2013, there are at least three retail strip centers in the design and permitting phase, with over 75,000 square feet of retail space proposed. Two significant events occurred at the end of 2013, which will greatly impact future development. First, Eagle Drive reconstruction and landscaping was completed at a cost of \$16 million. The appearance of Eagle Drive now projects the image of a prosperous suburban community. Second, the City purchased a 76 acre tract of land at the intersection of Eagle Drive and Interstate 10. This is the largest contiguous commercial parcel in the City at the most desirable intersection in the City. The City purchased the land to control what goes at that intersection, which is the gateway to our community. Unlike a private landowner, the City can take a long-term perspective on developing the property correctly, without a focus on an immediate return of investment. From a financial perspective, the land will only appreciate in value and represents a \$10 million asset on the City's books. From the standpoint of future community development, it is far more valuable. Since it purchased the land, the City has been fielding weekly inquiries from developers and individual businesses interested in the site.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to John Iles, Finance Director, City of Mont Belvieu, P.O. Box 1048, Mont Belvieu, Texas, 77580.

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BASIC FINANCIAL STATEMENTS

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CITY OF MONT BELVIEU, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Assets				
Current assets:				
Cash and equity in pooled cash	\$ 8,833,609	\$ 4,475,080	\$ -	\$ 13,308,689
Investments	15,903,828	-	-	15,903,828
Receivables, net	4,221,766	638,651	-	4,860,417
Prepaid items	22,677	22,973	-	45,650
Inventory	4,874	131,093	-	135,967
Internal balances	(571,959)	571,959	-	-
Total Current Assets	28,414,795	5,839,756	-	34,254,551
Capital assets:				
Non depreciable	5,229,608	2,708,629	-	7,938,237
Net depreciable capital assets	40,793,316	32,542,859	-	73,336,175
Total Noncurrent Assets	46,022,924	35,251,488	-	81,274,412
Total Assets	74,437,719	41,091,244	-	115,528,963
Deferred Outflow of Resources				
Deferred charge on refunding	13,356	-	-	13,356
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	2,245,375	120,764	-	2,366,139
Customer deposits	-	41,884	-	41,884
Unearned revenue	82,569	519,266	-	601,835
Accrued interest payable	105,406	75,862	-	181,268
Total Current Liabilities	2,433,350	757,776	-	3,191,126
Noncurrent liabilities:				
Due within one year	4,933,543	19,280	-	4,952,823
Due in more than one year	23,176,199	18,174	-	23,194,373
Total Noncurrent Liabilities	28,109,742	37,454	-	28,147,196
Total Liabilities	30,543,092	795,230	-	31,338,322
Net Position				
Net investment in capital assets	24,838,708	35,251,488	(4,917,268)	55,172,928
Restricted for:				
Debt service	1,309,035	-	-	1,309,035
Special projects	698,419	-	-	698,419
Unrestricted	17,061,821	5,044,526	4,917,268	27,023,615
Total Net Position	\$ 43,907,983	\$ 40,296,014	\$ -	\$ 84,203,997

See Notes to Financial Statements.

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 2,929,325	\$ -	\$ -
Public safety	3,166,508	1,027,317	-
Community development	831,842	416,827	-
Community services	1,213,378	-	1,709,047
Interest and fees on debt	1,045,491	-	-
Total Governmental Activities	9,186,544	1,444,144	1,709,047
Business-Type Activities			
Golf course	2,426,540	1,662,703	-
Recreation center	2,727,076	1,639,811	-
Public utilities	2,862,791	1,346,439	-
Beverage corporation	103,648	115,251	-
Total Business-Type Activities	8,120,055	4,764,204	-
Total Primary Government	\$ 17,306,599	\$ 6,208,348	\$ 1,709,047

General Revenues:

- Taxes
 - Ad valorem taxes
 - Sales taxes
 - Franchise and local taxes
 - Other taxes
- Investment income
- Other revenues
- Gain (loss) on sale of capital assets
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (2,929,325)	\$ -	\$ (2,929,325)
(2,139,191)	-	(2,139,191)
(415,015)	-	(415,015)
495,669	-	495,669
(1,045,491)	-	(1,045,491)
<u>(6,033,353)</u>	<u>-</u>	<u>(6,033,353)</u>
-	(763,837)	(763,837)
-	(1,087,265)	(1,087,265)
-	(1,516,352)	(1,516,352)
-	11,603	11,603
-	<u>(3,355,851)</u>	<u>(3,355,851)</u>
<u>(6,033,353)</u>	<u>(3,355,851)</u>	<u>(9,389,204)</u>
12,554,223	-	12,554,223
8,322,385	-	8,322,385
2,499,922	-	2,499,922
181,622	-	181,622
137,843	4,157	142,000
202,646	-	202,646
(223,984)	(563)	(224,547)
<u>(5,823,631)</u>	<u>5,823,631</u>	<u>-</u>
<u>17,851,026</u>	<u>5,827,225</u>	<u>23,678,251</u>
11,817,673	2,471,374	14,289,047
32,090,310	37,824,640	69,914,950
<u>\$ 43,907,983</u>	<u>\$ 40,296,014</u>	<u>\$ 84,203,997</u>

CITY OF MONT BELVIEU, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2013

	General	Debt Service	Capital Projects - CIP	2010 GO Projects
Assets				
Cash and equity in pooled cash	\$ 2,204,432	\$ 1,233,220	\$ 2,241,712	\$ -
Investments	11,162,730	-	1,531,319	1,555,625
Receivables, net	3,649,834	126,543	-	-
Due from other funds	71,825	73,528	4,950,321	-
Inventory	4,874	-	-	-
Prepaid items	17,914	-	-	-
Total Assets	\$ 17,111,609	\$ 1,433,291	\$ 8,723,352	\$ 1,555,625
Liabilities				
Accounts payable and accrued liabilities	\$ 338,457	\$ -	\$ 188,920	\$ 1,626,686
Due to other funds	73,345	-	-	4,282,919
Unearned revenue	77,569	-	-	-
Total Liabilities	489,371	-	188,920	5,909,605
Deferred Inflows of Resources				
Unavailable revenue - property taxes	128,746	124,256	-	-
Unavailable revenue - EMS services	1,848,725	-	-	-
Total Deferred Inflows of Resources	1,977,471	124,256	-	-
Fund Balances				
Nonspendable:				
Inventory	4,874	-	-	-
Prepaid items	17,914	-	-	-
Restricted for:				
Debt service	-	1,309,035	-	-
Special projects	-	-	-	-
Assigned:				
Capital projects	-	-	8,534,433	-
Unassigned	14,621,978	-	-	(4,353,980)
Total Fund Balances	14,644,766	1,309,035	8,534,433	(4,353,980)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 17,111,608	\$ 1,433,291	\$ 8,723,353	\$ 1,555,625

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

Capital assets - non depreciable

Capital assets - net depreciable

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Internal service funds are used by management to charge the costs of health services to individual funds.

The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.

Current assets and liabilities

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable

Deferred charge on refunding

Non-current liabilities due in one year

Non-current liabilities due in more than one year

See Notes to Financial Statements.

<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ 3,040,510	\$ 8,719,874
1,654,154	15,903,828
445,389	4,221,766
250,000	5,345,674
-	4,874
4,763	22,677
<u>\$ 5,394,816</u>	<u>\$ 34,218,693</u>
\$ 91,312	\$ 2,245,375
1,561,369	5,917,633
5,000	82,569
<u>1,657,681</u>	<u>8,245,577</u>
-	253,002
-	1,848,725
<u>-</u>	<u>2,101,727</u>
-	4,874
4,763	22,677
-	1,309,035
698,419	698,419
3,210,329	11,744,762
(176,376)	10,091,622
<u>3,737,135</u>	<u>23,871,389</u>
<u>\$ 5,394,816</u>	
5,229,608	
<u>40,793,316</u>	46,022,924
	2,101,727
	113,735
(105,406)	
13,356	
(4,933,543)	
<u>(23,176,199)</u>	
	<u>(28,201,792)</u>
	<u>\$ 43,907,983</u>

CITY OF MONT BELVIEU, TEXAS

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

For the Year Ended September 30, 2013

	General	Debt Service	Capital Projects-CIP	2010 GO Projects
Revenues				
Ad valorem taxes	\$ 7,022,913	\$ 5,593,318	\$ -	\$ -
Sales tax	8,097,674	-	-	-
Franchise and local taxes	2,499,922	-	-	-
Other taxes	7,730	-	-	-
Licenses and permits	416,827	-	-	-
Fines and forfeitures	92,316	-	-	-
Charges for services	268,378	-	-	-
Intergovernmental	282,107	-	-	-
Investment income	68,705	22,813	18,241	9,256
Other revenue	13,914	-	-	20,984
Total Revenues	18,770,486	5,616,131	18,241	30,240
Expenditures				
Current:				
General government	3,226,329	-	-	-
Public safety	2,489,014	-	-	-
Community development	81,270	-	679,546	-
Community services	997,991	-	-	-
Capital outlay	-	-	180,956	6,843,832
Debt service:				
Principal	-	4,485,000	-	-
Interest and fiscal charges	-	1,065,170	-	-
Payment to refunded bond escrow agent	-	3,727,808	-	-
Total Expenditures	6,794,604	9,277,978	860,502	6,843,832
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,975,882	(3,661,847)	(842,261)	(6,813,592)
Other Financing Sources (Uses)				
Bonds issued	-	3,780,000	-	-
Transfers in	-	114,257	4,150,000	-
Transfers (out)	(6,720,481)	-	(425,017)	-
Sale of capital assets	-	-	-	-
Total Other Financing Sources (Uses)	(6,720,481)	3,894,257	3,724,983	-
Net Change in Fund Balances	5,255,401	232,410	2,882,722	(6,813,592)
Beginning fund balances	9,389,365	1,076,625	5,651,711	2,459,612
Ending Fund Balances	\$ 14,644,766	\$ 1,309,035	\$ 8,534,433	\$ (4,353,980)

See Notes to Financial Statements.

<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 12,616,231
-	8,097,674
-	2,499,922
173,892	181,622
-	416,827
3,382	95,698
-	268,378
1,426,940	1,709,047
18,713	137,728
167,748	202,646
<u>1,790,675</u>	<u>26,225,773</u>
7,801	3,234,130
91,335	2,580,349
-	760,816
64,828	1,062,819
3,796,936	10,821,724
-	4,485,000
-	1,065,170
-	3,727,808
<u>3,960,900</u>	<u>27,737,816</u>
<u>(2,170,225)</u>	<u>(1,512,043)</u>
-	3,780,000
1,275,243	5,539,500
(354,257)	(7,499,755)
38,500	38,500
<u>959,486</u>	<u>1,858,245</u>
(1,210,739)	346,202
4,947,874	23,525,187
<u>\$ 3,737,135</u>	<u>\$ 23,871,389</u>

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CITY OF MONT BELVIEU, 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 changes in fund balances - total governmental funds \$ 346,202

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

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

Capital outlay	8,713,659
Depreciation expense	(2,253,179)
Disposal of capital asset	(273,178)

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

Deferred property tax revenue	(62,008)
Deferred emergency services revenue	663,241

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

This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bonds issued	(3,780,000)
Principal expenditures	4,485,000
Payment to refunded bond escrow agent	3,727,808
Amortization of deferred charges	(4,452)
Accrued interest payable	24,131
Sales tax refund agreement	224,711
Compensated absences	2,047
Net pension obligation	(924)

Internal service funds are used by management to charge the costs of certain health services to individual funds. The net revenue (expense) is reported with governmental activities.

4,615

Change in Net Position of Governmental Activities **\$ 11,817,673**

See Notes to Financial Statements.

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2013

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	Nonmajor Fund Bev Co
<u>Assets</u>				
Current assets:				
Cash and equity in pooled cash	\$ 1,160,508	\$ 1,248,261	\$ 1,900,399	\$ 165,912
Receivables, net	7,604	428,342	202,705	-
Due from other funds	914,786	744	-	-
Inventory	110,482	15,206	3,185	2,220
Prepaid items	10,386	11,961	626	-
Total Current Assets	2,203,766	1,704,514	2,106,915	168,132
Noncurrent assets:				
Capital assets:				
Non-depreciable	2,146,056	45,629	516,944	-
Net depreciable	2,548,096	6,501,868	23,492,895	-
Total Noncurrent Assets	4,694,152	6,547,497	24,009,839	-
Total Assets	6,897,918	8,252,011	26,116,754	168,132
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	49,137	56,027	90,266	1,196
Compensated absences	-	-	19,280	-
Due to other funds	251,744	-	415	91,412
Unearned revenue	26,518	492,748	-	-
Customer deposits	-	-	41,884	-
Total Current Liabilities	327,399	548,775	151,845	92,608
Noncurrent liabilities:				
Compensated absences	-	-	2,142	-
Net pension obligation	-	-	16,032	-
Total Liabilities	327,399	548,775	170,019	92,608
<u>Net Position</u>				
Net investment in capital assets	4,694,152	6,547,497	24,009,839	-
Unrestricted	1,876,367	1,155,739	1,936,896	75,524
Total Net Position	\$ 6,570,519	\$ 7,703,236	\$ 25,946,735	\$ 75,524

See Notes to Financial Statements.

<u>Total Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 4,475,080	\$ 113,735
638,651	-
915,530	-
131,093	-
22,973	-
<u>6,183,327</u>	<u>113,735</u>
2,708,629	-
32,542,859	-
<u>35,251,488</u>	<u>-</u>
<u>41,434,815</u>	<u>113,735</u>
196,626	-
19,280	-
343,571	-
519,266	-
41,884	-
<u>1,120,627</u>	<u>-</u>
2,142	-
16,032	-
<u>1,138,801</u>	<u>-</u>
35,251,488	-
<u>5,044,526</u>	<u>113,735</u>
<u>40,296,014</u>	<u>\$ 113,735</u>

CITY OF MONT BELVIEU, TEXAS

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

For the Year Ended September 30, 2013

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	Nonmajor Fund Bev Co
<u>Operating Revenues</u>				
Water charges	\$ -	\$ -	\$ 660,748	\$ -
Sewer charges	-	-	323,096	-
Sanitation	-	-	277,496	-
Other services	1,662,703	1,639,811	85,099	115,251
Total Operating Revenues	1,662,703	1,639,811	1,346,439	115,251
<u>Operating Expenses</u>				
Costs of sales and services	1,987,806	2,079,238	1,681,664	103,648
Depreciation	438,734	647,838	1,181,127	-
Total Operating Expenses	2,426,540	2,727,076	2,862,791	103,648
Operating Income (Loss)	(763,837)	(1,087,265)	(1,516,352)	11,603
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	1,019	1,169	1,969	-
Gain (loss) on sale of capital assets	-	(563)	-	-
Total Nonoperating Revenues	1,019	606	1,969	-
Income (Loss) Before Transfers	(762,818)	(1,086,659)	(1,514,383)	11,603
Capital contributions	-	-	3,918,376	-
Transfers in	916,915	687,775	413,100	-
Transfers (out)	(112,535)	-	-	-
Change in Net Position	41,562	(398,884)	2,817,093	11,603
Beginning net position	6,528,957	8,102,120	23,129,642	63,921
Ending Net Position	\$ 6,570,519	\$ 7,703,236	\$ 25,946,735	\$ 75,524

See Notes to Financial Statements.

Total Funds	Governmental Activities - Internal Service Funds
\$ 660,748	\$ -
323,096	-
277,496	-
3,502,864	-
<u>4,764,204</u>	<u>-</u>
5,852,356	50,500
2,267,699	-
<u>8,120,055</u>	<u>50,500</u>
<u>(3,355,851)</u>	<u>(50,500)</u>
4,157	115
<u>(563)</u>	<u>-</u>
<u>3,594</u>	<u>115</u>
(3,352,257)	(50,385)
3,918,376	-
2,017,790	55,000
<u>(112,535)</u>	<u>-</u>
2,471,374	4,615
<u>37,824,640</u>	<u>109,120</u>
<u>\$ 40,296,014</u>	<u>\$ 113,735</u>

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2013

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Golf Course</u>	<u>Recreation Center</u>	<u>Public Utility</u>	<u>Nonmajor Fund Bev Co</u>
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,657,943	\$ 1,664,981	\$ 1,332,711	\$ 115,251
Payments to employees	-	-	(750,412)	-
Payments to suppliers	(1,741,068)	(2,116,487)	(924,919)	(73,270)
Net Cash Provided (Used) by Operating Activities	(83,125)	(451,506)	(342,620)	41,981
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers from other funds	916,915	687,775	413,100	-
Transfer to other funds	(112,535)	-	-	-
Net Cash Provided by Noncapital Financing Activities	804,380	687,775	413,100	-
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(363,075)	(49,946)	-	-
Sale of capital asset	-	(563)	-	-
Net Cash (Used) by Capital and Related Financing Activities	(363,075)	(50,509)	-	-
<u>Cash Flows from Investing Activities</u>				
Interest on investments	1,019	1,169	1,969	-
Net Cash Provided by Investing Activities	1,019	1,169	1,969	-
Net Increase in Cash and Equity in Pooled Cash	359,199	186,929	72,449	41,981
Beginning cash and equity in pooled cash	801,309	1,061,332	1,827,950	123,931
Ending Cash and Equity in Pooled Cash	\$ 1,160,508	\$ 1,248,261	\$ 1,900,399	\$ 165,912

<u>Total Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 4,770,886	\$ -
(750,412)	-
<u>(4,855,744)</u>	<u>(50,500)</u>
(835,270)	(50,500)
2,017,790	55,000
<u>(112,535)</u>	<u>-</u>
<u>1,905,255</u>	<u>55,000</u>
(413,021)	-
<u>(563)</u>	<u>-</u>
<u>(413,584)</u>	<u>-</u>
4,157	115
<u>4,157</u>	<u>115</u>
660,558	4,615
<u>3,814,522</u>	<u>109,120</u>
<u>\$ 4,475,080</u>	<u>\$ 113,735</u>

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2013

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	Nonmajor Fund Bev Co
Reconciliation of Operating Income (Loss)				
To Net Cash Provided (Used) by				
Operating Activities				
Operating income (loss)	\$ (763,837)	\$ (1,087,265)	\$ (1,516,352)	\$ 11,603
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	438,734	647,838	1,181,127	-
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	20,411	(26,351)	(27,173)	-
Due from other funds	(31,113)	-	-	-
Inventory	1,466	12,405	(1,751)	232
Prepaid items	(281)	(1,360)	875	-
Increase (Decrease) in:				
Accounts payable and accrued liabilities	(4,447)	(48,294)	12,807	(967)
Compensated absences	-	-	(5,851)	-
Net pension obligation	-	-	159	-
Due to other funds	250,000	-	94	31,113
Deferred revenue	5,942	51,521	-	-
Customer deposits	-	-	13,445	-
	-	-	13,445	-
Net Cash Provided (Used) by Operating Activities	\$ (83,125)	\$ (451,506)	\$ (342,620)	\$ 41,981
Noncash Investing, Capital, and Financing Activities:				
Contributions of capital assets from governmental funds	\$ -	\$ -	\$ 3,918,376	\$ -
	-	-	3,918,376	-

See Notes to Financial Statements.

<u>Total Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ (3,355,851)	\$ (50,500)
2,267,699	-
(33,113)	-
(31,113)	-
12,352	-
(766)	-
(40,901)	-
(5,851)	-
159	-
281,207	-
57,463	-
13,445	-
<u>\$ (835,270)</u>	<u>\$ (50,500)</u>
<u>\$ 3,918,376</u>	<u>\$ -</u>

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CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Mont Belvieu, Texas (the "City") was incorporated under the laws of the State of Texas on April 11, 1966. The City has a "Council-Mayor" form of government.

The City Council is the principal legislative body of the City and is responsible for the appointment and removal of department directors and employees, including the City Administrator. The City Administrator is responsible to the Council for the administration of all the affairs of the City including supervision and control of all City departments and preparation of the annual budget.

The City provides the following services: public safety to include police, fire, and emergency medical services; parks; sanitation, water and sewer services; recreation; public improvements; planning and zoning; and general administration.

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

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

Blended Component Unit

Beverage Corporation

The Beverage Corporation ("Bev Co") is a legally separate entity from the City but is so closely related to the City that it is, in essence, an extension of the City. This entity is considered a blended component unit for reporting purposes. The financial data of this unit is combined with that of the City as an enterprise fund as Bev Co since the unit is, in substance, part of the City's operations.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all 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 to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly included in other funds. The principal sources of revenue include local property taxes, sales and franchise taxes, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, community development, and community services. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

Capital Projects Funds

The capital projects funds are used to account for the expenditures of resources accumulated from certificates of obligation and related interest earnings for capital improvement projects. The capital projects-CIP fund and 2010 GO projects fund are considered major funds for reporting purposes.

The City reports the following enterprise funds:

Enterprise Funds

The enterprise funds are used to account for the operations that provide beverage services; water, sewer, and sanitation services; as well as operations of the Eagle Pointe golf course and recreation center. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The golf course, recreation center, and public utility enterprise funds are considered major funds for reporting purposes. The Bev Co fund is a nonmajor fund.

Additionally, the City reports the following fund type:

Internal Service Funds

Internal service funds account for services provided to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. The health services fund is used to account for employee health benefits.

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

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

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

E. Measurement Focus and Basis of Accounting

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

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

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. 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. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturities of three months or less when purchased to be cash equivalents.

The City maintains 5 pooled cash accounts. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and equity in pooled cash."

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

2. Investments

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

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

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

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflecting costs applicable to the future accounting period and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government 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 cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	2 to 15 years
Furniture and equipment	5 to 20 years
Infrastructure	25 to 30 years
Water and sewer system	3 to 40 years
Buildings and improvements	5 to 40 years

5. 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 City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and emergency medical service revenue. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the general fund. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities on the Statement of Net Position. The long-term debt consists primarily of bonds payable, notes payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received,

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

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

8. 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.

9. Fund Balance Flow Assumptions

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.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions are classified as restricted fund balance.

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

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

11. Estimates

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

G. Revenues and Expenditures/Expenses

1. 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at one percent per month, but the penalty remains at a maximum of 12 percent until paid.

A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

continuing to increase at one percent per month until the account is paid. An additional penalty of 20 percent is added in July for attorney costs. There are no discounts allowed on taxes.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and internal service fund are charges to customers for sales and services. The enterprise 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 the enterprise fund and internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Legal or Contractual Provisions

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital project funds, which adopt project length budgets. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. The City Administrator may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made during the year.

B. Deficit Fund Balance

At September 30, 2013, the 2010 GO projects fund, a major fund, as well as the capital projects fund, 2009 capital projects-CIP fund, and seizures fund, reported as nonmajor funds, had deficit fund balances of \$4,353,980, \$61,250, \$115,118, and \$8, respectively. The reason for the deficits are that the City had more expenditures related to construction or other special projects than revenue earned. The City plans to transfer in money to offset the deficit once the projects are completed.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2013, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
TexPool	\$ 6,370,732	0.00
TexSTAR	532,885	0.00
Prosperity Bank-Money Market	16,534,926	0.00
Bank of America-Agencies	2,759,977	2.95
Bank of America-Certificates of Deposit	673,000	2.32
Bank of America-Municipal Bonds	174,031	1.87
Total Fair Value	\$ 27,045,551	
Portfolio weighted average maturity		0.37

Credit risk. State law and the City’s investment policy limits investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent. Further, commercial paper must be rated not less than “A-1” or “P-1” or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2013, the City’s investment in TexPool was rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Concentration of credit risk. The City’s investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio’s total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2013, market values of pledged securities exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

management fee structure. Finally, Standard & Poors rate TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexSTAR

The Texas Short Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexPool and TexSTAR operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and TexSTAR use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the positions in TexPool and TexSTAR are the same as the value of TexPool and TexSTAR shares.

B. Receivables

The following comprises receivable balances at year end for governmental activities:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Total Funds</u>
Ad valorem taxes	\$ 129,853	\$ 125,368	\$ -	\$ 255,221
Other taxes	1,647,818	-	41,662	1,689,480
Accounts	1,848,725	-	395,821	2,244,546
Other	24,545	2,288	7,906	34,739
Less allowance	(1,107)	(1,113)	-	(2,220)
	<u>\$ 3,649,834</u>	<u>\$ 126,543</u>	<u>\$ 445,389</u>	<u>\$ 4,221,766</u>

The following comprises receivable balances at year end for business-type activities:

	<u>Golf Course</u>	<u>Recreation</u>	<u>Public Utility</u>	<u>Total Funds</u>
Accounts	\$ 7,515	\$ 428,770	\$ 208,903	\$ 645,188
Other	89	-	-	89
Less allowance	-	(428)	(6,198)	(6,626)
	<u>\$ 7,604</u>	<u>\$ 428,342</u>	<u>\$ 202,705</u>	<u>\$ 638,651</u>

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	Beginning Balance*	Increases	Decreases	Tranfers/ Reclassifications	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,441,799	\$ 87,012	\$ (223,984)	\$ 2,635,476	\$ 4,940,303
Construction in progress	14,296,689	237,870	-	(14,245,254)	289,305
Total capital assets, not being depreciated	16,738,488	324,882	(223,984)	(11,609,778)	5,229,608
Capital assets, being depreciated:					
Buildings	6,400,725	11,247	(65,561)	(57,753)	6,288,658
Improvements other than buildings	23,266,495	8,030,731	(757,320)	11,592,575	42,132,481
Machinery and equipment	3,998,811	346,799	(536,591)	74,956	3,883,975
Total capital assets being depreciated	33,666,031	8,388,777	(1,359,472)	11,609,778	52,305,114
Less accumulated depreciation for:					
Buildings	(3,706,729)	(345,464)	60,440	-	(3,991,753)
Improvements other than buildings	(4,530,144)	(1,555,534)	713,247	-	(5,372,431)
Machinery and equipment	(2,332,024)	(352,181)	536,591	-	(2,147,614)
Total accumulated depreciation	(10,568,897)	(2,253,179)	1,310,278	-	(11,511,798)
Total capital assets, being depreciated, net	23,097,134	6,135,598	(49,194)	11,609,778	40,793,316
Governmental Activities Capital Assets, Net	\$ 39,835,622	\$ 6,460,480	\$ (273,178)	\$ -	46,022,924
				Less associated debt	(21,197,572)
				Plus deferred charge on refunding	13,356
				Net Investment in Capital Assets	\$ 24,838,708

*Beginning balances have been restated.

Depreciation was charged to governmental functions as follows:

General government	\$ 518,427
Public safety	773,293
Community development	810,136
Community services	151,323
	2,253,179
Total Governmental Activities Depreciation Expense	\$ 2,253,179

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

The following is a summary of changes in capital assets for business-type activities for the year ended:

	<u>Beginning Balance*</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers/ Reclassifications</u>	<u>Ending Balance</u>
Business-Type Activities:					
Capital assets, not being depreciated					
Land	\$ 514,698	\$ -	\$ -	\$ (183)	\$ 514,515
Golf course	3,022,335	-	-	(1,004,087)	2,018,248
Construction in progress	12,507,245	48,058	-	(12,379,437)	175,866
Total capital assets, not being depreciated	<u>16,044,278</u>	<u>48,058</u>	<u>-</u>	<u>(13,383,707)</u>	<u>2,708,629</u>
Capital assets, being depreciated:					
Buildings	15,205,729	12,760	-	(201,505)	15,016,984
Improvements other than buildings	24,166,752	3,172,182	-	13,316,508	40,655,442
Machinery and equipment	3,822,017	1,207,641	(876,903)	167,024	4,319,779
Total capital assets being depreciated	<u>43,194,498</u>	<u>4,392,583</u>	<u>(876,903)</u>	<u>13,282,027</u>	<u>59,992,205</u>
Less accumulated depreciation for:					
Buildings	(7,737,331)	(642,424)	-	(54,506)	(8,434,261)
Improvements other than buildings	(15,149,213)	(1,311,022)	559,833	54,506	(15,845,896)
Machinery and equipment	(3,164,443)	(314,253)	309,507	-	(3,169,189)
Total accumulated depreciation	<u>(26,050,987)</u>	<u>(2,267,699)</u>	<u>869,340</u>	<u>-</u>	<u>(27,449,346)</u>
Total capital assets, being depreciated, net	17,143,511	2,124,884	(7,563)	13,282,027	32,542,859
Business-Type Activities Capital Assets, Net	<u>\$ 33,187,789</u>	<u>\$ 2,172,942</u>	<u>\$ (7,563)</u>	<u>\$ (101,680)</u>	<u>\$ 35,251,488</u>

*Beginning balances have been restated

Depreciation was charged to business-type functions as follows:

Golf course	\$ 438,734
Recreation center	647,838
Public utilities	1,181,127
Total Business-Type Activities Depreciation Expense	<u>\$ 2,267,699</u>

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

D. Long-Term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 106,305	\$ 93,628	\$ (95,675)	\$ 104,258	\$ 93,832
Net pension obligation	87,011	924	-	87,935	-
Tax refund agreements	1,097,260	-	(224,711)	872,549	224,711
General obligation bonds	18,100,000	3,780,000	(6,765,000)	15,115,000 *	3,120,000
Certificates of obligation	13,360,000	-	(1,430,000)	11,930,000 *	1,495,000
Total Governmental Activities	<u>\$ 32,750,576</u>	<u>\$ 3,874,552</u>	<u>\$ (8,515,386)</u>	<u>\$ 28,109,742</u>	<u>\$ 4,933,543</u>

Long-term liabilities due in more than one year \$ 23,176,199

***Debt associated with governmental capital assets** \$ 21,197,572

***Debt associated with business-type capital assets** \$ 5,847,428

Less unspent bond proceeds (930,160)

Net debt associated with business-type capital assets \$ 4,917,268

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities:					
Compensated absences	\$ 27,273	\$ 18,695	\$ (24,546)	\$ 21,422	\$ 19,280
Net pension obligation	15,873	159	-	16,032	-
Total Business-Type Activities	<u>\$ 43,146</u>	<u>\$ 18,854</u>	<u>\$ (24,546)</u>	<u>\$ 37,454</u>	<u>\$ 19,280</u>

Long-term liabilities due in more than one year \$ 18,174

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

Current Refunding

The City issued \$3,780,000 of general obligation refunding bonds, series 2012. The refunding was undertaken to provide a present value savings in debt service payable by the City. The reacquisition price exceeded the net carrying amount of the old debt by \$17,808. This amount is being netted against the new debt and amortized over the life of the new debt issued, which is the same as the life of the old debt. This debt refunding resulted in an economic gain of \$164,912 and a reduction of \$171,654 in future debt service payments.

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2013

General obligation bonds and certificates of obligation at year end were comprised of the following debt issues:

Governmental Activities		
Description	Interest Rates	Balance
General Obligation Bonds		
Series 2006	4.05%	\$ 3,370,000
Series 2010	2.00-3.00%	8,915,000
Refunding, Series 2012	1.05%	2,830,000
Total General Obligation Debt		15,115,000
Certificates of Obligation		
Series 2007	4.00%	4,520,000
Series 2009	3.99%	7,410,000
Total Certificates of Obligation		11,930,000
Total Governmental Activities Debt		\$ 27,045,000

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sept. 30	Governmental Activities				Tax
	General Obligation Bonds		Certificates of Obligation		Refund
	Principal	Interest	Principal	Interest	Agreements
2014	\$ 3,120,000	\$ 377,456	\$ 1,495,000	\$ 476,459	\$ 224,711
2015	3,235,000	301,751	1,560,000	416,703	224,711
2016	3,330,000	223,014	2,055,000	354,349	42,313
2017	1,270,000	141,556	3,000,000	272,239	42,313
2018	1,325,000	112,981	1,870,000	152,418	42,313
2019-2023	2,835,000	123,357	1,950,000	77,805	211,563
2024-2025	-	-	-	-	84,625
Total	\$ 15,115,000	\$ 1,280,115	\$ 11,930,000	\$ 1,749,973	\$ 872,549

The City is not obligated in any manner for special assessment debt.

Obligations to State – Refund Taxes

During 2004 and 2006, the Texas State Comptroller of Public Accounts notified the City that the State had remitted additional sales tax receipts to the City which were not collected within the City limits. During 2009, the City was notified that it had been overpaid by an additional \$186,965. The terms of the settlement require the City to repay the State in non-interest installments of \$3,527 being withheld from the sales tax remittance each month from the Texas State Comptroller of Public Accounts through November 2025.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

Obligations to Gulf Coast Fractionators – Refund Taxes

During 2011, the City was notified by Chambers County Appraisal District that it had been paid an additional \$911,993 in property taxes from Gulf Coast Fractionators in error. The terms of the settlement require the City to repay Gulf Coast Fractionators in non-interest annual installments of \$182,398 starting February 1, 2011 through 2015. The balance due for both repayment agreements as of year end was \$872,549.

E. Interfund Transactions

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

Transfer Out	Transfer In	Amounts
General Fund	Golf Course	\$ 676,915
	Capital Projects-CIP	4,150,000
	Recreation Center	687,775
	Public Utility	413,100
	Nonmajor Funds	737,691
	Internal Service Fund	55,000
Golf Course	Nonmajor Funds	112,535
Capital Projects-CIP	Nonmajor Funds	425,017
Nonmajor Funds	Debt Service Fund	114,257
	Golf Course	240,000
	Total Transfers	\$ 7,612,290

Amounts transferred between funds related to amounts transferred to fund the purchase of assets and capital improvement projects and various government expenditures.

The composition of interfund balances as of year end was as follows:

Receivable Fund	Payable Fund	Amounts
General Fund	Golf Course	\$ 1,000
General Fund	Public Utilities	415
General Fund	Nonmajor Funds	70,410
Debt Service	General Fund	73,345
Debt Service	Nonmajor Funds	183
Capital Projects - CIP	2010 GO Projects	4,282,919
Capital Projects - CIP	Nonmajor Funds	667,402
Golf Course	Nonmajor Funds	823,374
Golf Course	Bev Co Fund	91,412
Rec Center	Golf Course	744
Nonmajor Funds	Golf Course	250,000
	Total Interfund Balances	\$ 6,261,204

Amounts recorded as “due to/from” are considered to be temporary loans and will be repaid during the following year.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

F. Restatement of Net Position

During the fiscal year ending September 30, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 reclassified costs associated with bond issuance as expenses of the current period. Consequently, the City is restating net position for fiscal year 2012 to reflect the write-off of unamortized bond issuance costs.

The beginning net position for governmental activities has also been restated to account for an adjustment to capital asset beginning balances to tie to subsidiary ledgers.

In addition, the beginning net position of the golf course fund and public utility fund have been restated to write-off retainage payable liability balances carried over from prior years that were related to construction projects completed prior to the current fiscal year. The public utility fund also restated its beginning net position to account for an adjustment to capital asset beginning balances.

	<u>Governmental Activities Net Position</u>	<u>Business-Type Activities Net Position</u>	<u>Golf Course</u>	<u>Recreation Center</u>	<u>Public Utility</u>
Beginning net position-as reported	\$ 30,163,285	\$ 38,946,316	\$ 7,239,406	\$ 9,230,134	\$ 22,412,855
Restatement - bond issuance costs	(92,266)	-	-	-	-
Restatement - capital assets	2,152,938	875,400	14,490	-	860,910
Restatement - accumulated depreciation	(133,647)	(2,905,789)	(1,132,013)	(1,128,014)	(645,762)
Restatement - retainage payable	-	908,713	407,074	-	501,639
Beginning net position-restated	<u>\$ 32,090,310</u>	<u>\$ 37,824,640</u>	<u>\$ 6,528,957</u>	<u>\$ 8,102,120</u>	<u>\$ 23,129,642</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool. The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

B. Contingent Liabilities

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or not performed correctly, a substantial liability could result to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

Chapter 380 Economic Development Agreements

Chapter 380 of the Texas Local Government Code, *Miscellaneous Provisions Relating to Municipal Planning and Development*, provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs, including programs to promote state or local economic development and to stimulate business and commercial activity in the municipality.

In June 2011, the City approved Chapter 380 Economic Development Agreements with four local industrial companies. Each company plans to construct substantial improvements to real property within the City. These improvements will constitute a major economic investment creating substantial additional taxable property value within the City and stimulating the development of primary employment within the City. The City recognizes the positive economic impact the proposed projects will have on the community and therefore has entered into agreements with the same companies to offer tax abatements of ad valorem property taxes on eligible property.

In order to mitigate the impact of the projects on the City's infrastructure and transportation systems, the companies have agreed to provide a monetary contribution of financial resources towards the City's Eagle Drive Reconstruction project. The total amount to be provided is \$4 million and was due October 1, 2012. As of September 30, 2012, the City received a total of \$2 million in payments. The remaining \$2 million was received during the current year.

In March 2013, the City approved another Chapter 380 Economic Development Agreement with a local industrial company for the purpose of encouraging the development of primary employment and to attract major economic investments to the City. Through the company's development and expansion of development of land and improvements for commercial and industry related uses, the City will experience a direct, positive, and measurable economic benefit. This 380 agreement was approved in conjunction with an Economic Development and Transfer Agreement in which property was conveyed from the City to a non-profit corporation which in turn conveyed the property to the company. The company will develop the property in accordance with the site plan and design and development restrictions as described in the agreement. The company agrees to maintain a minimum level of employment over the next seven years. If employment levels fall below the minimum, the company will be subject to liquidated damages.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time 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 for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained from the TMRS' website at www.TMRS.org.

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

	<u>2013</u>	<u>2012</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100%	100%
	Repeating, Transfers	Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Contributions

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

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and the net pension obligation (NPO) are as follows:

Annual Required Contribution (ARC)	\$	313,056
Interest on Net Pension Obligation (NPO)		7,202
Adjustment to the ARC		(6,327)
Annual Pension Cost (APC)		313,931
Contributions made		(312,848)
Increase in NPO		1,083
NPO-beginning of year		102,884
NPO-end of year	\$	103,967

Three-year trend information for the annual pension cost (APC) is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 333,345	\$ 297,620	89.28%	\$ 96,877
2012	\$ 321,171	\$ 315,164	98.13%	\$ 102,884
2013	\$ 313,931	\$ 312,848	99.66%	\$ 103,967

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

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:

	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	26.0 Years - Closed period	27.0 Years - Closed period	27.4 Years - Closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
	2.10%	2.10%	2.10%

The funded status as of December 31, 2012, is presented as follows:

Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 10,627,855
Actuarial Accrued Liability	\$ 11,330,719
Percentage Funded	93.8%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 702,864
Annual Covered Payroll	\$ 3,640,455
UAAL as a Percentage of Covered Payroll	19.3%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as RSI 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 MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2013

D. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

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 post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2013, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contributions to the TMRS SDBF for fiscal years ended 2013, 2012 and 2011 were \$366, \$362 and \$334, respectively. The City's contribution rates to the TMRS SDBF, for the retiree portion, for the years ended September 30, 2013, 2012, and 2011 are shown below.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contrib. (Rate)	0.01%	0.01%	0.01%
Actual Contribution Made	0.01%	0.01%	0.01%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND (Page 1 of 2)
For the Year Ended September 30, 2013

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Ad valorem taxes	\$ 6,759,623	\$ 6,759,623	\$ 7,022,913	\$ 263,290
Sales tax	3,428,000	3,428,000	8,097,674	4,669,674
Franchise and local taxes	2,191,150	2,191,150	2,499,922	308,772
Other taxes	6,200	6,200	7,730	1,530
Licenses and permits	125,000	125,000	416,827	291,827
Fines and forfeitures	60,000	60,000	92,316	32,316
Charges for services	272,000	272,000	268,378	(3,622)
Intergovernmental	280,000	280,000	282,107	2,107
Investment income	15,505	15,505	68,705	53,200
Other revenue	6,000	6,000	13,914	7,914
Total Revenues	<u>13,143,478</u>	<u>13,143,478</u>	<u>18,770,486</u>	<u>5,627,008</u>
<u>Expenditures</u>				
Current:				
General Government				
Administrative	2,161,924	2,463,924	2,405,970	57,954
Municipal court	86,174	96,574	95,817	757
Combined services	811,500	811,500	724,542	86,958
Total General Government	<u>3,059,598</u>	<u>3,371,998</u>	<u>3,226,329</u>	<u>145,669</u>
Public Safety				
Police	1,308,283	1,308,283	1,301,391	6,892
Emergency medical service	1,169,869	1,169,869	1,105,156	64,713
Fire	180,972	180,972	82,467	98,505
Total Public Safety	<u>2,659,124</u>	<u>2,659,124</u>	<u>2,489,014</u>	<u>170,110</u>

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND (Page 2 of 2)

For the Year Ended September 30, 2013

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Community Development				
Building	\$ 115,215	\$ 115,215	\$ 81,270	\$ 33,945
Total Community Development	<u>115,215</u>	<u>115,215</u>	<u>81,270</u>	<u>33,945</u>
Community Services				
Parks	1,115,087	1,115,087	997,991	117,096
Total Community Services	<u>1,115,087</u>	<u>1,115,087</u>	<u>997,991</u>	<u>117,096</u>
Total Expenditures	<u>6,949,024</u>	<u>7,261,424</u>	<u>6,794,604</u>	<u>466,820</u>
Revenues Over Expenditures	<u>6,194,454</u>	<u>5,882,054</u>	<u>11,975,882</u>	<u>6,093,828</u>
Other Financing Sources (Uses)				
Transfers (out)	<u>(6,720,481)</u>	<u>(6,720,481)</u>	<u>(6,720,481)</u>	<u>-</u>
Total Other Financing (Uses)	<u>(6,720,481)</u>	<u>(6,720,481)</u>	<u>(6,720,481)</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (526,027)</u>	<u>\$ (838,427)</u>	<u>5,255,401</u>	<u>\$ 6,093,828</u>
Beginning fund balance			<u>9,389,365</u>	
Ending Fund Balance			<u>\$ 14,644,766</u>	

Notes to Required Supplementary Information

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

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CITY OF MONT BELVIEU, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

September 30, 2013

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. The information presented below represents the City's schedule of funding progress.

Fiscal Year	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 10,627,855	\$ 9,685,502	\$ 8,844,629
Actuarial Accrued Liability	\$ 11,330,719	\$ 10,519,154	\$ 9,560,439
Percentage Funded	93.8%	92.1%	92.5%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 702,864	\$ 833,652	\$ 715,810
Annual Covered Payroll	\$ 3,640,455	\$ 3,416,603	\$ 3,127,869
(UAAL) % of Covered Payroll	19.3%	24.4%	22.9%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 102,884	\$ 96,877	\$ 61,152
Annual Pension Cost (APC)	313,931	321,171	333,345
Contributions Made	312,848	315,164	297,620
NPO at the End of Period	\$ 103,967	\$ 102,884	\$ 96,877

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***COMBINING STATEMENTS
AND SCHEDULES***

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NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECT FUNDS

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition and construction of major capital facilities and other assets.

Capital Projects Fund

This fund is used to account for capital projects financed by long-term debt.

Fixed Asset Replacement Fund

This fund is used for replacement of machinery, equipment and major maintenance items.

Park Development Fund

This fund is used to account for capital projects related to park development and maintenance.

2009 Capital Projects - CIP Fund

This fund is used to account for capital projects financed by the series 2009 certificates of obligation.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specific purposes other than debt service or capital projects.

Hotel and Motel Tax Fund

This fund accounts for revenues derived from the City's hotel/motel tax for which the expenditures are for enhancement and promotion of tourism for the convention and hotel industry within the City and vicinity.

Court Security Fund

This fund is used to account for court fines and fees that are legally restricted to be used for court security.

Court Technology Fund

This fund is used to account for court fines and fees that are legally restricted to be used for court technology.

Dedicated Parks Fund

This fund is used for the construction and maintenance of community parks or recreation areas.

Grant Fund

This fund is used to account for grant monies.

Seizures Fund

This fund is used to account for monies seized for law enforcement purposes.

Public Safety Fund

This fund is used to account for monies received from Chambers County for emergency medical services and fire department purposes.

Veterans' Memorial Fund

This fund is used for the creation and maintenance of Veterans' memorials.

CITY OF MONT BELVIEU, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2)
September 30, 2013

	Capital Projects			
	Capital Projects	Fixed Asset Replacement	Park Development	2009 Capital Projects - CIP
Assets				
Cash and equity in pooled cash	\$ -	\$ 624,338	\$ 1,757,083	\$ -
Investments	-	1,405,092	-	249,062
Accounts receivable	-	739	-	-
Due from other funds	-	250,000	-	-
Prepaid items	-	-	-	-
Total Assets	\$ -	\$ 2,280,169	\$ 1,757,083	\$ 249,062
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 3,549	\$ -
Due to other funds	61,250	-	823,374	364,180
Unearned revenue	-	-	-	-
Total Liabilities	61,250	-	826,923	364,180
Fund Balances:				
Nonspendable:				
Prepaid items	-	-	-	-
Restricted for:				
Park development	-	-	-	-
Tourism promotion	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	-	-
Veterans' memorial	-	-	-	-
Assigned:				
Capital projects	-	2,280,169	930,160	-
Unassigned	(61,250)	-	-	(115,118)
Total Fund Balances	(61,250)	2,280,169	930,160	(115,118)
Total Liabilities and Fund Balances	\$ -	\$ 2,280,169	\$ 1,757,083	\$ 249,062

Special Revenue

<u>Hotel and Motel Tax</u>	<u>Court Security</u>	<u>Court Technology</u>	<u>Dedicated Parks</u>	<u>Grant</u>	<u>Seizures</u>
\$ 330,678	\$ 32,155	\$ 20,803	\$ 183,870	\$ -	\$ -
-	-	-	-	-	-
41,662	-	-	7,167	395,821	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 372,340</u>	<u>\$ 32,155</u>	<u>\$ 20,803</u>	<u>\$ 191,037</u>	<u>\$ 395,821</u>	<u>\$ -</u>
\$ 825	\$ -	\$ -	\$ -	\$ 83,447	\$ -
183	-	-	-	312,374	8
-	-	-	-	-	-
<u>1,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>395,821</u>	<u>8</u>
-	-	-	-	-	-
-	-	-	191,037	-	-
371,332	-	-	-	-	-
-	32,155	20,803	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	(8)
<u>371,332</u>	<u>32,155</u>	<u>20,803</u>	<u>191,037</u>	<u>-</u>	<u>(8)</u>
<u>\$ 372,340</u>	<u>\$ 32,155</u>	<u>\$ 20,803</u>	<u>\$ 191,037</u>	<u>\$ 395,821</u>	<u>\$ -</u>

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CITY OF MONT BELVIEU, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2)

September 30, 2013

	Special Revenue		Total Funds
	Public Safety	Veterans' Memorial	
<u>Assets</u>			
Cash and equity in pooled cash	\$ 88,393	\$ 3,190	\$ 3,040,510
Investments	-	-	1,654,154
Accounts receivable	-	-	445,389
Due from other funds	-	-	250,000
Prepaid items	4,763	-	4,763
Total Assets	\$ 93,156	\$ 3,190	\$ 5,394,816
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 3,491	\$ -	\$ 91,312
Due to other funds	-	-	1,561,369
Unearned revenue	5,000	-	5,000
Total Liabilities	8,491	-	1,657,681
Fund Balances			
Nonspendable:			
Prepaid items	4,763	-	4,763
Restricted for:			
Park development	-	-	191,037
Tourism promotion	-	-	371,332
Municipal court	-	-	52,958
Public safety	79,902	-	79,902
Veterans' memorial	-	3,190	3,190
Assigned:			
Capital projects	-	-	3,210,329
Unassigned	-	-	(176,376)
Total Fund Balances	84,665	3,190	3,737,135
Total Liabilities and Fund Balances	\$ 93,156	\$ 3,190	\$ 5,394,816

CITY OF MONT BELVIEU, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2)
For the Year Ended September 30, 2013

	Capital Projects			
	Capital Projects	Fixed Asset Replacement	Park Development	2009 Capital Projects - CIP
Revenues				
Occupancy tax	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-
Intergovernmental	-	-	-	-
Investment income	-	8,094	5,816	1,804
Other income	-	-	165,123	-
Total Revenues	-	8,094	170,939	1,804
Expenditures				
General government	-	7,801	-	-
Community services	-	-	-	-
Public safety	-	-	-	-
Capital outlay	61,250	336,594	3,549	1,566,656
Total Expenditures	61,250	344,395	3,549	1,566,656
Revenues Over (Under) Expenditures	(61,250)	(336,301)	167,390	(1,564,852)
Other Financing Sources (Uses)				
Transfers in	-	850,226	-	-
Transfers (out)	-	(240,000)	-	-
Sale of capital assets	-	35,000	-	-
Total Other Financing Sources (Uses)	-	645,226	-	-
Net Change in Fund Balances	(61,250)	308,925	167,390	(1,564,852)
Beginning fund balances	-	1,971,244	762,770	1,449,734
Ending Fund Balances	\$ (61,250)	\$ 2,280,169	\$ 930,160	\$ (115,118)

Special Revenue

<u>Hotel and Motel Tax</u>	<u>Court Security</u>	<u>Court Technology</u>	<u>Dedicated Parks</u>	<u>Grant</u>	<u>Seizures</u>
\$ 173,892	\$ -	\$ -	\$ -	\$ -	\$ -
-	1,450	1,932	-	-	-
-	-	-	-	1,378,940	-
2,343	32	18	194	-	-
-	-	-	-	-	-
<u>176,235</u>	<u>1,482</u>	<u>1,950</u>	<u>194</u>	<u>1,378,940</u>	<u>-</u>
-	-	-	-	-	-
64,528	-	-	-	-	-
-	-	-	-	-	75
-	-	-	-	1,803,957	-
<u>64,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,803,957</u>	<u>75</u>
111,707	1,482	1,950	194	(425,017)	(75)
-	-	-	-	425,017	-
(114,257)	-	-	-	-	-
-	-	-	-	-	-
<u>(114,257)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>425,017</u>	<u>-</u>
(2,550)	1,482	1,950	194	-	(75)
<u>373,882</u>	<u>30,673</u>	<u>18,853</u>	<u>190,843</u>	<u>-</u>	<u>67</u>
<u>\$ 371,332</u>	<u>\$ 32,155</u>	<u>\$ 20,803</u>	<u>\$ 191,037</u>	<u>\$ -</u>	<u>\$ (8)</u>

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CITY OF MONT BELVIEU, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2)
For the Year Ended September 30, 2013

	<u>Special Revenue</u>		<u>Total Funds</u>
	<u>Public Safety</u>	<u>Veterans' Memorial</u>	
<u>Revenues</u>			
Occupancy tax	\$ -	\$ -	\$ 173,892
Fines and forfeitures	-	-	3,382
Intergovernmental	48,000	-	1,426,940
Investment income	408	4	18,713
Other income	2,025	600	167,748
Total Revenues	<u>50,433</u>	<u>604</u>	<u>1,790,675</u>
<u>Expenditures</u>			
General government	-	-	7,801
Community services	-	300	64,828
Public safety	91,260	-	91,335
Capital outlay	24,930	-	3,796,936
Total Expenditures	<u>116,190</u>	<u>300</u>	<u>3,960,900</u>
Revenues Over (Under) Expenditures	<u>(65,757)</u>	<u>304</u>	<u>(2,170,225)</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	-	-	1,275,243
Transfers (out)	-	-	(354,257)
Sale of capital assets	3,500	-	38,500
Total Other Financing Sources (Uses)	<u>3,500</u>	<u>-</u>	<u>959,486</u>
Net Change in Fund Balances	(62,257)	304	(1,210,739)
Beginning fund balances	146,922	2,886	4,947,874
Ending Fund Balances	<u>\$ 84,665</u>	<u>\$ 3,190</u>	<u>\$ 3,737,135</u>

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Ad valorem taxes	\$ 5,399,922	\$ 5,399,922	\$ 5,593,318	\$ 193,396
Investment income	6,948	6,948	22,813	15,865
Total Revenues	<u>5,406,870</u>	<u>5,406,870</u>	<u>5,616,131</u>	<u>209,261</u>
Expenditures				
Principal	4,316,353	5,293,404	4,485,000	808,404
Interest and fiscal charges	1,071,069	1,123,261	1,065,170	58,091
Payment to refunded bond escrow agent	-	3,727,808	3,727,808	-
Total Expenditures	<u>5,387,422</u>	<u>10,144,473</u>	<u>9,277,978</u>	<u>866,495</u>
Revenues Over (Under) Expenditures	<u>19,448</u>	<u>(4,737,603)</u>	<u>(3,661,847)</u>	<u>1,075,756</u>
Other Financing Sources (Uses)				
Debt issued	-	3,780,000	3,780,000	-
Transfers in	114,257	114,257	114,257	-
Total Other Financing Sources	<u>114,257</u>	<u>3,894,257</u>	<u>3,894,257</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 133,705</u>	<u>\$ (843,346)</u>	<u>232,410</u>	<u>\$ 1,075,756</u>
Beginning fund balance			<u>1,076,625</u>	
Ending Fund Balance			<u>\$ 1,309,035</u>	

Notes to Supplementary Information:

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

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - HOTEL & MOTEL TAX FUND
For the Year Ended September 30, 2013

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Occupancy tax	\$ 125,000	\$ 173,892	\$ 48,892
Investment income	494	2,343	1,849
Total Revenues	125,494	176,235	50,741
<u>Expenditures</u>			
Community services	73,285	64,528	8,757
Total Expenditures	73,285	64,528	8,757
Revenues Over Expenditures	52,209	111,707	59,498
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(114,257)	(114,257)	-
Total Other Financing (Uses)	(114,257)	(114,257)	-
Net Change in Fund Balance	\$ (62,048)	(2,550)	\$ 59,498
Beginning fund balance		373,882	
Ending Fund Balance		\$ 371,332	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - COURT TECHNOLOGY
For the Year Ended September 30, 2013

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Fines and forfeitures	\$ 1,600	\$ 1,932	\$ 332
Investment income	25	18	(7)
Total Revenues	1,625	1,950	325
 <u>Expenditures</u>			
Public safety	2,900	-	2,900
Total Expenditures	2,900	-	2,900
Net Change in Fund Balance	\$ (1,275)	1,950	\$ 3,225
Beginning fund balance		18,853	
Ending Fund Balance		\$ 20,803	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - SEIZURES
For the Year Ended September 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Investment income	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Expenditures</u>				
Public safety	-	75	75	-
Total Expenditures	<u>-</u>	<u>75</u>	<u>75</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (75)</u>	<u>(75)</u>	<u>\$ -</u>
Beginning fund balance			<u>67</u>	
Ending Fund Balance			<u>\$ (8)</u>	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - PUBLIC SAFETY
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Intergovernmental	\$ 45,000	\$ 45,000	\$ 48,000	\$ 3,000
Investment income	370	370	408	38
Other revenue	-	-	2,025	2,025
Total Revenues	45,370	45,370	50,433	5,063
<u>Expenditures</u>				
Public safety	46,284	109,079	91,260	17,819
Capital projects	4,500	29,931	24,930	5,001
Total Expenditures	50,784	139,010	116,190	22,820
Revenues (Under) Expenditures	(5,414)	(93,640)	(65,757)	27,883
<u>Other Financing Sources (Uses)</u>				
Sale of capital asset	-	-	3,500	3,500
Total Other Financing Sources	-	-	3,500	3,500
Net Change in Fund Balance	\$ (5,414)	\$ (93,640)	(62,257)	\$ 31,383
Beginning fund balance			146,922	
Ending Fund Balance			\$ 84,665	