

United States of America, the State of Texas, or any other governmental body or agency having lawful jurisdiction or any authorized representative or agency of any of them.

SECTION 8: Sales or Use Taxes.

In the event any sales or use taxes, or taxes of any similar nature, are hereafter imposed upon the gathering, taking, sale, use or consumption of the water received by DE KALB under this contract, the amount of such taxes shall be borne by DE KALB, in addition to all other charges, and whenever TEXARKANA shall be required to pay, collect, or remit any such taxes on water received by DE KALB, then DE KALB shall promptly reimburse TEXARKANA therefor.

SECTION 9: Unit of Measurement.

The unit of measurement for water delivered hereunder shall be 1,000 gallons of water, U. S. Standard Liquid Measure.

SECTION 10: Title to Water.

Title to all water supplied under this agreement shall remain in TEXARKANA to the point of delivery, and upon passing through the meter installed at that point, title to the water shall pass to DE KALB. Each party hereto agrees to save and hold the other harmless from all claims, demands and causes of action which may be asserted by anyone on account of the transportation, delivery and disposal of said water while title remains in such party.

SECTION 11: Easements.

DE KALB agrees that TEXARKANA may have and assign to COMPANY such easements over any easements, right of way or property held by DE KALB so that the COMPANY

facilities herein anticipated and the placement thereof and of all required equipment may be appropriately provided.

SECTION 12: Nature of DE KALB'S Obligation -
Not Payable by Taxation.

(a) The payments required to be made by DE KALB under the terms of Section 1 hereof shall be due and payable as therein specified in any and all events and regardless of whether there shall be, for any reason, a delay in the completion of all or any part of the construction program and regardless of whether the facilities shall have been wholly or partially destroyed or damaged, and regardless of whether TEXARKANA shall have tendered water to DE KALB. The agreements of DE KALB to make the payments required are separate and independent covenants and DE KALB shall have no right of set-off, recoupment or counterclaim. The foregoing provisions of this paragraph, however, shall not apply (1) to any payments under Section 1 in respect of any period during which DE KALB shall not be tendered any water by the wrongful affirmative act of TEXARKANA; (2) to any payments in respect of any period during which TEXARKANA shall refuse to continue arrangements under its contract with COMPANY for completion of the facilities through its wrongful affirmative act. TEXARKANA shall never have the right to demand payment of this obligation out of funds raised or to be raised by taxation. Any obligations assumed or imposed on DE KALB hereunder shall never be construed as a debt of DE KALB of any kind as to require it under the Constitution and laws of this State to levy and collect taxes to discharge such obligation, it being expressly understood by the parties hereto that the funds required for all payments due by DE KALB are to

be collected from the sources referred to in the next succeeding Section 13. DE KALB agrees to operate and maintain its water system in such manner and to make such charges for the water and services supplied thereby to all consumers so that the revenues derived therefrom will always be adequate to enable DE KALB to promptly make all payments due TEXARKANA under the provisions of this agreement. All payments so made shall be deemed expenses of maintaining and operating the DE KALB water system.

(b) It is understood that at this time TEXARKANA is not in position to guarantee the construction of the improvements, extensions and betterments to COMPANY facilities or the date on which water may first be made available to DE KALB. TEXARKANA agrees, however, to make diligent efforts to provide the additional facilities through its contract with COMPANY, but is not to be liable to DE KALB for any damages occasioned by delay unless such is attributable to the fault of TEXARKANA. It is further understood that any obligation on the part of TEXARKANA is conditioned upon the successful sale of COMPANY bonds in the amounts required to provide the improvements, extensions and betterments to its present facilities in order to make possible delivery of water to DE KALB under this contract.

SECTION 13: Priority of TEXARKANA'S Charges - DE KALB to Fix Adequate Rates.

(a) DE KALB represents and covenants that all payments to be made hereunder shall constitute "operating expenses" of its Waterworks System with the effect that the obligation to make such payments from its Waterworks revenues under this contract shall be an operating expense as defined by Article 1113 of the Revised Civil Statutes of Texas, 1925, as amended.

(b) DE KALB further agrees to fix and collect such rates and charges for water services to its customers as will, in combination with any other funds legally available and reasonably assured for the purpose, make possible the prompt payment of all expenses of operating and maintaining its Water System and all payments contracted hereunder.

SECTION 14: Force Majeure.

(a) If for any reason of "force majeure" either of the parties hereto shall be rendered unable wholly or in part to carry out its obligation under this agreement, other than the obligation of DE KALB to make the payments required under the terms of Section 1 hereof, then if such party shall give notice and full particulars of such reasons in writing to the other party within a reasonable time after the occurrence of the event, or cause relied on, the obligation of the party giving such notice, so far as it is affected by such "force majeure", shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such parties shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "force majeure" as employed herein shall mean acts of God, strikes, lock-outs, or other industrial disturbances, acts of public enemy, orders or actions of any kind of the Government of the United States or of the State of Texas, or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, wash-outs, droughts, arrests, restraints of government and people, civil disturbances, explosions, breakage or accident to dams, machinery, pipelines, or canals or other structures or machinery, partial or entire failure of water supply and inability on the

part of TEXARKANA to deliver water hereunder, or of DE KALB to receive water, on account of any other cause not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of strikes and lock-outs shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lock-outs by acceding to the demands of the opposing parties when such settlement is unfavorable to it in the judgment of the party having the difficulty. No failure of TEXARKANA to meet any obligation by reason of force majeure shall relieve DE KALB from its obligations to make the payments required under the terms of Section 1 hereof.

(b) No damage shall be recoverable from TEXARKANA by reason of the suspension of delivery of water due to any of the causes above mentioned. If TEXARKANA'S ability to deliver water to DE KALB is affected by any of such causes, TEXARKANA shall promptly notify DE KALB in writing giving the particulars as soon as practicable after the occurrence of the cause or causes for such interruption. If the supply of water available to TEXARKANA is insufficient for any reason to serve the requirements of all of its customers, then the available amount of water will be allocated by TEXARKANA so as to meet the requirements of its various customers in accordance with their respective needs.

(c) It is expressly recognized by DE KALB that TEXARKANA may be compelled to make necessary alterations, repairs or extensions of new or additional water transporting facilities from time to time during the life of this contract and any suspension of delivery to DE KALB due to such operation shall

not be cause for claim of damage on part of TEXARKANA provided all reasonable effort is used by TEXARKANA to provide DE KALB with water in accordance with this contract. In such case TEXARKANA shall give DE KALB as much advance notice as may be practicable of the suspension of delivery and of the estimated duration thereof.

SECTION 15: Notices.

Any notice, request, demand, statement, or bill provided for in this agreement shall be in writing and shall be considered to have been duly delivered when sent by registered mail, addressed to the City Secretary, City Hall, Texarkana, Texas, or to the City Secretary, City Hall, DE KALB, Texas, as the case may be, except that routine communications may be sent by ordinary mail and except that either party may, by the filing of an appropriate written notice to the other, specify some other individual to whom communications thereafter are to be addressed.

SECTION 16: Severability.

The parties hereto agree that if any of the provisions of this contract contravene or be held invalid under the laws of this State, same shall not invalidate the whole agreement but it shall be construed as though not containing that particular provision and the rights and obligations of the parties shall be construed and in force accordingly.

SECTION 17: Pledge.

It is recognized that the proceeds of this contract are to be pledged by TEXARKANA under its Water System Agreement with COMPANY for the payment of COMPANY bonds and in such respect DE KALB agrees that COMPANY may enforce any obligations owed

it by TEXARKANA should TEXARKANA for any reason fail to pursue appropriate remedies against DE KALB for the enforcement of the payments which are to be derived for the payment of COMPANY indebtedness.

SECTION 18: Services by DE KALB Outside Its Limits.

The parties agree that rates charged by DE KALB for water supplied areas and customers outside its corporate limits may be greater than those charged for water supplied within its limits. DE KALB, however, agrees to submit all such rate schedules to TEXARKANA and COMPANY.

SECTION 19: Acknowledgment and Acceptance by DE KALB of TEXARKANA-COMPANY Water System Agreement.

DE KALB acknowledges that it has been furnished a copy of the Water System Agreement proposed between TEXARKANA and COMPANY, understands the provisions thereof and their effect upon DE KALB, including, without limitation, those relating to the right and obligation of COMPANY, upon default by TEXARKANA, to take over, operate and maintain all facilities and otherwise perform all other functions of TEXARKANA in the event COMPANY shall become repossessed of such facilities under the vendor's lien retained in the conveyances to TEXARKANA, including, further, its obligation thereupon to make budget determinations and billings for water services under the procedures hereinabove set forth with relation to the same subjects while the facilities are under TEXARKANA'S possession and control.

SECTION 20: Advisory Committee.

Concurrently with the execution of this contract DE KALB will appoint one of the members of its governing body or one of its officers or employees as a member of an Advisory

Committee which will be composed of one member appointed by each City which may contract with TEXARKANA for a water supply. The function of this Committee will be to consult and advise with representatives of TEXARKANA concerning future plans for expansion, methods for improved service, and other matters of mutual interest. Said Committee may make recommendations with reference to any related matters to the TEXARKANA City Council. TEXARKANA shall keep the Committee advised as to current status of financing, planning, construction and operation of the water supply facilities.

SECTION 21: DE KALB'S Future Interest in Facilities.

It is agreed by TEXARKANA that at such time as all bonds or other indebtedness incurred in connection with the acquisition and construction of System facilities by COMPANY have been fully paid and discharged, TEXARKANA will, upon DE KALB'S request, convey to DE KALB an undivided interest in such facilities equal to that percentage which the amount paid by DE KALB under this contract applied in discharging principal of bond obligations issued by COMPANY bears to the amount paid by all other contracting municipalities, including TEXARKANA, which has been applied in discharging principal of bond obligations issued by COMPANY, each of whom shall be entitled to a like conveyance representing their proportionate contributions of like nature during the period aforementioned. In this connection it is understood that TEXARKANA, Texas, on behalf of itself and Texarkana, Arkansas, shall, prior to crediting it with the amounts as above provided, first have credit on COMPANY books for the amount derived from those two Cities and employed in discharging principal of the bond obligations of Texarkana Water Supply Corporation prior to its merger with COMPANY. At the time of any

conveyance under the foregoing provisions, the parties agree that they will, by revision or modification of this contract, provide appropriate arrangements for the continued operation and maintenance of the facilities according to circumstances at the time. It is further provided that should the facilities ever be sold to any other person or corporation, DE KALB shall be paid a percentage of the money received, arrived at in the same manner as aforementioned with regard to possible conveyances, provided that the System shall not be sold at any time during which the aforementioned COMPANY bonds or any interest thereon are outstanding and unpaid unless provision for discharge thereof has been made under firm banking arrangements.

SECTION 22: Specially Constructed Facilities to be Paid for Exclusively by Those Benefiting.

It is understood that COMPANY may be called upon to finance and construct some facilities which will be for the exclusive benefit of one or more contracting cities and that in such event all of the related costs will be billed to and collected only from the benefiting city or cities independent of the arrangements indicated herein which apply to all contracting cities. Also, that in such event none of the amounts paid by any city for facilities benefiting it exclusively shall be credited to that city in arriving at its future interest in the facilities constructed for the benefit of all.

SECTION 23: TEXARKANA'S Obligations to Others.

DE KALB hereby acknowledges its awareness of TEXARKANA'S obligations to continue to supply through its own System the water needs of Texarkana, Arkansas, and is further aware of the terms of the contract between those two Cities

including the water priorities therein established for them; also that other area cities will execute contracts with TEXARKANA for water at the same price and otherwise under essentially the same terms as this contract, the others currently thus involved being Avery, Annona, Hooks, Maud, New Boston and Wake Village, Texas. DE KALB further acknowledges that by means of facilities which may hereafter be provided by COMPANY or in some other manner for the treatment and transportation of water from the TEXARKANA supply, the Cities of Atlanta, Bloomburg, Leary, Nash, Douglassville, /Linden, Naples, /Omaha and Queen City, Texas, may receive water therefrom under appropriate contractual arrangements and that, in such event, TEXARKANA'S obligation to those Cities will be of the same nature as that to the area Cities first named, including DE KALB insofar as participation in the then available supply is concerned.

SECTION 24: TEXARKANA'S Obligation to Make Water Payments.

TEXARKANA agrees that the provisions hereof relating to computations of minimum monthly payments, payments for additional water, budget determinations, water measurements and all other features which relate to making water payments shall apply to TEXARKANA in like manner as any other contracting municipality and shall be obligations of TEXARKANA with respect to water received by it for itself or Texarkana, Arkansas, through COMPANY-constructed facilities and to the same extent and with like effect as the same features are herein provided as obligations of DE KALB.

SECTION 25: Effective Date.

This contract shall not become effective until

but shall become effective upon the same date upon which the Water System Agreement between TEXARKANA and COMPANY shall be effective.

IN WITNESS WHEREOF, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the day and year first above written.

CITY OF TEXARKANA, TEXAS

ATTEST:

By

[Signature]
City Manager

Helen B. Talbot
City Secretary

(Seal)

CITY OF DE KALB

ATTEST:

By

[Signature]
Mayor

[Signature]
City Secretary

(Seal)

Attachment 9

Ability to Provide Adequate Service. The proposed area is located outside and contiguous to the city limits, and involves a lower customer density than within city limits. The customers adjacent to this area are already customers of the City, and are served from the nearby 6 inch water main. DeKalb anticipates no problems serving this small additional area just as it serves its existing areas.

Effect on the Land. There is no significant anticipated effect on land use in the proposed area. Waterlines have been sized to support existing customers and projected growth. Due to a large portion of the land being located in or adjacent to a floodplain, no residential or substantial development is anticipated. Therefore, the future use of the land may likely be recreational in nature (rodeo arena, sports facilities, etc.)

ATTACHMENT 10A

**CITY OF DE KALB, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDING SEPTEMBER 30, 2013**

**CITY OF DE KALB, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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SCOTT, SINGLETON, FINCHER AND COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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American Institute of
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of De Kalb, Texas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule to TMRS funding progress on pages 5-10 and 45-46 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.

Scott, Singleton, Fincher and Company, P.C.

Scott, Singleton, Fincher and Company, P.C.

Greenville, Texas

September 5, 2014

REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management for the City of De Kalb, Texas, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. This discussion should be read in conjunction with the financial statements and related notes.

FINANCIAL HIGHLIGHTS:

- Government-wide net position reported in the Statement of Activities is \$6,708,499. Of this amount \$6,807,540 is invested in capital assets or restricted for debt service or capital projects, leaving a deficit of \$99,041 in unrestricted net position.
- Government-wide net position decreased by \$206,423 during 2013.
- Each of the City's fund financial statements reported changes in equity as follows:
 - General Fund - \$125,383 decrease from activities for the year.
 - General Fund prior period adjustments increased equity by \$81,582.
 - Water & Sewer Fund - \$8,019 decrease from activities for the year.
 - Water & Sewer Fund prior period adjustments increased equity by \$197,552.

Comparative data is presented at the end of this section to facilitate further analysis of the City's financial activity.

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and appropriations from the State. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Position and the Statement of Activities

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – Most of the City's services are reported here, including, administration, public service, police, fire protection, code enforcement parks and streets. Property taxes and state and federal grants finance most of these activities.

Business-type Activities – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations and sanitation services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found at the bottom of each of the governmental fund financial statements.

Proprietary Funds – The Proprietary/Enterprise fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Net position serves as one useful indicator of a government's financial position. In the case of the City, the combined net position exceeded liabilities by \$6,708,499 and \$6,635,788 at the close of FY 2013 and FY 2012, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

The combined net position of the City's activities decreased by 203,423 during 2013. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was a deficit of \$99,041.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its General Fund or governmental fund (\$109,992) and the Water & Sewer Fund or proprietary fund (\$4,283,083) reported combined fund balance and net position of \$4,393,075, a combined \$133,402 decrease resulting from current year fund activities.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets – the City's investment in capital assets net of related debt reported in governmental activities and business-type activities was \$2,298,880 and \$4,358,925, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was \$(53,401) and \$(636,269) in each of the respective activities.

Long-term Debt – at year-end the City had \$1,042,660 in bonds and notes payable outstanding – an increase of \$376,991.

Additional information on the City's capital assets and long-term debt can be found in notes G and I to the financial statements.

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

In the fiscal year 2015, General Fund revenues and transfers in are budgeted to increase from the 2014 budget year due to an expected increase in income from several sources to include: sales tax, property tax penalties and interest. A slight property tax increase due to higher property valuations is expected, as well. Sales taxes are projected to make up about 24.33% of budget income. This amount could possibly be more as new business is expected to our area. Property tax receipts will account for the largest percentage of general fund revenue at 52.32% of the entire General Fund budget for FY 2015.

Although the overall economy has not seen any improvement, our local economy seems to have improved over the past year. With new local business we feel that we can expect a continued increase over the coming fiscal year. The Police Department continues to be the largest source of budgetary expense. The Police Department expended 43.92% of the General Fund resources in FY 2014 and is projected to expend 42.48% of the total in FY 2015. The 2015 Property Tax Rate is at .5299 per \$100 and along with the slight increase in property valuations, will result in a slight increase of property tax revenue over FY 2015. With improvements on our Wastewater Treatment Plant complete, no major capital expenditures are expected over the coming fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, including financial information for the component unit, De Kalb Industrial Foundation, contact the City administration office at (903) 667-2410.

CITY OF DE KALB, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013

	Governmental 2013	Activities 2012	Business-type 2013	Activities 2012	Totals 2013	Totals 2012
ASSETS						
Current and other assets	\$ 349,733	295,795	313,534	\$ 229,386	\$ 663,267	\$ 525,181
Capital assets, net	2,307,108	2,401,809	5,222,101	5,015,693	7,529,209	7,417,502
Total Assets	\$ 2,656,841	\$ 2,697,604	\$ 5,535,635	\$ 5,245,079	\$ 8,192,476	\$ 7,942,683
LIABILITIES						
Other liabilities	\$ 111,968	\$ 84,334	\$ 207,245	\$ 534,388	\$ 319,213	\$ 618,722
Long-term liabilities	119,457	71,032	1,045,307	617,141	1,164,764	688,173
Total Liabilities	231,425	155,366	1,252,552	1,151,529	1,483,977	1,306,895
NET POSITION						
Net investment in capital assets	2,298,880	2,352,281	4,358,925	4,398,552	6,657,805	6,750,833
Restricted for:						
Capital projects (\$171,256)						
net of related debt of \$(171,256)						
Debt service			113,786		113,786	
LTWSC capital						
improvements deposits			35,949		35,949	
Unrestricted	126,536	189,957	(225,577)	(305,002)	(99,041)	(115,045)
Total Net Position	\$ 2,425,416	\$ 2,542,238	\$ 4,283,083	\$ 4,093,550	\$ 6,708,499	\$ 6,635,788

CITY OF DE KALB, TEXAS
COMPARATIVE STATEMENTS OF ACTIVITIES
SEPTEMBER 30, 2013

	Governmental	Activities	Business-type	Activities	Totals	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	\$ 84,534	\$ 57,743	\$ 914,084	\$ 794,260	\$ 998,618	\$ 852,003
Operating grants & contributions	20,697	34,063				
Capital grants & contributions	30,500	12,694				
General revenues:						
Property taxes	269,702	276,342				
Sales and use taxes	144,808	135,361				
Franchise taxes	34,617	35,928				
Penalties and interest	11,238	8,784				
Investment earnings	73	78	826	792		
Other	18,506	17,138				
Total Revenues	\$ 614,675	\$ 578,131	\$ 914,910	\$ 795,052	\$ 998,618	\$ 852,003
EXPENSES						
Administration	217,147	207,044			217,147	207,044
Police	306,253	338,166			306,253	338,166
Fire & emergency services	117,757	74,216			117,757	74,216
Code enforcement	51,962	14,214			51,962	14,214
Streets	101,760	112,531			101,760	112,531
Water, sewer & sanitation services			937,929	831,794	937,929	831,794
Total Expenses	794,879	746,171	937,929	831,794	1,732,808	1,577,965
Excess (deficiency) before transfers	(180,204)	(168,040)	(23,019)	(36,742)	(203,223)	(204,782)
Transfers	(18,200)	89,654	15,000	(90,654)	(3,200)	(1,000)
Change in Net Position	(198,404)	(78,386)	(8,019)	(127,396)	(206,423)	(205,782)
Net Position - October 1	2,542,238	2,620,624	4,093,550	4,220,946	6,635,788	6,841,570
Prior period adjustment	81,582		197,552		279,134	
Net Position - September 30	\$ 2,425,416	\$ 2,542,238	\$ 4,283,083	\$ 4,093,550	\$ 6,708,499	\$ 6,635,788

BASIC FINANCIAL STATEMENTS

CITY OF DE KALB, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 56,713	\$ 200	\$ 56,913	\$ 367,300
Receivables (net)		111,307	111,307	
Delinquent property taxes receivable (net)	20,353		20,353	
Franchise fees receivables	8,442		8,442	
Sales taxes receivables	42,971		42,971	
Warrants receivable (net)	27,937		27,937	
Other receivables	1,390	23,369	24,759	
Internal balances	191,927	(191,927)	-	
Due from other governmental agencies		633	633	
Notes receivable				128,472
Due from primary government				14,324
Inventories		7,044	7,044	
Restricted assets:				
Cash and cash equivalents		290,136	290,136	
Certificates of deposit		36,823	36,823	
LTWSC restricted capital improvement deposits		35,949	35,949	
Capital assets:				
Non-depreciable land & construction in progress	104,176	267,846	372,022	87,567
Depreciable capital assets, net	2,202,932	4,954,255	7,157,187	497,686
Total Assets	<u>\$ 2,656,841</u>	<u>\$ 5,535,635</u>	<u>\$ 8,192,476</u>	<u>\$ 1,095,349</u>
LIABILITIES				
Accounts payable	\$ 47,749	\$ 76,336	\$ 124,085	\$ -
Construction payables		16,910	16,910	
Book overdraft	16,957	39,828	56,785	
Accrued expenses and other liabilities	11,642	5,100	16,742	
Due to other governmental agencies	21,296	1,059	22,355	
Due to component unit	14,324		14,324	
Accrued interest		5,684	5,684	
Customer water deposits		62,328	62,328	
Long-term liabilities				
Due within one year:				
Bonds, capital leases and notes	98,864	105,320	204,184	
Compensated absences	4,444	2,719	7,163	
Due in more than one year:				
Bonds, capital leases and notes	2,815	929,112	931,927	
Compensated absences	13,334	8,156	21,490	
Total Liabilities	<u>231,425</u>	<u>1,252,552</u>	<u>1,483,977</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	2,298,880	4,358,925	6,657,805	585,253
Restricted for:				
Capital projects (\$171,256) net of related debt of \$(171,256)				
Debt service		113,786	113,786	
LTWSC capital improvements deposits		35,949	35,949	
Unrestricted	126,536	(225,577)	(99,041)	510,096
Total Net Position	<u>\$ 2,425,416</u>	<u>\$ 4,283,083</u>	<u>\$ 6,708,499</u>	<u>\$ 1,095,349</u>

The accompanying notes are an integral part of this statement.

CITY OF DE KALB, TEXAS
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2013

Functions/Programs	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues		Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Unit
Primary government:					
Governmental activities:					
Administrative	\$ 217,147	\$ 57,328	\$ -	\$ -	\$ -
Police	306,253	2,713	800	30,500	(159,819)
Fire & emergency services	117,757	15,526	19,827		(272,240)
Code enforcement	51,962	8,967	70		(82,404)
Streets	101,760				(42,925)
Total governmental activities	794,879	84,534	20,697	30,500	(101,760)
Business-type activities:					
Water and sewer	937,929	914,084			(659,148)
Total business-type activities	937,929	914,084			(23,845)
Total primary government	\$ 1,732,808	\$ 998,618	\$ 20,697	\$ 30,500	(23,845)
Component Unit:					
DeKalb Industrial Foundation	41,007	-	-	-	(41,007)
Total component unit	\$ 41,007	\$ -	\$ -	\$ -	(41,007)
General revenues:					
Property taxes		269,702			269,702
Sales and use taxes		144,808			144,808
Franchise taxes		34,617			34,617
Penalty and interest		11,238			11,238
Unrestricted investment earnings		73		826	899
Miscellaneous		18,506			18,506
Transfers		(18,200)		15,000	(3,200)
Total general revenues and transfers		460,744		15,826	476,570
Change in net position		(198,404)		(8,019)	(206,423)
Net position - beginning of year		2,542,238		4,093,550	6,635,788
Prior period adjustment (Note M)		81,582		197,552	279,134
Net position - end of year		\$ 2,425,416		\$ 4,283,083	\$ 6,708,499
					\$ 1,095,349

The accompanying notes are an integral part of this statement

**CITY OF DE KALB, TEXAS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2013**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 56,713	\$ 56,713
Property taxes receivable (net)	20,353	20,353
Franchise tax receivable	8,442	8,442
Sales taxes receivable	42,971	42,971
Warrants receivable (net)	27,937	27,937
Due from other funds	191,927	191,927
Other receivables	1,390	1,390
Total Assets	\$ 349,733	\$ 349,733
LIABILITIES		
Accounts payable	\$ 47,749	\$ 47,749
Book overdraft	16,957	16,957
Wages and salaries payable	11,642	11,642
Intergovernmental payable	21,296	21,296
Due to component unit	14,324	14,324
Note payable - DIF	93,451	93,451
Total Liabilities	205,419	205,419
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenues	20,354	20,354
Unavailable warrant revenues	13,968	13,968
Total Deferred Inflows of Resources	34,322	34,322
FUND BALANCES		
Assigned for:		
Municipal court	5,604	5,604
Volunteer fire department	39,083	39,083
Police department	3,704	3,704
Keep DeKalb Beautiful	4,900	4,900
Unassigned Fund Balance	56,701	56,701
Total Fund Balances	109,992	109,992
Total Liabilities, Deferred Inflows and Fund Balances	\$ 349,733	\$ 349,733

The accompanying notes are an integral part of this statement.

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

Total fund balances - Governmental Funds \$ 109,992

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. At the beginning of the year, cost of these assets was \$3,755,071 and the accumulated depreciation was \$1,353,262. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The beginning balance totaled \$48,528. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. 2,353,281

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but they should be shown as increases in capital assets and reductions in long-term debt in the government wide financial statements. The net effect of including the 2013 capital outlays of \$32,302 plus debt principal payments of \$21,814 is to increase net position. 54,116

The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position. (127,003)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the assets and liabilities associated with capitalized debt issuance costs and accrued interest payable. The net effect of these reclassifications and recognitions is to increase net position.

Deferred property taxes from prior year levies	8,224	
Deferred warrants revenue recognized as income	13,968	
Current property taxes recognized as income	12,130	
Noncurrent compensated absences recorded as liability	(17,778)	
Reduction of note payable transferred to proprietary fund	18,486	
	<u>35,030</u>	<u>35,030</u>

Net Position - Governmental Activities \$ 2,425,416

The accompanying notes are an integral part of this statement.

CITY OF DE KALB, TEXAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Total Governmental Funds
Revenues		
Property taxes	\$ 297,361	\$ 297,361
General sales and use taxes	144,808	144,808
Franchise tax	34,617	34,617
Penalties and interest	11,238	11,238
Fines	47,421	47,421
Licenses and permits	4,657	4,657
Grant - police department	30,500	30,500
Charges for services	6,008	6,008
Donations	14,696	14,696
Bowie County fire rescue support	6,000	6,000
Investment earnings	73	73
Other revenue	30,987	30,987
Total revenues	<u>628,366</u>	<u>628,366</u>
Expenditures		
Current		
General Government:		
Administrative	209,963	209,963
Public Safety:		
Police	281,742	281,742
Fire and emergency services	89,726	89,726
Code enforcement	51,962	51,962
Streets	29,554	29,554
Capital Outlay	32,302	32,302
Debt Service	21,814	21,814
Total expenditures	<u>717,063</u>	<u>717,063</u>
Excess (deficiency) of revenues over expenditures	<u>(88,697)</u>	<u>(88,697)</u>
Other financing sources (uses)		
Operating transfer out	(18,200)	(18,200)
Other financing uses	(18,486)	(18,486)
Total other financing sources (uses)	<u>(36,686)</u>	<u>(36,686)</u>
Net change in fund balance	(125,383)	(125,383)
Fund balance at beginning of year	153,793	153,793
Prior period adjustment (Note M)	81,582	81,582
Fund balance at end of year	<u>\$ 109,992</u>	<u>\$ 109,992</u>

The accompanying notes are an integral part of this statement.

CITY OF DE KALB, TEXAS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2013

Net changes in fund balances - Governmental Funds \$ (125,383)

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but they should be shown as increases in capital assets and reductions in long-term debt in the government wide financial statements. The net effect of including the 2013 capital outlays of \$32,302 plus debt principal payments of \$21,814 is to increase net position.

54,116

The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.

(127,003)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transfers, and recognizing the liabilities associated with capitalized debt issuance costs and accrued interest payable. The net effect of these reclassifications and recognitions is to (decrease) net position.

Deferred property taxes collected from prior levies	\$ (27,659)
Deferred warrants revenue recognized as income	13,968
Increase in noncurrent compensated absences recorded as liability	(4,929)
Payoff of note payable transferred to proprietary fund	<u>18,486</u>

(134)

Change in Net Position - Governmental Activities \$ (198,404)

The accompanying notes are an integral part of this statement.

CITY OF DE KALB, TEXAS
PROPRIETARY FUND
STATEMENT OF FUND NET POSITION
SEPTEMBER 30, 2013

	Water and Sewer	Totals
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 200	\$ 200
Accounts receivable (net)	111,307	111,307
Receivables from other governments	633	633
Other receivables	23,369	23,369
Inventories	7,044	7,044
Total Current Assets	<u>142,553</u>	<u>142,553</u>
Restricted assets:		
Restricted - Cash and cash equivalents	290,136	290,136
Restricted - Certificate of deposit	36,823	36,823
LTWSC restricted capital improvement deposits	35,949	35,949
Total Restricted Assets	<u>362,908</u>	<u>362,908</u>
Capital Assets:		
Land and improvements	60,132	60,132
Infrastructure	6,878,934	6,878,934
Equipment, furniture & vehicles	279,498	279,498
Construction in progress	207,714	207,714
Undivided interest in LTWSC fixed assets	329,715	329,715
Less accumulated depreciation	<u>(2,533,892)</u>	<u>(2,533,892)</u>
Total Capital Assets, net	<u>5,222,101</u>	<u>5,222,101</u>
Total Assets	<u><u>\$ 5,727,562</u></u>	<u><u>\$ 5,727,562</u></u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 76,336	\$ 76,336
Construction payables	16,910	16,910
Book overdraft	39,828	39,828
Wages payable	5,100	5,100
Compensated absence liability	2,719	2,719
Due to other funds	191,927	191,927
Payable to other governments	1,059	1,059
Accrued interest payable	5,684	5,684
Bonds and notes payable, current portion	105,320	105,320
Total Current Liabilities	<u>444,883</u>	<u>444,883</u>
Noncurrent liabilities:		
Compensated absence liability	8,156	8,156
Customer water deposits	62,328	62,328
Bonds payable	920,000	920,000
Notes payable	9,112	9,112
Total Noncurrent Liabilities	<u>999,596</u>	<u>9,112</u>
Total Liabilities	<u>1,444,479</u>	<u>453,995</u>
NET POSITION		
Net investment in capital assets	4,358,925	4,358,925
Restricted for		
Capital projects (\$171,256) net of related debt (\$171,256)	-	-
Debt Service	113,786	113,786
LTWSC capital improvements deposits	35,949	35,949
Unrestricted	<u>(225,577)</u>	<u>(225,577)</u>
Total Net Position	<u><u>\$ 4,283,083</u></u>	<u><u>\$ 4,283,083</u></u>

The accompanying notes are an integral part of this statement.

CITY OF DE KALB, TEXAS
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Water and Sewer	Totals
Operating Revenues:		
Charges for water services	\$ 425,046	\$ 425,046
Charges for sewer services	224,261	224,261
Charges for sanitation services	220,046	220,046
Other revenue	44,731	44,731
Total operating revenues	914,084	914,084
Operating Expenses:		
Salaries and expenses	165,574	165,574
Employee benefits	37,590	37,590
Purchased services	205,807	205,807
Repairs and maintenance	104,622	104,622
Other operating expenses	151,179	151,179
Supplies	43,086	43,086
Depreciation	148,696	148,696
Total operating expenses	856,554	856,554
Operating income (loss)	57,530	57,530
Nonoperating Revenues (Expenses):		
Investment earnings	826	826
Interest expense	(28,959)	(28,959)
Bond issuance costs	(52,416)	(52,416)
Total nonoperating revneues (expenses)	(80,549)	(80,549)
Other Financing Sources (Uses):		
Transfers in	15,000	15,000
Change in net position	(8,019)	(8,019)
Net position - beginning of year	4,093,550	4,093,550
Prior period adjustment (Note M)	197,552	197,552
Net position - end of year	<u>\$ 4,283,083</u>	<u>\$ 4,283,083</u>

The accompanying notes are an integral part of this statement.

CITY OF DE KALB, TEXAS
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Water and Sewer	Totals
Cash Flows from Operating Activities		
Cash received from user charges	\$ 839,285	\$ 839,285
Other operating revenues	44,731	44,731
Cash paid to employees	(165,574)	(165,574)
Cash paid to suppliers	(463,249)	(463,249)
Net cash provided by operating activities	<u>255,193</u>	<u>255,193</u>
Cash Flows from Non-Capital Financing Activities		
Change in amount due from General Fund	(141,269)	(141,269)
Operating transfers in	15,000	15,000
Net cash used by non-capital financing activities	<u>(126,269)</u>	<u>(126,269)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(221,894)	(221,894)
Proceeds from bond issuance	780,000	780,000
Note proceeds	30,800	30,800
Bond, note and lease principle payments	(104,882)	(104,882)
Refunding of bonds	(315,000)	(315,000)
Bond issuance costs	(52,416)	(52,416)
Interest payments	(28,349)	(28,349)
Net cash provided by capital and financing activities	<u>88,259</u>	<u>88,259</u>
Cash Flows from Investing Activities		
Interest income	826	826
Purchase of certificates of deposit	(36,823)	(36,823)
Maturity of certificates of deposit	36,278	36,278
Net cash provided by investing activities	<u>281</u>	<u>281</u>
Net increase (decrease) in cash and cash equivalents	217,464	217,464
Cash and cash equivalents at beginning of year	72,872	72,872
Cash and cash equivalents at end of year	<u>\$ 290,336</u>	<u>\$ 290,336</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	57,530	57,530
Depreciation expense	148,696	148,696
Change in assets and liabilities:		
(Increase) decrease in receivables	(33,753)	(33,753)
(Increase) decrease in inventories	4,238	4,238
Increase (decrease) in accounts payable	72,063	72,063
Increase (decrease) in accrued expenses and other liabilities	3,472	3,472
Increase (decrease) in customer meter deposits	3,685	3,685
Increase (decrease) in due to other governments	(738)	(738)
Net cash provided by operating activities	<u>\$ 255,193</u>	<u>\$ 255,193</u>
Supplemental data:		
Noncash capital and related financing activities:		
Equipment purchased via capital lease	\$ 26,373	\$ 26,373

The accompanying notes are an integral part of this statement.

**CITY OF DE KALB, TEXAS
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	Pension Trust Fund
ASSETS	
Certificates of Deposit	\$ 2,500
Total Assets	<u>\$ 2,500</u>
LIABILITIES	
Accounts Payable	\$ (1,854)
Total Liabilities	<u>(1,854)</u>
NET POSITION	
Unrestricted	<u>4,354</u>
Total Liabilities and Net Position	<u>\$ 2,500</u>

The accompany notes are an integral part of this statement.

CITY OF DE KALB, TEXAS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
SEPTEMBER 30, 2013

	<u>Pension Trust Fund</u>
ADDITIONS	
Contributions:	
Non-operating transfers in	\$ 3,200
Investment Earnings:	
Interest	35
Total additions	<u>3,235</u>
DEDUCTIONS	
Employee benefits	325
Miscellaneous	25
Total deductions	<u>350</u>
Change in Net Position	2,885
Net Position - Beginning	<u>1,469</u>
Net Position - Ending	<u><u>\$ 4,354</u></u>

The accompany notes are an integral part of this statement.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of De Kalb, Texas (the City) was incorporated in 1926 as a general law, Type A municipality. The City operates under a Council-Mayor form of government and provides the following services as authorized by its state statutes: public safety (police and fire), highways and streets, sanitation, health and social services, public improvements, and general administrative services.

The accounting and reporting policies of the City relating to the amounts included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the Publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

In 2013, the City implemented two statements of the Governmental Accounting Standards Board (GASB) this year – Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Number 65, *Items Previously Reported as Assets and Liabilities*. These two statements:

- Classified items that are a consumption of net assets applicable to a future reporting period as deferred resource outflows,
- Classified items that are an acquisition of net assets applicable to a future reporting period as deferred resource inflows,
- Renamed all “Statement of Net Assets” to “Statement of Net Position”,
- Required all bond issuance costs to be recorded as expenses in the year the bonds were issued,
- Reclassified the effect of accounting changes adopted to conform to the provisions of Statement Number 63 retroactively in statements of net position and balance sheets, if practical, for all prior periods presented. In the period Statement Number 63 is first applied, the financial statements should disclose the nature of any reclassifications and its effect.
- Required reasons for not reclassifying statements of net position and balance sheet information for prior periods presented to be explained.

Reporting Entity

The City’s basic financial statement included the accounts of all City operations. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of De Kalb, Texas.

The De Kalb Industrial Foundation (DIF) is governed by a board approved by the City Council. The board consists of five members appointed by the City Council and the Mayor who serves as ex-officio. The board is funded by the City’s one-half cent sales tax dedicated to economic development and private donations from businesses and individuals. As the City has oversight responsibility and financial accountability for DIF, the financial activities of the board are reported as a discretely presented component unit. Financial statements for DIF may be obtained through the City administration office.

Overview of Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and on the Proprietary Fund Statement of Net Position and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances, and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and proprietary funds are eliminated on the government-wide statements. Interfund activities between governmental funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide financial statements. The City considers some governmental funds major and report their financial condition and results of operations in a separate column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

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

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to businesses and residents of the City and surrounding communities. Activities of the fund include administration, operations and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for residential and commercial solid waste collections and disposal services for the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations that usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

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

Fiduciary Fund - Agency Funds are used to account for assets held by the City in a purely custodial capacity. Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The Pension (and other employee benefit) Trust Fund is the City's only reporting agency fund. This fund is used to account for pensions for retired volunteer fire department volunteers.

Basis of Accounting and Measurement Focus

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

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources management focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A 60 day availability period is used for recognition of all Governmental Fund revenues. Expenditures are recorded when the related fund liabilities are incurred. However, expenditures related to certain compensated absences, long-term obligations, and claims and judgments are recorded when the obligations are expected to be liquidated with expendable available financial resources.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Other Accounting Policies

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed when incurred. 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 issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Budget and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to August 1, the City Manager submits to the Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- (2) Public hearings are conducted, after proper official journal notification, to obtain taxpayer comments.
- (3) Prior to September 30, the budget should be legally enacted by a majority vote of all members of the Council present.
- (4) The state statutes prohibit budgeting total proposed expenditures in excess of total anticipated revenues and any unencumbered funds from prior years; therefore, expenditures may not legally exceed revenues and unencumbered fund balances from prior years for each fund.
- (5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- (6) Budgeted amounts are as originally adopted or as amended by the Council.
- (7) Budget appropriations lapse at year-end by total funds and are re-established in each succeeding year.

The actual expenditures exceeded the amount budgeted for police, fire protection, code enforcement, and streets departments.

Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary funds, the City considers all demand deposits, money market and savings accounts, and highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash and cash equivalents.

Encumbrances

Encumbrances represent purchase orders, contracts and other commitments for the expenditure of funds. Encumbrances do not constitute expenditures or liabilities. The City does not employ encumbrance accounting. As it is the City's intention to honor all commitments, the subsequent year's appropriation will provide authority to complete these transactions.

Delinquent Taxes Receivable

Records of taxes receivable are maintained in the General Fund.

Allowance for Doubtful Accounts

The City provides allowances for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience. All receivable are shown net of this allowance.

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

Investments

The City has adopted the Public Funds Investment Act of the State of Texas as the City's Investment policy. The City is authorized to invest funds with depository banks of the City, other state or national banks domiciled in Texas with offices in De Kalb that are insured by FDIC, savings and loans domiciled in Texas with offices in De Kalb that are insured by FSLIC, investment pools with rating of AAA or AAAM and Treasury Securities issued by the federal government. The City is empowered by statute to invest in certificates of deposit issued by a state or national bank domiciled in Texas or a savings and loan association and is secured by obligations guaranteed or insured by the FDIC or its successor.

At September 30, 2013, the City's investments consisted of certificates of deposit. Certificates of deposit with maturities of less than 3 months appear on the balance sheet as Cash and Cash Equivalents. Certificates of deposit with maturities of greater than 3 months appear on the balance sheet as Certificates of Deposit. Investments of this type are recorded at cost.

Inventory

Inventories of materials and supplies in the governmental funds are accounted for using the purchase method. Under the purchase method, purchases are recorded as expense when made and inventory is recorded at year-end. Inventory is immaterial and is not recorded in these financial statements. In the proprietary fund inventory is carried at cost, first-in, first-out. Obsolete items are not valued.

Restricted Assets

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.

Restricted assets in the proprietary fund represent amounts reserved for water and sewer improvements, reserve for bond retirement, and customer meter deposits in the water and sewer fund. The City also classifies other cash and cash equivalents as restricted because of the restrictions due to enabling legislation.

Capital Assets

Capital Assets, which include land, land improvements, buildings, vehicles, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities in the government-wide financial statements and in the fund financial statements for the proprietary funds. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of one year. Such assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at their estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is calculated by using the straight-line method. Estimated useful lives of assets are:

Land	0 years
Infrastructure	20-67 years
Buildings and improvements	20-50 years
Machinery and equipment	3-10 years
Vehicles	5-7 years
Furniture and Fixtures	5-7 years

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

Construction-In-Progress

Expenditures on incomplete capital projects have been capitalized as construction-in-progress. The assets resulting from these projects will be transferred to the appropriate asset account as the projects are completed.

Long-Term Debt

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 issuance costs are expensed during the current period. In the fund financial statements, the face amount of debt issued is reported as other financing uses.

Each Proprietary Fund individually accounts for and services the applicable bonds and notes payable which benefit that fund.

Compensated Absences

Accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay for it. Accumulated vacation and sick leave in the government-wide and proprietary funds is recorded as an expense and a liability of those funds as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences", no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Risk Financing

The City provides statutory workers' compensation benefits under an insured plan of the Texas Municipal League Joint Workers' Compensation Fund. Cost of the program is charged to the appropriate fund.

The City has outside property insurance coverage for major structures, primarily those used by the public and those located in a cluster to provide protection from catastrophic losses.

The City maintains liability and comprehensive insurance coverage for all its vehicles and equipment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Equity

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

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

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

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the Council. Committed resources cannot be used for any other purposes unless the Council removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amount the City intends to use for specific purposes as expressed by the Council or an official delegated with the authority.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

Net Position

Net position represent the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of those assets.

NOTE B – DEPOSITS AND INVESTMENTS

City Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposit – Statutes authorize the City to invest in bank certificates of deposit, obligations of the U.S. Treasury and U.S. agencies, banker's acceptances repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The City's policy is to invest in instruments or require collateral so as to not expose the City to credit, custodial credit, custodial concentration, interest rate, or foreign currency risks.

Deposits

At September 30, 2013, the bank balances, including time deposits were fully insured by FDIC or additional coverage of pledged securities at all financial institutions.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the City's investment policies and types of investments. The City's management believes that it complied with the requirements of the PFIA and the City's investment policies.

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

Additional policies and contractual provisions governing deposits and investments for the City of De Kalb are specified below:

Credit Risk – To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the City limits investments to those covered by the Public Funds Investment Act.

Custodial Credit Risk for Investments – To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The City requires counterparties to register the securities in the name of the City and hand them over to the City or its designated agent. This includes securities in securities lending transactions. All of the securities are in the City's name and held by the City or its agent.

Concentration of Credit Risk – To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the City requires investments to be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during the 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio.

Inherent Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires any internally created pool fund group of the city to have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the City may not exceed one year from the time of purchase. All of the City's investments at September 30, 2013 had a maturity of one year or less.

Foreign Currency Risk for Investments – The City does not have any investments denominated in a foreign currency.

NOTE C – PROPERTY TAXES

Property taxes are levied by October 1 and may be paid without penalty until January 31. Penalty and interest are then added to payments received February 1 through June 30. An enforceable lien is attached when property taxes become delinquent. City property taxes are recognized as revenue in the accounting period when they become susceptible to accrual, i.e., when they become both measurable and available to pay liabilities of the current period. Only property taxes available within 60 days from the end of the fiscal period are subject to accrual. The City accrued \$3,334 of delinquent property taxes at September 30, 2013.

The Bowie County Appraisal District bills and collects property taxes for the city of De Kalb. The State of Texas Constitution limits the City's ad valorem tax rate for all purposes to \$1.50 per one hundred dollars of assessed valuation. Ad valorem tax revenue during the year ended September 30, 2013, was levied using a rate of \$0.491 per one hundred dollars of assessed valuation. Based on 100% of estimated market value, the City has a tax margin of \$1.009 per \$100 and could raise an additional \$611,451 per year from the present assessed valuation of \$60,599,687 before the limit is reached. The amount assessed for the 2012 tax roll was \$298,108.

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

NOTE D – DISAGGREGATION OF RECEIVABLES AND PAYABLES

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

	General Fund	Water and Sewer Fund	Component Unit	Total
Receivables				
Property taxes	\$ 56,733	\$ -	\$ -	\$ 56,733
Franchise taxes	8,442			8,442
Sales taxes	42,971			42,971
Warrants	55,874			55,874
Customer accounts		165,640		165,640
Intergovernmental		633		633
Note receivable - City			93,451	93,451
Notes receivable			35,848	35,848
Miscellaneous	1,390	23,369	(827)	23,932
Gross Receivables	\$ 165,410	\$ 189,642	\$ 128,472	\$ 483,524
Less: Allowance for Uncollectibles	(64,317)	(54,333)	-	(118,650)
Net Total Receivables	<u>\$ 101,093</u>	<u>\$ 135,309</u>	<u>\$ 128,472</u>	<u>\$ 364,874</u>

Notes receivable listed above that are due to the component unit (DIF) are not expected to be repaid within one year.

Payables at September 30, 2013 were as follows:

Wages Payable	11,642	5,100		16,742
Intergovernmental Payable	21,296			21,296
Payable to Other Governments		1,059		1,059
Accrued Interest Payable		5,684		5,684
Customer water deposits		62,328		62,328
Total Payables	<u>\$ 97,644</u>	<u>\$ 207,245</u>	<u>\$ -</u>	<u>\$ 304,889</u>

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

NOTE E – OPERATING TRANSFERS

A summary of the net operating transfers between funds of the City for the year ended September 30, 2013 follows:

	<u>General Fund</u>	<u>Water & Sewer Fund</u>	<u>Fireman's Fund</u>
General Fund:			
Transfer out to Water & Sewer	(15,000)		
Transfer out to Fireman's Fund	(3,200)		
Water and Sewer Fund transfer in to General Fund		15,000	
Fireman's Fund transfer in from General Fund			3,200
	<u>(18,200)</u>	<u>15,000</u>	<u>3,200</u>

NOTE F – DUE TO/FROM OTHER FUNDS

A summary of interfund receivables and payable balances at September 30, 2013 were:

	<u>Due from</u>	<u>Due to</u>
General Fund		
Due from Water & Sewer Fund	\$ 191,927	\$ -
Due to DeKalb Industrial Fund		14,324
Water & Sewer Fund		
Due to General Fund		191,927
DeKalb Industrial Fund		
Due from General Fund	14,324	
	<u>\$ 206,251</u>	<u>\$ 206,251</u>

The above transfers and the amounts due between funds have been used to facilitate the cash flow needs of each of the respective funds as deemed necessary. It is not expected that the above amounts due between the funds will be repaid within the next year.

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

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, are as follows:

	Balance October 1, 2012 <u>Restated (1)</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2013
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 104,176	\$ -	\$ -	\$ 104,176
Capital assets, being depreciated				
Infrastructure	2,366,110	-	-	2,366,110
Buildings	709,515	-	-	709,515
Equipment, Furniture & Vehicles	575,270	32,302	-	607,572
Total capital assets, being depreciated	3,650,895	32,302	-	3,683,197
Less accumulated depreciation for:				
Infrastructure	655,281	72,206	-	727,487
Buildings	224,196	13,080	-	237,276
Equipment, Furniture & Vehicles	473,785	41,717	-	515,502
Total accumulated depreciation	1,353,262	127,003	-	1,480,265
Net capital assets, being depreciated	2,297,633	(94,701)	-	2,202,932
Governmental Activities capital assets, net	<u>\$ 2,401,809</u>	<u>\$ (94,701)</u>	<u>\$ -</u>	<u>\$ 2,307,108</u>
Business-type Activities:				
Capital assets not being depreciated				
Land & Improvements	\$ 60,132	\$ -	\$ -	\$ 60,132
Construction in Progress	-	207,714	-	207,714
Total Capital assets, not being depreciated	60,132	207,714	-	267,846
Capital assets, being depreciated				
Infrastructure	6,878,934	-	-	6,878,934
Equipment, Furnitures & Vehicles	391,752	40,553	(152,807)	279,498
Undivided interest in LTWSC	329,715	-	-	329,715
Total Capital assets, being depreciated	7,600,401	40,553	(152,807)	7,488,147
Less accumulated depreciation for:				
Infrastructure	1,987,588	134,767	-	2,122,355
Equipment, Furnitures & Vehicles	327,537	13,930	(148,106)	193,361
Undivided interest in LTWSC	218,176	-	-	218,176
Total accumulated depreciation	2,533,301	148,697	(148,106)	2,533,892
Net capital assets, being depreciated	5,067,100	(108,144)	(4,701)	4,954,255
Business-type Activities capital assets, net	<u>\$ 5,127,232</u>	<u>\$ 99,570</u>	<u>\$ (4,701)</u>	<u>\$ 5,222,101</u>

Governmental activities capital assets additions during the year ended September 30, 2013 include purchases of one police vehicle.

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

Governmental activities depreciation expense charged to program activities was:

Administration	\$ 2,255
Police	24,511
Fire Protection	17,075
Streets	72,206
Public Service	<u>10,956</u>
	<u>\$ 127,003</u>

Business-type activities - All assets listed with the business-type activities belong to the Water and Sewer Fund. All depreciation expense recorded in the business-type activities was charged to the Water and Sewer Fund. Business-type activities capital assets additions during the year ended September 30, 2013 include purchases of a mini excavator, excavator trailer, and a zero turn mower. Depreciation expense reported in Business-type activities was \$148,696 for the year.

(1) The City recorded its investment in assets previously acquired by Lake Texarkana Water Supply Corporation as a prior period adjustment (see Note J). The adjustment increased beginning depreciable assets by \$329,715 and increased beginning accumulated depreciation by \$218,176 resulting in a net increase of depreciable assets of \$111,539.

NOTE H – FINANCING AND RELATED INSURANCE ISSUES

In the normal course of business, the City is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by council members and employees, negligent acts by employees including law enforcement officers, automobile and mobile equipment accidents, and injuries to employees during the course of performing duties for the City.

The City attempts to cover these losses by the purchase of insurance. Currently the City purchases 100% of its risk-related insurance through the Texas Municipal League Intergovernmental Risk Pool. The City purchases insurance from the pool with annual maximum limits and to the extent of these maximum limits the City will incur no additional liability due to excess insurance purchases by the risk pool. The City would be liable for claims in excess of the policy limits. In management's estimation, there are no current loss claims that exceed the insured maximum limits. Significant loss experiences could subject the City to significant premium increases.

There was no reduction in insurance coverage from the prior year and in management's estimation maximum coverage limits are adequate.

NOTE I – LONG-TERM DEBT

Governmental activities long-term debt at September 30, 2013 is comprised of the following:

General Fund:

Note payable - State Bank of DeKalb - secured by a Chevrolet truck

Original amount of note \$25,526; payable in monthly installments of \$470; interest rate 4.00%	8,228
Total General Fund	<u>\$ 8,228</u>
Total Governmental Activities	<u>\$ 8,228</u>

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

Governmental activities long-term debt transactions for the year ended September 30, 2013 are summarized as follows:

	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013	Due within one year
Note payable	\$ 13,404	\$ -	\$ 5,176	\$ 8,228	\$ 5,413
Note payable	10,000	-	10,000	-	-
Note payable	25,124	-	25,124	-	-
	<u>\$ 48,528</u>	<u>\$ -</u>	<u>\$ 40,300</u>	<u>\$ 8,228</u>	<u>\$ 5,413</u>

Business-type activities long-term debt at September 30, 2013 is comprised of the following:

Water and Sewer Fund:

Note payable - State Bank of DeKalb - Secured by a certificate of deposit Original amount of note \$30,800; payable in 12 monthly installments of \$2,609; interest rate of 3.00%	10,368
Note payable - State Bank of DeKalb - Note for purchase of a 2012 Ford Truck Original amount of note \$20,906; payable in 48 monthly installments of \$473; interest rate of 4.00%	14,305
Capital lease for purchase of Kobelco Mini Excavator. Original amount of \$26,373; payable in 22 monthly installments of \$1,272; interest rate of 6.26%	14,759
\$250,000 Series 2006 Waterworks and Sewer System Bonds, maturing serially in varying amounts through 12-1-2025; interest rate 2.17%-5.42% for improvements and rehabilitation of the water system	215,000
Limited Tax Notes - Series 2013, dated January 9, 2013; due serially in varying amounts through August 15, 2019; interest rate 1.71%	435,000
General Obligation Refunding Bonds - Series 2013, dated January 9, 2013; due serially in varying amounts through August 15, 2019; interest rate 2.42%	345,000
Total Water and Sewer Fund	<u>\$ 1,034,432</u>
Total Business-Type Activities	<u>\$ 1,034,432</u>

Interest expense in the Proprietary Fund and Business-type Activities was \$28,959 for the year. Business-type transactions for the year ended September 30, 2013 long-term debt are summarized as follows:

	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013	Due within one year
Revenue bonds payable	\$ 575,000	\$ 780,000	\$ 360,000	\$ 995,000	\$ 75,000
Notes Payable	42,141	30,800	48,268	24,673	15,561
Capital Lease	-	26,373	11,614	14,759	14,759
	<u>\$ 617,141</u>	<u>\$ 837,173</u>	<u>\$ 419,882</u>	<u>\$ 1,034,432</u>	<u>\$ 105,320</u>

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

The annual requirements to retire long-term debt, exclusive of compensated absence liability, as of September 30, 2013 follow:

For the Years Ending:	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
September 30, 2014	5,413	229	105,320	27,853	138,815
September 30, 2015	2,815	-	80,404	25,663	108,882
September 30, 2016	-	-	78,708	24,032	102,740
September 30, 2017	-	-	80,000	22,550	102,550
September 30, 2018	-	-	80,000	21,031	101,031
September 30, 2019-2023	-	-	440,000	75,835	515,835
September 30, 2024-2028	-	-	170,000	10,614	180,614
	<u>\$ 8,228</u>	<u>\$ 229</u>	<u>\$ 1,034,432</u>	<u>\$ 207,578</u>	<u>\$ 1,250,467</u>

Capital assets with a cost of \$28,918 and accumulated depreciation of \$2,410 are included in capital assets. Amortization expense for the year was \$2,410 which is included in depreciation expense.

NOTE J – SHORT-TERM DEBT

On September 1, 2012, the City of De Kalb entered into an agreement with De Kalb Industrial Foundation in the amount of \$102,500, with interest of 3.00% per annum simple interest compounded annually. The principal and interest of the note is payable in one calendar year from the date of execution. The amount of the note payable represents unpaid 4b sales tax proceeds received by the City of De Kalb and not transferred to the De Kalb Industrial Foundation, Inc.

Short-term debt transactions for the year ended September 30, 2013 are summarized as follows:

	October 1, 2012	Additions	Retirements	September 30, 2013	Due within one year
Note payable - DIF	\$ 102,500		\$ 9,049	\$ 93,451	\$ 93,451
	<u>\$ 102,500</u>	<u>\$ -</u>	<u>\$ 9,049</u>	<u>\$ 93,451</u>	<u>\$ 93,451</u>

NOTE K – EMPLOYEE RETIREMENT SYSTEMS

Plan Description

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

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

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

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

	Plan Year 2012	Plan Year 2013
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost is \$3,987 and the net pension obligation is \$0.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ Asset
2011	\$ 11,569	\$ 11,569	100%	\$ -
2012	\$ 4,029	\$ 4,630	115%	\$ (601)
2013	\$ 3,987	\$ 3,987	100%	\$ -