

ANNUAL FINANCIAL REPORT

of the

CITY OF MONT BELVIEU, TEXAS

For the Year Ended
September 30, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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.

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 26, 2015

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

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CITY OF MONT BELVIEU, TEXAS

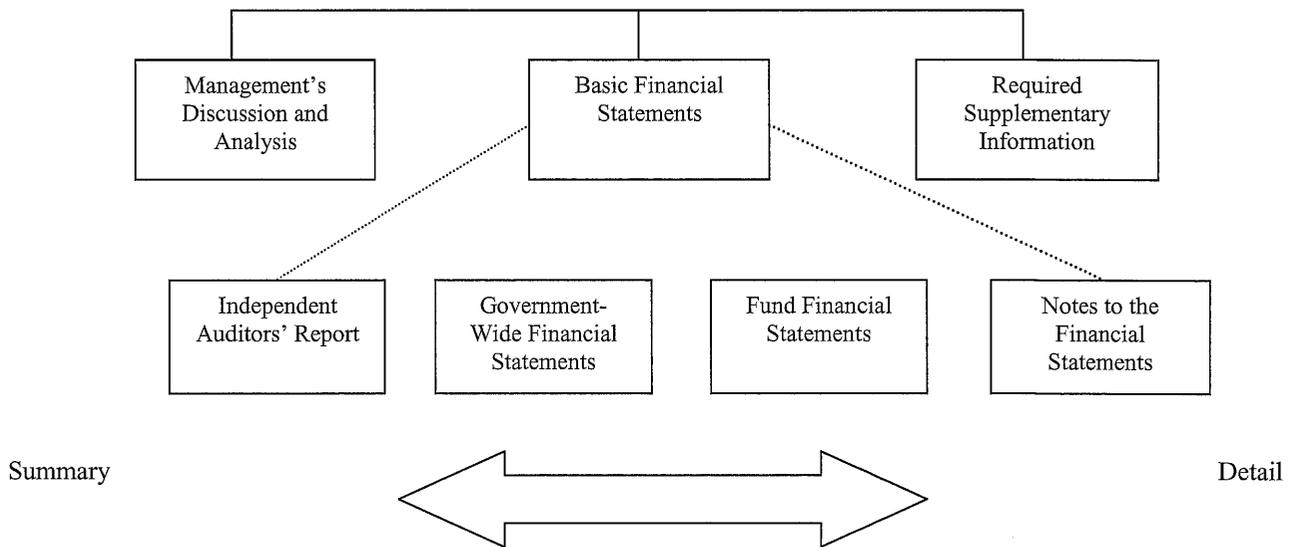
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2014

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, Texas (the "City") for the year ending September 30, 2014. 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

Components of the Financial Section



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, 2014

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 17 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, 2014

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 of resources exceed liabilities by \$95,644,514 as of year end representing an increase of \$11,237,764 over the prior year.

A portion of the City’s net position, 69 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, 2014

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2014			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 40,831,467	\$ 4,490,484	\$ -	\$ 45,321,951
Capital assets, net	61,220,479	36,375,439	-	97,595,918
Total Assets	<u>102,051,946</u>	<u>40,865,923</u>	<u>-</u>	<u>142,917,869</u>
Deferred charge on refunding	8,904	-	-	8,904
Total Deferred Outflows Of Resources	<u>8,904</u>	<u>-</u>	<u>-</u>	<u>8,904</u>
Long-term liabilities	44,646,524	40,868	-	44,687,392
Other liabilities	1,622,196	972,671	-	2,594,867
Total Liabilities	<u>46,268,720</u>	<u>1,013,539</u>	<u>-</u>	<u>47,282,259</u>
Net Position:				
Net investment in capital assets	33,407,632	36,375,439	(3,588,984)	66,194,087
Restricted	2,540,428	-	-	2,540,428
Unrestricted	19,844,070	3,476,945	3,588,984	26,909,999
Total Net Position	<u>\$ 55,792,130</u>	<u>\$ 39,852,384</u>	<u>\$ -</u>	<u>\$ 95,644,514</u>

	2013			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 28,358,798	\$ 5,839,756	\$ -	\$ 33,929,582
Capital assets, net	47,711,827	35,251,488	-	73,034,511
Total Assets	<u>76,070,625</u>	<u>41,091,244</u>	<u>-</u>	<u>106,964,093</u>
Deferred charge on refunding	13,356	-	-	13,356
Total Deferred Outflows Of Resources	<u>13,356</u>	<u>-</u>	<u>-</u>	<u>13,356</u>
Long-term liabilities	28,109,742	37,454	-	32,793,722
Other liabilities	3,863,503	757,776	-	5,060,770
Total Liabilities	<u>31,973,245</u>	<u>795,230</u>	<u>-</u>	<u>37,854,492</u>
Net Position:				
Net investment in capital assets	26,527,611	35,251,488	(4,917,268)	56,861,831
Restricted	2,007,454	-	-	2,007,454
Unrestricted	15,575,671	5,044,526	4,917,268	25,537,465
Total Net Position	<u>\$ 44,110,736</u>	<u>\$ 40,296,014</u>	<u>\$ -</u>	<u>\$ 84,406,750</u>

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

The City's governmental activities net position increased from \$44,110,736 to \$55,792,130 largely as a result of an increase in capital assets during the year. The net position of business-type activities decreased to \$39,852,384 from \$40,296,014 due to an increase in golf course and public utilities expenses and a decrease in transfers in from other funds. The City can use the unrestricted portion of net position of \$26,909,999 to continue providing municipal services. The overall condition of the City improved with higher revenues during the year due to an increase in franchise and local taxes and other revenues.

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 \$3,588,984 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, 2014

Statement of Activities

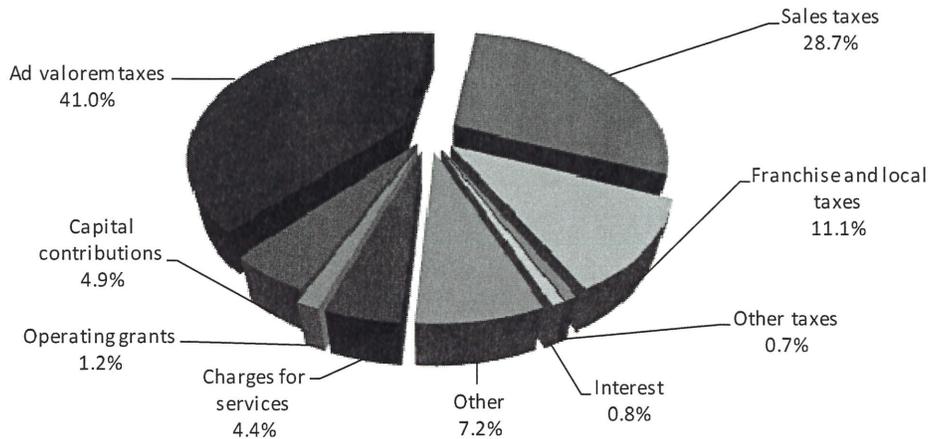
The following table provides a summary of the City's changes in net position.

	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,157,963	\$ 4,743,492	\$ 5,901,455	\$ 1,444,144	\$ 4,764,204	\$ 6,208,348
Operating grants	336,832	-	336,832	1,653,050	-	1,653,050
Capital contributions	1,295,897	835,020	2,130,917	-	-	-
General revenues:						
Ad valorem taxes	10,894,092	-	10,894,092	12,554,223	-	12,554,223
Sales taxes	7,628,658	-	7,628,658	8,322,385	-	8,322,385
Franchise and local taxes	2,948,397	-	2,948,397	2,499,922	-	2,499,922
Other taxes	195,249	-	195,249	181,622	-	181,622
Interest	200,374	7,215	207,589	137,843	4,157	142,000
Other	1,941,094	3,500	1,944,594	(21,338)	(563)	(21,901)
Total Revenues	26,598,556	5,589,227	32,187,783	26,771,851	4,767,798	31,539,649
Expenses						
General government	5,571,761	-	5,571,761	2,929,325	-	2,929,325
Public safety	3,671,218	-	3,671,218	3,166,508	-	3,166,508
Community development	988,710	-	988,710	831,842	-	831,842
Community services	1,310,341	-	1,310,341	1,213,378	-	1,213,378
Interest and fees on debt	1,100,555	-	1,100,555	1,045,491	-	1,045,491
Golf course	-	2,510,869	2,510,869	-	2,426,540	2,426,540
Recreation center	-	2,710,360	2,710,360	-	2,727,076	2,727,076
Public utilities	-	3,008,438	3,008,438	-	2,862,791	2,862,791
Beverage corporation	-	77,767	77,767	-	103,648	103,648
Total Expenses	12,642,585	8,307,434	20,950,019	9,186,544	8,120,055	17,306,599
Increase (Decrease) in Net Position Before Transfers	13,955,971	(2,718,207)	11,237,764	17,585,307	(3,352,257)	14,233,050
Transfers in (out)	(2,274,577)	2,274,577	-	(5,823,631)	5,823,631	-
Change in Net Position	11,681,394	(443,630)	11,237,764	11,761,676	2,471,374	14,233,050
Beginning net position	44,110,736	40,296,014	84,406,750	32,349,060	37,824,640	70,173,700
Ending Net Position	\$ 55,792,130	\$ 39,852,384	\$ 95,644,514	\$ 44,110,736	\$ 40,296,014	\$ 84,406,750

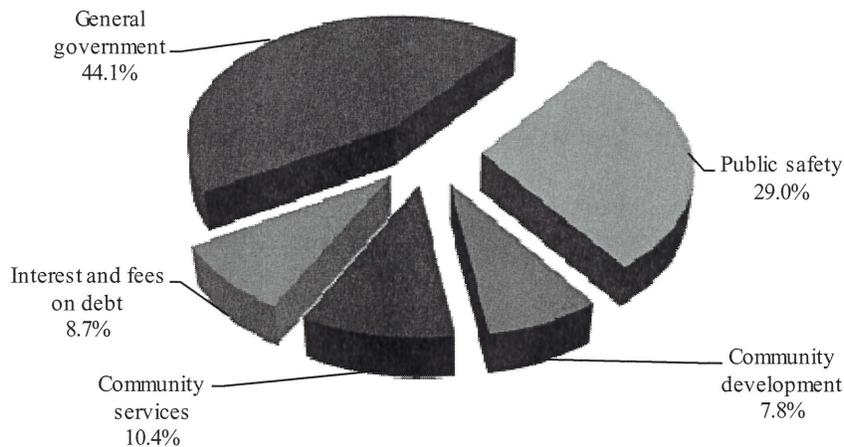
CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
 For the Year Ended September 30, 2014

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

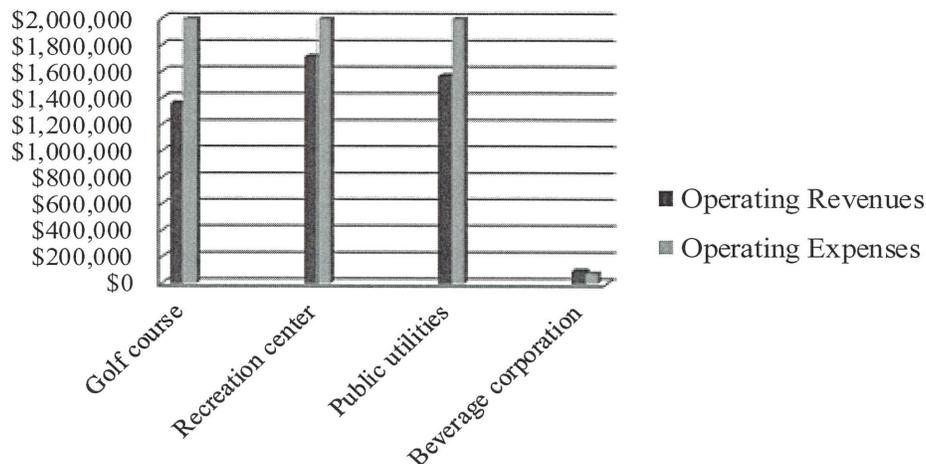
Governmental Activities - Revenues



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, 2014

For the year ended September 30, 2014, revenue from governmental activities before transfers totaled \$26,598,556, which is comparable to the previous year. For the year ended September 30, 2014, expenses from governmental activities before transfers totaled \$12,642,585, which was a 38 percent increase from the previous year. The increase is primarily due to the increase in expenses in general government and public safety.

Business-type activities are shown comparing expenses of \$8,307,434 to program revenues of \$5,589,227 generated by related services. Business-type revenue increased by \$821,429 from the prior year mainly due to a capital contribution from a developer. Public utility expenses increased by \$145,647, due to an increase in cost of sales and services expenses during the year. Golf course expenses increased by \$84,329, due to an increase in depreciation expenses.

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 \$36,747,097. Of this, \$13,923,230 is unassigned and available for day-to-day operations of the City, \$8,918,563 is assigned to capital projects, \$11,319,767 is restricted for capital projects, \$1,793,801 is restricted for debt service, \$746,627 is restricted by legal statutes and for special revenue projects, and \$45,109 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 \$13,987,192, while total fund balance reached \$14,029,920. 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 159 percent of total general fund expenditures, while total fund balance also represents 160 percent of total general fund expenditures. There was a decrease in fund balance of \$614,846 from the prior year for the general fund. This decrease was primarily the result of transfers out of \$10,360,290.

The debt service fund balance totaled \$1,793,801 as of year end, which is an increase of \$484,766 from the previous year. The increase can be attributed to an increase in property tax revenue due to an increase in the debt service tax rate.

There was a decrease of \$4,113,501 in the capital projects – CIP fund balance for a total of \$4,420,932 at year end. This decrease is primarily due to financing the purchase of land and transfers to other funds.

The 2010 GO projects fund balance increased by \$4,290,018 for a total deficit fund balance of \$63,962 at year end. This was the result of planned transfers from the general fund.

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 \$3,553,227 before transfers due to increases in costs of sales and services.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

Golf Course

The golf course had a decrease in net position due to a decrease in revenue combined with increases in costs of sales and services as compared to last year.

Recreation Center

The recreation center had a decrease in net position due to operating expenses exceeding revenues.

Public Utility Fund

The public utility fund had an increase in net position due to transfers and capital contributions from the general fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

General fund revenues exceeded budgeted revenues by \$5,657,419. This is largely due to actual sales tax revenue exceeding budgeted by \$2,903,947. This increase was due to an increase in construction in the area.

Total expenses in the general fund were less than budgeted by \$497,061 or six 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 \$6,601,878. The actual decrease in fund balance for the year was \$614,846, for a positive variance of \$5,987,032.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$61,220,479 and \$36,375,439, respectively, in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Land acquisitions
- 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 note III.C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had general obligation debt of \$35,430,000 related to governmental activities.

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

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economic growth that began in 2010 is continuing throughout 2014 and the City's financial picture reflects that growth. Reserve days have risen to 575 days. General fund revenues in 2013-14 were 44.41 percent over budget. This is actually down two percent from the prior year due to property tax revenues lost to lower valuations (see below). The good news is that increases in sales and franchise tax made up almost the entirety of the \$2 million shortfall in property tax. 2013-14 net sales tax collection ended at \$7.4 million, which was 5.7 percent higher than the prior year after adjusting for direct pay sales tax agreement incentives. This is more than double the sales tax collected in 2010. New housing starts were up 20 percent over last year's prior record of 121.

The fever pitch of industrial expansion slowed somewhat in 2013-14. Two expansions of \$800 million were announced for fractionators, which will ultimately add \$600 million value to the tax rolls after depreciation. \$600 million is slow only when compared to the \$1.7 billion in the prior year which included a \$1.2 billion Exxon Mobil plastics plant.

In 2013, the City revised its approach to tax abatements to increase predictability of revenues. The City began offering ten-year 100 percent tax abatements, with a steady payment-in-lieu of taxes annually throughout the term of the agreement. Applicants maintain the option of negotiating a more traditional, declining-scale tax abatement. The two expansions in 2014 will make annual payments in lieu of taxes of \$825,000 for the first ten years.

Also, in 2014, the City entered into a long-term direct pay sales tax agreement with Exxon Mobil which will change the incidence of the sales tax on goods and services used at the Exxon Mobil facility to Mont Belvieu instead of the location of the vendor. The additional sales tax recouped will be split equally between the City and Exxon Mobil. The exact financial impact of this agreement is unknown, but its positive impact will be significant.

Finally, we are seeing the impact of the new facilities coming on line in our electric franchise payments, which have increased over \$1 million annually from 2011 to 2015 as the industrial facilities use more and more electricity.

In 2025, after all current abatements expire, the tax base will have increased an estimated \$3.6 billion since 2010, after depreciation. This does not include approximately \$500 million in our Industrial Development District (IDD), and an additional \$1 billion committed by industry as part of the IDD agreement, or any new projects.

In 2013-2014, the tax base fell 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 cost the City approximately \$2 million in revenue. For 2014-15 the tax valuation has rebounded back to \$2.78 billion.

As discussed in the prior years' MD&A, the City plans for this type of tax base volatility by holding the tax rate steady in years with higher values to build reserves so we can avoid tax rate increases when valuations swing. The estimated days of General fund reserves at the end of 2013-2014 was 575 days, which is over 2.5 times 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.

Residential growth in the City continues to be strong. 2014 set a new record with 146 new residential permits being issued. Four subdivisions are actively selling homes, and six new subdivisions are in the platting process and will begin selling homes in 2015. This will hopefully avoid past issues when construction has sometimes

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

been constrained by available lot inventory. 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, most with 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 \$275,000 to \$300,000 range.

Retail and commercial growth is beginning to take shape as rooftops increase. A 40,000 square-foot shopping center is opening soon. The first phase of a 75,000 square-foot business park is about to start construction, and the City is frequently fielding inquiries regarding the 76-acre commercial site it owns. The land, purchased by the City in late 2013, has already increased in value 17 percent. Management is confident the investment will pay long-term benefits to the City.

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, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Current assets:				
Cash and equity in pooled cash	\$ 7,253,595	\$ 3,578,879	\$ -	\$ 10,832,474
Investments	29,490,042	-	-	29,490,042
Receivables, net	4,041,234	738,184	-	4,779,418
Prepaid items	43,843	26,701	-	70,544
Inventory	1,266	148,207	-	149,473
Internal balances	1,487	(1,487)	-	-
Total Current Assets	40,831,467	4,490,484	-	45,321,951
Capital assets:				
Non depreciable	19,958,527	3,762,724	-	23,721,251
Net depreciable capital assets	41,261,952	32,612,715	-	73,874,667
Total Noncurrent Assets	61,220,479	36,375,439	-	97,595,918
Total Assets	102,051,946	40,865,923	-	142,917,869
<u>Deferred Outflow of Resources</u>				
Deferred charge on refunding	8,904	-	-	8,904
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	1,446,900	312,434	-	1,759,334
Customer deposits	-	43,659	-	43,659
Unearned revenue	94,021	540,716	-	634,737
Accrued interest payable	81,275	75,862	-	157,137
Total Current Liabilities	1,622,196	972,671	-	2,594,867
Noncurrent liabilities:				
Due within one year	7,266,938	22,261	-	7,289,199
Due in more than one year	37,379,586	18,607	-	37,398,193
Total Noncurrent Liabilities	44,646,524	40,868	-	44,687,392
Total Liabilities	46,268,720	1,013,539	-	47,282,259
<u>Net Position</u>				
Net investment in capital assets	33,407,632	36,375,439	(3,588,984)	66,194,087
Restricted for:				
Debt service	1,793,801	-	-	1,793,801
Special projects	746,627	-	-	746,627
Unrestricted	19,844,070	3,476,945	3,588,984	26,909,999
Total Net Position	\$ 55,792,130	\$ 39,852,384	\$ -	\$ 95,644,514

See Notes to Financial Statements.

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 5,571,761	\$ -	\$ -	\$ 1,295,897
Public safety	3,671,218	889,565	-	-
Community development	988,710	268,398	-	-
Community services	1,310,341	-	336,832	-
Interest and fees on debt	1,100,555	-	-	-
Total Governmental Activities	12,642,585	1,157,963	336,832	1,295,897
Business-Type Activities				
Golf course	2,510,869	1,362,759	-	-
Recreation center	2,710,360	1,714,263	-	-
Public utilities	3,008,438	1,569,092	-	835,020
Beverage corporation	77,767	97,378	-	-
Total Business-Type Activities	8,307,434	4,743,492	-	835,020
Total Primary Government	\$ 20,950,019	\$ 5,901,455	\$ 336,832	\$ 2,130,917

General Revenues:

- Taxes
 - Ad valorem taxes
 - Sales taxes
 - Franchise and local taxes
 - Other taxes
- Investment income
- Other revenues
- Gain 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
\$ (4,275,864)	\$ -	\$ (4,275,864)
(2,781,653)	-	(2,781,653)
(720,312)	-	(720,312)
(973,509)	-	(973,509)
(1,100,555)	-	(1,100,555)
<u>(9,851,893)</u>	<u>-</u>	<u>(9,851,893)</u>
-	(1,148,110)	(1,148,110)
-	(996,097)	(996,097)
-	(604,326)	(604,326)
-	19,611	19,611
-	<u>(2,728,922)</u>	<u>(2,728,922)</u>
<u>(9,851,893)</u>	<u>(2,728,922)</u>	<u>(12,580,815)</u>
10,894,092	-	10,894,092
7,628,658	-	7,628,658
2,948,397	-	2,948,397
195,249	-	195,249
200,374	7,215	207,589
1,939,013	-	1,939,013
2,081	3,500	5,581
<u>(2,274,577)</u>	<u>2,274,577</u>	<u>-</u>
<u>21,533,287</u>	<u>2,285,292</u>	<u>23,818,579</u>
11,681,394	(443,630)	11,237,764
44,110,736	40,296,014	84,406,750
<u>\$ 55,792,130</u>	<u>\$ 39,852,384</u>	<u>\$ 95,644,514</u>

CITY OF MONT BELVIEU, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects - CIP</u>	<u>2010 GO Projects</u>
<u>Assets</u>				
Cash and equity in pooled cash	\$ 774	\$ 1,710,973	\$ 1,344,183	\$ 301,342
Investments	13,563,118	-	1,521,376	5,791
Receivables, net	3,557,153	78,885	18,517	-
Due from other funds	1,487	88,315	1,663,599	-
Inventory	1,266	-	-	-
Prepaid items	41,462	-	-	-
Total Assets	\$ 17,165,260	\$ 1,878,173	\$ 4,547,675	\$ 307,133
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 455,287	\$ 5,486	\$ 126,743	\$ 371,095
Due to other funds	261,690	-	-	-
Unearned revenue	71,321	-	-	-
Total Liabilities	788,298	5,486	126,743	371,095
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	68,342	78,886	-	-
Unavailable revenue - EMS services	2,278,700	-	-	-
Total Deferred Inflows of Resources	2,347,042	78,886	-	-
<u>Fund Balances</u>				
Nonspendable:				
Inventory	1,266	-	-	-
Prepaid items	41,462	-	-	-
Restricted for:				
Debt service	-	1,793,801	-	-
Special projects	-	-	-	-
Capital projects	-	-	-	-
Assigned:				
Capital projects	-	-	4,420,932	-
Unassigned	13,987,192	-	-	(63,962)
Total Fund Balances	14,029,920	1,793,801	4,420,932	(63,962)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 17,165,260	\$ 1,878,173	\$ 4,547,675	\$ 307,133

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.

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

<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ 3,778,802	\$ 7,136,074
14,399,757	29,490,042
386,679	4,041,234
768,806	2,522,207
-	1,266
2,381	43,843
<u>\$ 19,336,425</u>	<u>\$ 43,234,666</u>

\$ 488,289	\$ 1,446,900
2,259,030	2,520,720
22,700	94,021
<u>2,770,019</u>	<u>4,061,641</u>

-	147,228
-	2,278,700
<u>-</u>	<u>2,425,928</u>

-	1,266
2,381	43,843

-	1,793,801
746,627	746,627
11,319,767	11,319,767

4,497,631	8,918,563
-	13,923,230
<u>16,566,406</u>	<u>36,747,097</u>

\$ 19,336,425

19,958,527
41,261,952

61,220,479

2,425,928

117,521

(81,275)

8,904

(7,266,938)

(37,379,586)

(44,718,895)

\$ 55,792,130

CITY OF MONT BELVIEU, TEXAS

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

For the Year Ended September 30, 2014

	General	Debt Service	Capital Projects-CIP	2010 GO Projects
Revenues				
Ad valorem taxes	\$ 5,176,090	\$ 5,817,526	\$ -	\$ -
Sales tax	7,403,947	-	-	-
Franchise and local taxes	2,948,397	-	-	-
Other taxes	6,553	-	-	-
Licenses and permits	268,398	-	-	-
Fines and forfeitures	126,631	-	-	-
Charges for services	331,725	-	-	-
Intergovernmental	260,893	-	-	-
Investment income	104,102	20,678	30,315	9,014
Contribution revenue	-	-	1,295,897	-
Other revenue	1,770,658	-	-	-
Total Revenues	18,397,394	5,838,204	1,326,212	9,014
Expenditures				
Current:				
General government	4,775,025	-	-	-
Public safety	2,794,990	-	-	-
Community development	141,495	-	11,137,413	-
Community services	1,075,460	-	-	-
Capital outlay	-	-	1,302,830	1,264,996
Debt service:				
Principal	-	4,615,000	750,000	-
Interest and fiscal charges	-	854,734	265,500	-
Total Expenditures	8,786,970	5,469,734	13,455,743	1,264,996
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,610,424	368,470	(12,129,531)	(1,255,982)
Other Financing Sources (Uses)				
Bonds issued	-	-	-	-
Bond premium	-	1,636	-	-
Proceeds from notes payable	-	-	9,000,000	-
Transfers in	-	114,660	4,715,200	5,546,000
Transfers (out)	(10,360,270)	-	(5,699,170)	-
Sale of capital assets	135,000	-	-	-
Total Other Financing Sources (Uses)	(10,225,270)	116,296	8,016,030	5,546,000
Net Change in Fund Balances	(614,846)	484,766	(4,113,501)	4,290,018
Beginning fund balances	14,644,766	1,309,035	8,534,433	(4,353,980)
Ending Fund Balances	\$ 14,029,920	\$ 1,793,801	\$ 4,420,932	\$ (63,962)

See Notes to Financial Statements.

<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 10,993,616
-	7,403,947
-	2,948,397
188,696	195,249
-	268,398
7,484	134,115
-	331,725
75,939	336,832
35,979	200,088
-	1,295,897
168,355	1,939,013
<u>476,453</u>	<u>26,047,277</u>
109,434	4,884,459
63,517	2,858,507
-	11,278,908
78,199	1,153,659
4,350,545	6,918,371
-	5,365,000
-	1,120,234
<u>4,601,695</u>	<u>33,579,138</u>
<u>(4,125,242)</u>	<u>(7,531,861)</u>
13,000,000	13,000,000
91,964	93,600
-	9,000,000
5,461,278	15,837,138
(114,660)	(16,174,100)
2,081	137,081
<u>18,440,663</u>	<u>21,893,719</u>
14,315,421	14,361,858
2,250,985	22,385,239
<u>\$ 16,566,406</u>	<u>\$ 36,747,097</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, 2014

Net changes in fund balances - total governmental funds \$ 14,361,858

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	15,971,886
Depreciation expense	(2,328,234)
Disposal of capital asset	(135,000)

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	(99,524)
Deferred emergency services revenue	423,725

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	(13,000,000)
Bond premium	(93,600)
Proceeds from notes payable	(9,000,000)
Principal expenditures	5,365,000
Amortization of deferred charges	(4,452)
Accrued interest payable	24,131
Sales tax refund agreement	224,711
Compensated absences	(32,261)
Net pension obligation	(632)

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.

3,786

Change in Net Position of Governmental Activities \$ 11,681,394

See Notes to Financial Statements.

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2014

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	Nonmajor Fund Bev Co
Assets				
Current assets:				
Cash and equity in pooled cash	\$ 521,094	\$ 1,297,723	\$ 1,557,444	\$ 202,618
Receivables, net	16,223	458,077	263,884	-
Due from other funds	111,116	744	-	-
Inventory	122,712	20,246	1,616	3,633
Prepaid items	10,383	11,834	4,484	-
Total Current Assets	781,528	1,788,624	1,827,428	206,251
Noncurrent assets:				
Capital assets:				
Non-depreciable	3,064,512	45,629	652,583	-
Net depreciable	2,362,056	6,271,010	23,979,649	-
Total Noncurrent Assets	5,426,568	6,316,639	24,632,232	-
Total Assets	6,208,096	8,105,263	26,459,660	206,251
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	85,408	203,930	98,958	-
Compensated absences	-	-	22,261	-
Due to other funds	1,744	-	487	111,116
Unearned revenue	27,255	513,461	-	-
Customer deposits	-	-	43,659	-
Total Current Liabilities	114,407	717,391	165,365	111,116
Noncurrent liabilities:				
Compensated absences	-	-	2,473	-
Net pension obligation	-	-	16,134	-
Total Liabilities	114,407	717,391	183,972	111,116
Net Position				
Net investment in capital assets	5,426,568	6,316,639	24,632,232	-
Unrestricted	667,121	1,071,233	1,643,456	95,135
Total Net Position	\$ 6,093,689	\$ 7,387,872	\$ 26,275,688	\$ 95,135

See Notes to Financial Statements.

<u>Total Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 3,578,879	\$ 117,521
738,184	-
111,860	-
148,207	-
26,701	-
<u>4,603,831</u>	<u>117,521</u>
3,762,724	-
<u>32,612,715</u>	<u>-</u>
<u>36,375,439</u>	<u>-</u>
<u>40,979,270</u>	<u>117,521</u>
388,296	-
22,261	-
113,347	-
540,716	-
43,659	-
<u>1,108,279</u>	<u>-</u>
2,473	-
16,134	-
<u>1,126,886</u>	<u>-</u>
36,375,439	-
<u>3,476,945</u>	<u>117,521</u>
<u>\$ 39,852,384</u>	<u>\$ 117,521</u>

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended September 30, 2014

	<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>Operating Revenues</u>				
Water charges	\$ -	\$ -	\$ 704,849	\$ -
Sewer charges	-	-	411,409	-
Sanitation	-	-	347,229	-
Other services	1,362,759	1,714,263	105,605	97,378
Total Operating Revenues	1,362,759	1,714,263	1,569,092	97,378
<u>Operating Expenses</u>				
Costs of sales and services	2,020,246	2,057,950	1,787,011	77,667
Depreciation	490,623	652,410	1,221,427	-
Total Operating Expenses	2,510,869	2,710,360	3,008,438	77,667
Operating Income (Loss)	(1,148,110)	(996,097)	(1,439,346)	19,711
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	1,537	2,617	3,061	-
Interest expense	-	-	-	(100)
Gain (loss) on sale of capital assets	-	3,500	-	-
Total Nonoperating Revenues (Expenses)	1,537	6,117	3,061	(100)
Income (Loss) Before Contributions and Transfers	(1,146,573)	(989,980)	(1,436,285)	19,611
Capital contributions	962,583	21,230	1,843,822	-
Transfers in	643,069	653,386	294,673	-
Transfers (out)	(935,909)	-	(373,257)	-
Change in Net Position	(476,830)	(315,364)	328,953	19,611
Beginning net position	6,570,519	7,703,236	25,946,735	75,524
Ending Net Position	\$ 6,093,689	\$ 7,387,872	\$ 26,275,688	\$ 95,135

See Notes to Financial Statements.

Total Funds	Governmental Activities - Internal Service Funds
\$ 704,849	\$ -
411,409	-
347,229	-
3,280,005	-
<u>4,743,492</u>	<u>-</u>
5,942,874	51,500
2,364,460	-
<u>8,307,334</u>	<u>51,500</u>
<u>(3,563,842)</u>	<u>(51,500)</u>
7,215	286
(100)	-
3,500	-
<u>10,615</u>	<u>286</u>
(3,553,227)	(51,214)
2,827,635	-
1,591,128	55,000
<u>(1,309,166)</u>	<u>-</u>
(443,630)	3,786
<u>40,296,014</u>	<u>113,735</u>
<u>\$ 39,852,384</u>	<u>\$ 117,521</u>

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2014

	Business-Type Activities - Enterprise Funds			
	Golf Course	Recreation Center	Public Utility	Nonmajor Fund Bev Co
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 2,158,547	\$ 1,705,241	\$ 1,509,689	\$ 97,378
Payments to employees	-	-	(787,523)	-
Payments to suppliers	(2,246,202)	(1,914,960)	(989,598)	(60,572)
Net Cash Provided (Used) by Operating Activities	(87,655)	(209,719)	(267,432)	36,806
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers from other funds	643,069	653,386	294,673	-
Transfer to other funds	(935,909)	-	(373,257)	-
Net Cash Provided by Noncapital Financing Activities	(292,840)	653,386	(78,584)	-
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(260,456)	(400,322)	-	-
Interest paid on capital debt	-	-	-	(100)
Sale of capital asset	-	3,500	-	-
Net Cash (Used) by Capital and Related Financing Activities	(260,456)	(396,822)	-	(100)
<u>Cash Flows from Investing Activities</u>				
Interest on investments	1,537	2,617	3,061	-
Net Cash Provided by Investing Activities	1,537	2,617	3,061	-
Net Increase (Decrease) in Cash and Equity in Pooled Cash	(639,414)	49,462	(342,955)	36,706
Beginning cash and equity in pooled cash	1,160,508	1,248,261	1,900,399	165,912
Ending Cash and Equity in Pooled Cash	\$ 521,094	\$ 1,297,723	\$ 1,557,444	\$ 202,618

Total Funds	Governmental Activities - Internal Service Funds
\$ 5,470,855	\$ -
(787,523)	-
<u>(5,211,332)</u>	<u>(51,500)</u>
(528,000)	(51,500)
1,591,128	55,000
<u>(1,309,166)</u>	<u>-</u>
281,962	55,000
(660,778)	-
(100)	-
<u>3,500</u>	<u>-</u>
<u>(657,378)</u>	<u>-</u>
7,215	286
<u>7,215</u>	<u>286</u>
(896,201)	3,786
<u>4,475,080</u>	<u>113,735</u>
<u>\$ 3,578,879</u>	<u>\$ 117,521</u>

CITY OF MONT BELVIEU, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2014

	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)	\$ (1,148,110)	\$ (996,097)	\$ (1,439,346)	\$ 19,711
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	490,623	652,410	1,221,427	-
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(8,619)	(29,735)	(61,178)	-
Due from other funds	803,670	-	-	-
Inventory	(12,230)	(5,040)	1,570	(1,413)
Prepaid items	3	127	(3,858)	-
Increase (Decrease) in:				
Accounts payable and accrued liabilities	36,271	147,903	8,692	(1,196)
Compensated absences	-	-	3,312	-
Net pension obligation	-	-	102	-
Due to other funds	(250,000)	-	72	19,704
Deferred revenue	737	20,713	-	-
Customer deposits	-	-	1,775	-
	Net Cash Provided (Used) by Operating Activities	\$ (209,719)	\$ (267,432)	\$ 36,806
	\$ (87,655)	\$ (209,719)	\$ (267,432)	\$ 36,806
Noncash Investing, Capital, and Financing Activities:				
Contributions of capital assets from governmental funds	<u>\$ 962,583</u>	<u>\$ 21,230</u>	<u>\$ 1,843,822</u>	<u>\$ -</u>

See Notes to Financial Statements.

<u>Total Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ (3,563,842)	\$ (51,500)
2,364,460	-
(99,532)	-
803,670	-
(17,113)	-
(3,728)	-
191,670	-
3,312	-
102	-
(230,224)	-
21,450	-
1,775	-
<u>\$ (528,000)</u>	<u>\$ (51,500)</u>
<u>\$ 2,827,635</u>	<u>\$ -</u>

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CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Mont Belvieu, Texas (the “City”) was incorporated as a “Home Rule Charter” on November 11, 2013. The City has a “Council-Manager” form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, 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, 2014

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:

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.

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.

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.

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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

The City reports the following 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 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.

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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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 five 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."

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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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.

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*

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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 and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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).

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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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 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. Budgetary Information

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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

B. Deficit Fund Balance

At September 30, 2014, the 2010 GO Projects fund, a major reporting fund, had a deficit fund balance of \$63,962. The reason for the deficit was the City had more expenditures related to capital outlay than revenue earned. The City plans to transfer in money to offset the deficit once the projects are completed.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2014, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 1,006	0.00
Prosperity Bank-Money Market	26,310,587	0.00
Bank of America-Agencies	4,741,760	2.44
Bank of America-Certificates of Deposit	3,331,062	1.69
Bank of America-Municipal Bonds	377,396	0.94
Total Fair Value	\$ 34,761,811	
Portfolio weighted average maturity		0.50

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, 2014, 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, 2014, 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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

TexPool

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

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

B. Receivables

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

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects - CIP</u>	<u>Nonmajor Governmental</u>	<u>Total Funds</u>
Ad valorem taxes	\$ 79,573	\$ 78,885	\$ -	\$ -	\$ 158,458
Other taxes	1,158,727	-	-	50,627	1,209,354
Accounts	2,278,700	-	-	320,450	2,599,150
Other	40,153	-	18,517	15,602	74,272
	<u>\$ 3,557,153</u>	<u>\$ 78,885</u>	<u>\$ 18,517</u>	<u>\$ 386,679</u>	<u>\$ 4,041,234</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	\$ 16,134	\$ 458,505	\$ 270,082	\$ 744,721
Other	89	-	-	89
Less allowance	-	(428)	(6,198)	(6,626)
	<u>\$ 16,223</u>	<u>\$ 458,077</u>	<u>\$ 263,884</u>	<u>\$ 738,184</u>

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

C. Capital Assets

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

	<u>Beginning Balance*</u>	<u>Increases</u>	<u>Decreases</u>	<u>Tranfers/ Reclassifications</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 5,199,053	\$ 10,422,475	\$ (135,000)	\$ -	\$ 15,486,528
Construction in progress	1,719,458	2,752,541	-	-	4,471,999
Total capital assets, not being depreciated	<u>6,918,511</u>	<u>13,175,016</u>	<u>(135,000)</u>	<u>-</u>	<u>19,958,527</u>
Capital assets, being depreciated:					
Buildings	6,288,658	144,820	-	-	6,433,478
Improvements other than buildings	42,132,481	2,443,872	-	-	44,576,353
Machinery and equipment	3,883,975	208,178	(14,025)	-	4,078,128
Total capital assets being depreciated	<u>52,305,114</u>	<u>2,796,870</u>	<u>(14,025)</u>	<u>-</u>	<u>55,087,959</u>
Less accumulated depreciation for:					
Buildings	(3,991,753)	(365,294)	-	-	(4,357,047)
Improvements other than buildings	(5,372,431)	(1,575,747)	-	-	(6,948,178)
Machinery and equipment	(2,147,614)	(387,193)	14,025	-	(2,520,782)
Total accumulated depreciation	<u>(11,511,798)</u>	<u>(2,328,234)</u>	<u>14,025</u>	<u>-</u>	<u>(13,826,007)</u>
Total capital assets, being depreciated, net	40,793,316	468,636	-	-	41,261,952
Governmental Activities Capital Assets, Net	<u>\$ 47,711,827</u>	<u>\$ 13,643,652</u>	<u>\$ (135,000)</u>	<u>\$ -</u>	<u>61,220,479</u>
				Less associated debt	(39,132,614)
				Plus unspent proceeds	11,319,767
				Net Investment in Capital Assets	<u>\$ 33,407,632</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 535,696
Public safety	799,052
Community development	837,122
Community services	156,364
Total Governmental Activities Depreciation Expense	<u>\$ 2,328,234</u>

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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

	Beginning Balance*	Increases	Decreases	Transfers/ Reclassifications	Ending Balance
Business-Type Activities:					
Capital assets, not being depreciated					
Land	\$ 514,515	\$ -	\$ -	\$ -	\$ 514,515
Golf course	2,018,248	-	-	-	2,018,248
Construction in progress	175,866	1,125,084	-	(70,989)	1,229,961
Total capital assets, not being depreciated	2,708,629	1,125,084	-	(70,989)	3,762,724
Capital assets, being depreciated:					
Buildings	15,016,984	255,916	-	-	15,272,900
Improvements other than buildings	40,655,442	1,376,926	-	(488,844)	41,543,524
Machinery and equipment	4,319,779	730,485	(114,103)	559,833	5,495,994
Total capital assets being depreciated	59,992,205	2,363,327	(114,103)	70,989	62,312,418
Less accumulated depreciation for:					
Buildings	(8,434,261)	(659,302)	-	-	(9,093,563)
Improvements other than buildings	(15,845,896)	(1,320,568)	-	-	(17,166,464)
Machinery and equipment	(3,169,189)	(384,590)	114,103	-	(3,439,676)
Total accumulated depreciation	(27,449,346)	(2,364,460)	114,103	-	(29,699,703)
Total capital assets, being depreciated, net	32,542,859	(1,133)	-	70,989	32,612,715
Business-Type Activities Capital Assets, Net	\$ 35,251,488	\$ 1,123,951	\$ -	\$ -	\$ 36,375,439

Depreciation was charged to business-type functions as follows:

Golf course	\$ 490,623
Recreation center	652,410
Public utilities	1,221,427
Total Business-Type Activities Depreciation Expense	\$ 2,364,460

Construction Commitments

As of September 30, 2014, the City had signed a contractual agreement to reimburse a developer for the expenses to upsize the waterline in the City's right-of-way leading to the developer's project site. According to the contractual agreement, the City will pay the developer for the expenses when the project has been finished, successfully tested, and accepted by the City. The City has agreed to pay the developer \$74,874 for the cost of upsizing.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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

Description	Interest Rates	Balance
General Obligation Bonds		
Series 2006	4.05%	\$ 2,290,000
Series 2010	2.00-3.00%	7,805,000
Refunding, Series 2012	1.05%	1,900,000
Total General Obligation Debt		11,995,000
 Certificates of Obligation		
Series 2007	4.00%	3,465,000
Series 2009	3.99%	6,970,000
Series 2014	1.50-3.00%	13,000,000
Total Certificates of Obligation		23,435,000
 Promissory Note	 4.00%	 8,250,000
Total Governmental Activities Debt		\$ 43,680,000

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

Year Ending Sept. 30	Governmental Activities						
	General Obligation Bonds		Certificates of Obligation		Note Payable		Tax Refund Agreements
	Principal	Interest	Principal	Interest	Principal	Interest	
2015	\$ 3,235,000	\$ 301,751	\$ 2,675,000	\$ 722,366	\$ 1,000,000	\$ 315,000	\$ 224,711
2016	3,330,000	223,014	3,220,000	619,774	1,000,000	275,000	42,313
2017	1,270,000	141,556	4,190,000	514,364	1,000,000	235,000	42,313
2018	1,325,000	112,981	3,095,000	370,743	1,000,000	195,000	42,313
2019	1,385,000	79,856	3,215,000	271,630	1,000,000	155,000	42,313
2020-2024	1,450,000	43,500	7,040,000	552,713	3,250,000	227,500	211,563
2025	-	-	-	-	-	-	42,312
Total	\$ 11,995,000	\$ 902,658	\$ 23,435,000	\$ 3,051,590	\$ 8,250,000	\$ 1,402,500	\$ 647,838

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

Obligations to State – Tax Refund Agreement

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, 2014

Obligations to Gulf Coast Fractionators – Tax Refund Agreement

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 \$647,838.

Federal Arbitrage

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 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 are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

E. Interfund Transactions

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

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General Fund	Golf Course	\$ 643,069
	Capital Projects-CIP	4,715,200
	Recreation Center	653,386
	Public Utility	347,796
	Internal Service Fund	55,000
	Nonmajor Funds	3,945,819
Golf Course	Nonmajor Funds	935,909
Capital Projects-CIP	2010 GO Projects	5,546,000
	Nonmajor Funds	153,170
Public Utility	Nonmajor Funds	373,257
Nonmajor Funds	Debt Service Fund	114,660
	Total Transfers	\$ 17,483,266

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

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General Fund	Golf Course	\$ 1,000
General Fund	Public Utilities	487
General Fund	Capital Projects - CIP	173,558
Debt Service	General Fund	88,132
Debt Service	Nonmajor Funds	183
Capital Projects - CIP	Nonmajor Funds	1,490,042
Golf Course	Bev Co Fund	111,116
Rec Center	Golf Course	744
Nonmajor Funds	Capital Projects - Infrastructure	698,405
Nonmajor Funds	General Fund	70,400
	Total Interfund Balances	\$ 2,634,067

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

F. Restatement of Net Position

The capital projects infrastructure fund balance and governmental net position have been restated to record liabilities for expenses that were incurred in the prior year. The grant fund balance and governmental net position have been restated to decrease receivables for grant revenue. The governmental net position has been restated to record assets that should have been capitalized in the prior year.

	<u>Governmental Activities Net Position</u>	<u>Capital Project Infrastructure</u>	<u>Grant Fund</u>
Beginning net position-as reported	\$ 43,907,983	\$ (61,250)	-
Decrease receivables	(55,997)	-	(55,997)
Recognize accounts payable	(1,430,153)	(1,430,153)	-
Increase construction in progress	1,430,153	-	-
Increase in land	258,750	-	-
Beginning net position-restated	<u>\$ 44,110,736</u>	<u>\$ (1,491,403)</u>	<u>\$ (55,997)</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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

B. Contingent Liabilities

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

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

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 October 2012, the City approved Chapter 380 Economic Development Agreements with a local industrial company. The 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 project will have on the community and, therefore, has entered into an agreement with the company to offer tax abatements of ad valorem property taxes on eligible property.

An initial payment of \$571,428 was received by the City on January 1, 2014. There is a scheduled final payment of \$571,428 due on January 1, 2015.

In January 2015, the City approved multiple Chapter 380 agreements with the following companies:

- Exxon Mobil
- Cedar Bayou Fractioners, LP
- Lone Star NGL Asset Holdings II, LLC

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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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>2014</u>	<u>2013</u>
Employee deposit rate	6.00%	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

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 TMRS 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.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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

Annual Required Contribution (ARC)	\$ 417,624
Interest on Net Pension Obligation (NPO)	7,278
Adjustment to the ARC	<u>(6,544)</u>
Annual Pension Cost (APC)	418,358
Contributions made	<u>(417,624)</u>
Increase in NPO	734
NPO-beginning of year	<u>103,967</u>
NPO-end of year	<u><u>\$ 104,701</u></u>

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 321,171	\$ 315,164	98.13%	\$ 102,884
2013	\$ 313,931	\$ 312,848	99.66%	\$ 103,967
2014	\$ 418,358	\$ 417,624	99.82%	\$ 104,701

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	29.0 Years - Closed period	28.4 Years - Closed period	27.0 Years - Closed period
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year smoothed market	10-year smoothed market	10-year smoothed market
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	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.10%	2.10%	2.10%

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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

Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 11,439,364
Actuarial Accrued Liability	\$ 14,160,942
Percentage Funded	80.8%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,721,578
Annual Covered Payroll	\$ 3,673,268
UAAL as a Percentage of Covered Payroll	74.1%

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.

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 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, 2014, the City offered the supplemental death benefit to both active and retired employees.

CITY OF MONT BELVIEU, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

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 2014, 2013 and 2012 were \$389, \$366, and \$362, respectively. The City's contribution rates for the past three years are shown below.

	<u>2014</u>	<u>2013</u>	<u>2012</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%

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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, 2014

	Original Budgeted Amounts	Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Ad valorem taxes	\$ 4,772,455	\$ 4,772,455	\$ 5,176,090	\$ 403,635
Sales tax	4,500,000	4,500,000	7,403,947	2,903,947
Franchise and local taxes	2,603,820	2,603,820	2,948,397	344,577
Other taxes	6,700	6,700	6,553	(147)
Licenses and permits	150,000	150,000	268,398	118,398
Fines and forfeitures	80,000	80,000	126,631	46,631
Charges for services	250,000	250,000	331,725	81,725
Intergovernmental	280,000	280,000	260,893	(19,107)
Investment income	90,000	90,000	104,102	14,102
Other revenue	7,000	7,000	1,770,658	1,763,658
Total Revenues	12,739,975	12,739,975	18,397,394	5,657,419
<u>Expenditures</u>				
Current:				
General Government				
Administrative	2,264,635	3,788,236	3,775,826	12,410
Municipal court	94,362	94,362	92,254	2,108
Combined services	942,836	942,836	906,945	35,891
Total General Government	3,301,833	4,825,434	4,775,025	50,409
Public Safety				
Police	1,560,491	1,560,491	1,467,237	93,254
Emergency medical service	1,178,362	1,178,362	1,137,281	41,081
Fire	284,562	284,562	190,472	94,090
Total Public Safety	3,023,415	3,023,415	2,794,990	228,425

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, 2014

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Community Development				
Building	\$ 111,556	\$ 151,556	\$ 141,495	\$ 10,061
Total Community Development	<u>111,556</u>	<u>151,556</u>	<u>141,495</u>	<u>10,061</u>
Community Services				
Parks	1,283,626	1,283,626	1,075,460	208,166
Total Community Services	<u>1,283,626</u>	<u>1,283,626</u>	<u>1,075,460</u>	<u>208,166</u>
Total Expenditures	<u>7,720,430</u>	<u>9,284,031</u>	<u>8,786,970</u>	<u>497,061</u>
Excess of Revenues Over Expenditures	<u>5,019,545</u>	<u>3,455,944</u>	<u>9,610,424</u>	<u>6,154,480</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	-
Transfers (out)	(2,317,822)	(10,057,822)	(10,360,270)	(302,448)
Sale of capital asset	-	-	135,000	135,000
Total Other Financing (Uses)	<u>(2,317,822)</u>	<u>(10,057,822)</u>	<u>(10,225,270)</u>	<u>(167,448)</u>
Net Change in Fund Balance	<u>\$ 2,701,723</u>	<u>\$ (6,601,878)</u>	<u>(614,846)</u>	<u>\$ 5,987,032</u>
Beginning fund balance			<u>14,644,766</u>	
Ending Fund Balance			<u>\$ 14,029,920</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, 2014

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	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Value of Assets	\$ 11,439,364	\$ 10,627,855	\$ 9,685,502
Actuarial Accrued Liability	\$ 14,160,942	\$ 11,330,719	\$ 10,519,154
Percentage Funded	80.8%	93.8%	92.1%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 2,721,578	\$ 702,864	\$ 833,652
Annual Covered Payroll	\$ 3,673,268	\$ 3,640,455	\$ 3,416,603
(UAAL) % of Covered Payroll	74.1%	19.3%	24.4%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 103,967	\$ 102,884	\$ 96,877
Annual Pension Cost (APC)	418,358	313,931	321,171
Contributions Made	417,624	312,848	315,164
NPO at the End of Period	\$ 104,701	\$ 103,967	\$ 102,884

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***COMBINING STATEMENTS
AND SCHEDULES***

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

Veterans' Memorial Fund

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

Library Fund

This fund is used to account for monies related to library purchases.

CITY OF MONT BELVIEU, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2)

September 30, 2014

	Capital Projects			
	Capital Projects	Fixed Asset Replacement	Park Development	2009 Capital Projects - CIP
Assets				
Cash and equity in pooled cash	\$ 181,315	\$ 95,390	\$ 1,215,568	\$ 259,288
Investments	12,999,405	1,400,352	-	-
Accounts receivable	-	15,602	-	-
Due from other funds	-	698,405	70,401	-
Prepaid items	-	-	-	-
Total Assets	\$ 13,180,720	\$ 2,209,749	\$ 1,285,969	\$ 259,288
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 55,809	\$ 71,925	\$ 327,567	\$ -
Due to other funds	1,805,144	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	1,860,953	71,925	327,567	-
Fund Balances:				
Nonspendable:				
Prepaid items	-	-	-	-
Restricted for:				
Park development	-	-	-	-
Tourism promotion	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	-	-
Veterans' memorial	-	-	-	-
Capital projects	11,319,767	-	-	-
Assigned:				
Capital projects	-	2,137,824	958,402	259,288
Total Fund Balances	11,319,767	2,137,824	958,402	259,288
Total Liabilities and Fund Balances	\$ 13,180,720	\$ 2,209,749	\$ 1,285,969	\$ 259,288

Special Revenue

Hotel and Motel Tax	Court Security	Court Technology	Dedicated Parks	Grant	Seizures
\$ 318,858	\$ 34,178	\$ 26,355	\$ 196,818	\$ 75,370	\$ -
-	-	-	-	-	-
50,627	-	-	-	320,450	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 369,485</u>	<u>\$ 34,178</u>	<u>\$ 26,355</u>	<u>\$ 196,818</u>	<u>\$ 395,820</u>	<u>\$ -</u>
\$ 1,240	\$ -	\$ -	\$ 5,433	\$ -	\$ -
183	-	-	-	395,820	-
-	-	-	-	-	-
<u>1,423</u>	<u>-</u>	<u>-</u>	<u>5,433</u>	<u>395,820</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	191,385	-	-
368,062	-	-	-	-	-
-	34,178	26,355	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>368,062</u>	<u>34,178</u>	<u>26,355</u>	<u>191,385</u>	<u>-</u>	<u>-</u>
<u>\$ 369,485</u>	<u>\$ 34,178</u>	<u>\$ 26,355</u>	<u>\$ 196,818</u>	<u>\$ 395,820</u>	<u>\$ -</u>

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CITY OF MONT BELVIEU, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2)

September 30, 2014

	Special Revenue			Total Funds
	Public Safety	Veterans' Memorial	Library	
<u>Assets</u>				
Cash and equity in pooled cash	\$ 172,766	\$ 2,896	\$ 1,200,000	\$ 3,778,802
Investments	-	-	-	14,399,757
Accounts receivable	-	-	-	386,679
Due from other funds	-	-	-	768,806
Prepaid items	2,381	-	-	2,381
Total Assets	\$ 175,147	\$ 2,896	\$ 1,200,000	\$ 19,336,425
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 26,315	\$ -	\$ -	\$ 488,289
Due to other funds	-	-	57,883	2,259,030
Unearned revenue	22,700	-	-	22,700
Total Liabilities	49,015	-	57,883	2,770,019
Fund Balances				
Nonspendable:				
Prepaid items	2,381	-	-	2,381
Restricted for:				
Park development	-	-	-	191,385
Tourism promotion	-	-	-	368,062
Municipal court	-	-	-	60,533
Public safety	123,751	-	-	123,751
Veterans' memorial	-	2,896	-	2,896
Capital projects	-	-	-	11,319,767
Assigned:				
Capital projects	-	-	1,142,117	4,497,631
Total Fund Balances	126,132	2,896	1,142,117	16,566,406
Total Liabilities and Fund Balances	\$ 175,147	\$ 2,896	\$ 1,200,000	\$ 19,336,425

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, 2014

	Capital Projects			
	Capital Projects	Fixed Asset Replacement	Park Development	2009 Capital Projects - CIP
Revenues				
Occupancy tax	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	-
Intergovernmental	-	-	-	-
Investment income	-	26,493	6,893	1,149
Other income	-	-	162,530	-
Total Revenues	-	26,493	169,423	1,149
Expenditures				
General government	91,965	17,469	-	-
Community services	-	-	-	-
Public safety	-	-	-	-
Capital outlay	2,256,955	996,793	964,555	-
Total Expenditures	2,348,920	1,014,262	964,555	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,348,920)	(987,769)	(795,132)	1,149
Other Financing Sources (Uses)				
Bond proceeds	13,000,000	-	-	-
Bond premium	91,964	-	-	-
Transfers in	2,068,126	843,343	823,374	373,257
Transfers (out)	-	-	-	-
Sale of capital assets	-	2,081	-	-
Total Other Financing Sources (Uses)	15,160,090	845,424	823,374	373,257
Net Change in Fund Balances	12,811,170	(142,345)	28,242	374,406
Beginning fund balances	(1,491,403)	2,280,169	930,160	(115,118)
Ending Fund Balances	\$ 11,319,767	\$ 2,137,824	\$ 958,402	\$ 259,288

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>
\$ 188,696	\$ -	\$ -	\$ -	\$ -	\$ -
-	1,965	5,519	-	-	-
-	-	-	-	-	-
592	58	33	348	-	-
-	-	-	-	-	-
<u>189,288</u>	<u>2,023</u>	<u>5,552</u>	<u>348</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
77,899	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	74,143	-
<u>77,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,143</u>	<u>-</u>
111,389	2,023	5,552	348	(74,143)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	130,140	8
(114,660)	-	-	-	-	-
-	-	-	-	-	-
<u>(114,660)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,140</u>	<u>8</u>
(3,271)	2,023	5,552	348	55,997	8
371,333	32,155	20,803	191,037	(55,997)	(8)
<u>\$ 368,062</u>	<u>\$ 34,178</u>	<u>\$ 26,355</u>	<u>\$ 191,385</u>	<u>\$ -</u>	<u>\$ -</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, 2014

	Special Revenue			Total Funds
	Public Safety	Veterans' Memorial	Library	
Revenues				
Occupancy tax	\$ -	\$ -	\$ -	\$ 188,696
Fines and forfeitures	-	-	-	7,484
Intergovernmental	75,939	-	-	75,939
Investment income	407	6	-	35,979
Other income	5,825	-	-	168,355
Total Revenues	82,171	6	-	476,453
Expenditures				
General government	-	-	-	109,434
Community services	-	300	-	78,199
Public safety	63,517	-	-	63,517
Capital outlay	216	-	57,883	4,350,545
Total Expenditures	63,733	300	57,883	4,601,695
Excess (Deficiency) of Revenues Over (Under) Expenditures	18,438	(294)	(57,883)	(4,125,242)
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	13,000,000
Bond premium	-	-	-	91,964
Transfers in	23,030	-	1,200,000	5,461,278
Transfers (out)	-	-	-	(114,660)
Sale of capital assets	-	-	-	2,081
Total Other Financing Sources (Uses)	23,030	-	1,200,000	18,440,663
Net Change in Fund Balances	41,468	(294)	1,142,117	14,315,421
Beginning fund balances	84,664	3,190	-	2,250,985
Ending Fund Balances	\$ 126,132	\$ 2,896	\$ 1,142,117	\$ 16,566,406

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, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Ad valorem taxes	\$ 5,378,358	\$ 5,378,358	\$ 5,817,526	\$ 439,168
Investment income	5,000	5,000	20,678	15,678
Total Revenues	5,383,358	5,383,358	5,838,204	454,846
Expenditures				
Principal	4,615,001	4,615,001	4,615,000	1
Interest and fiscal charges	858,017	858,017	854,734	3,283
Total Expenditures	5,473,018	5,473,018	5,469,734	3,284
Excess (Deficiency) of Revenues Over (Under) Expenditures	(89,660)	(89,660)	368,470	458,130
Other Financing Sources (Uses)				
Premium on bonds issued	-	-	1,636	1,636
Transfers in	114,660	114,660	114,660	-
Total Other Financing Sources	114,660	114,660	116,296	1,636
Net Change in Fund Balance	\$ 25,000	\$ 25,000	484,766	\$ 459,766
Beginning fund balance			1,309,035	
Ending Fund Balance			\$ 1,793,801	

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, 2014

	<u>Original and Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Occupancy tax	\$ 170,000	\$ 188,696	\$ 18,696
Investment income	300	592	292
Total Revenues	<u>170,300</u>	<u>189,288</u>	<u>18,988</u>
<u>Expenditures</u>			
Community services	82,530	77,899	4,631
Total Expenditures	<u>82,530</u>	<u>77,899</u>	<u>4,631</u>
Excess of Revenues Over Expenditures	<u>87,770</u>	<u>111,389</u>	<u>23,619</u>
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(114,660)	(114,660)	-
Total Other Financing (Uses)	<u>(114,660)</u>	<u>(114,660)</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (26,890)</u>	<u>(3,271)</u>	<u>\$ 23,619</u>
Beginning fund balance		<u>371,333</u>	
Ending Fund Balance		<u>\$ 368,062</u>	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - COURT TECHNOLOGY FUND
For the Year Ended September 30, 2014

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Fines and forfeitures	\$ 2,000	\$ 5,519	\$ 3,519
Investment income	25	33	8
Total Revenues	2,025	5,552	3,527
<u>Expenditures</u>			
Public safety	-	-	-
Total Expenditures	-	-	-
Net Change in Fund Balance	\$ 2,025	5,552	\$ 3,527
Beginning fund balance		20,803	
Ending Fund Balance		\$ 26,355	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - SEIZURES FUND
For the Year Ended September 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<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>-</u>	<u>75</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>(75)</u>	<u>-</u>	<u>75</u>
<u>Other Financing Sources</u>				
Transfers in	-	-	8	8
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>8</u>	<u>8</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ (75)</u>	<u>8</u>	<u>\$ 83</u>
Beginning fund balance			<u>(8)</u>	
Ending Fund Balance			<u>\$ -</u>	

CITY OF MONT BELVIEU, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - PUBLIC SAFETY FUND
For the Year Ended September 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Intergovernmental	\$ 88,000	\$ 88,000	\$ 75,939	\$ (12,061)
Investment income	275	275	407	132
Other revenue	2,500	2,500	5,825	3,325
Total Revenues	90,775	90,775	82,171	(8,604)
<u>Expenditures</u>				
Public safety	63,100	91,600	63,517	28,083
Capital projects	4,500	4,500	216	4,284
Total Expenditures	67,600	96,100	63,733	32,367
Revenues (Under) Expenditures	23,175	(5,325)	18,438	23,763
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	23,030	23,030
Total Other Financing Sources	-	-	23,030	23,030
Net Change in Fund Balance	\$ 23,175	\$ (5,325)	41,468	\$ 46,793
Beginning fund balance			84,664	
Ending Fund Balance			\$ 126,132	