

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

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

Valuation Date	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single			
Amortization Period	25.2 yrs; closed period	24.9 yrs; closed period	25.0 yrs; closed period
Amortization Period for new			
Gain / Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.00%	7.00%	7.00%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2012	\$587,206	\$455,800	128.8%	(\$131,406)	\$407,763	-32.2%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**CITY OF DE KALB, TEXAS
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Supplemental Death Benefits Fund

The City also participates in the cost-sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Your city offers supplemental death to:	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$877, \$709 and \$979.

NOTE L – TEXAS LOCAL FIREFIGHTERS' RETIREMENT FUND

The City participates in a self-funded retirement plan for volunteer firefighters. The plan was established by the Texas Local Fire Fighters Retirement Act (TLFFRA). TLFFRA allows for the 121 participating cities to administer their own individual pension funds. The General Fund transferred \$3,200 to this fund in the year ending September 30, 2013. More information and a complete copy of the act can be obtained at www.ffpc.state.tx.us/tlffra.aspx.

NOTE M – CONTRACTS, PARTICIPATION AGREEMENTS, AND PRIOR PERIOD ADJUSTMENTS

The City along with seven other area cities had formed Lake Texarkana Water Supply Corporation (LTWSC). The cities executed a contract to be provided water by the Water Supply Corporation. That contract has now been amended and extended by a document entitled; "Extension and Amendment to Water Supply Contract" dated March 1, 2010 by the cities. This document extends and amends the terms and provisions of the original contract and also recognizes the establishment of the Riverbend Water Resources District which was created by the 81st Texas Legislature, codified in Title 6, Special District Local Laws Code, Subtitle L, Chapter 9601, effective June 19, 2009, to which, the city is a member.

Each Member City agrees to make monthly payments to the City of Texarkana, Texas as agent for Riverbend Water Resources District in an amount deemed adequate to discharge its pro rata part of maintenance and operating and administrative expenses of Riverbend Water Resources District.

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The Extension and Amendment to Water Supply Contract likewise acknowledges that all existing Lake Texarkana Water Supply Corporation bonds have been paid and Lake Texarkana Water Supply Corporation was involuntarily dissolved effective March 21, 2007.

Simultaneously the City has entered into an Interlocal Cooperation Agreement dated March 5, 2010 with Riverbend Water Resources District. The City will procure certain services from Riverbend and participate in the funding of the development of Riverbend projects. The City incurred \$4,109 of expenditures to Riverbend.

The City incurred \$59,956 of expenditures for water under this Water Supply Contract for the year ending September 30, 2013. The amount incurred is based on actual water consumption and estimated operations costs. The amount will be true-up based on actual consumption and costs in the subsequent period, if necessary.

As a result of the payoff of the LTWSC bonds, during the current year, assets acquired with bond proceeds were conveyed to the member cities in proportion to their participation in the project. In May 2011, the City of Texarkana underwent an agreed-upon procedures examination to determine the percentages to be conveyed to the Member Cities for each city's respective portion of the undivided interest in the LTWSC facilities pursuant to the provisions of the 1969 Water Supply Contract between the City of Texarkana and member cities. The assets conveyed to the City were valued at cost less depreciation. The City recorded \$35,949 as its share of the capital improvements fund deposits and \$329,715 of capital assets less \$218,176 of accumulated depreciation. The transaction was recorded as a prior period adjustment in the Proprietary Fund.

The effect of GASB 65 on the City's government-wide financial statements is a decrease in Unrestricted Net Position of Governmental Activities by \$15,810 for capitalized bond issuance costs from previous years.

The City of Texarkana analyzed the various water rates for each member city charged to purchase water from Texarkana Water Utilities (TWU). The variables in the cost of water were recalculated for FY 2012. The City of De Kalb has reduced the prior year true-up liability in the amount of \$6,336. An increase to net position on the proprietary fund financial statements and government-wide statements is reflected to show a decrease in the cost of water due to a lower calculated rate per thousand gallons.

A decrease in accounts payable of the proprietary fund resulted in a prior period adjustment of \$60,515. The government-wide and fund financials reflects an increase in net position of the proprietary fund by \$60,515.

A prior period adjustment for over accrued interest is recorded in the proprietary fund as an increase to net position in the amount of \$3,724.

Capital assets and related accumulated depreciation was removed for prior year resulting in a decrease in net position in the proprietary fund in the amount of \$4,701.

Sales tax revenue was recalculated in the current year by accruing collections received two months after year-end instead of one month. The City of De Kalb recognized an increase in fund balance on the governmental fund financial statements of \$21,698 for November 2012 sales tax collections. Sales tax expense of one-third payment to the De Kalb Industrial Foundation was recalculated by accruing payments made two months after year-end instead of one month. The City of De Kalb recognized a decrease in fund balance on the governmental fund financial statements of (\$7,233). A net increase of \$14,466 is recognized as an increase to net position on the government-wide financial statements. The De Kalb Industrial Foundation recognized an increase in net position on the government-wide financial statements of \$7,233 for the increase in sales tax revenues.

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

A decrease in old balance sheet receivables of \$7,208 is reflected as a prior period adjustment. The governmental fund financials and government-wide financials reflect a decrease in fund balance and net position of \$7,208.

A prior period adjustment of \$64,669 reflects the correction of the General Fund note payable to DIF. The governmental fund financial and government-wide financial reflect an increase in fund balance and net position of \$64,669 in the General Fund and a decrease in net position in the component unit.

A correction to remove compensated absences from the General Fund balance of \$9,655 results in a prior period adjustment which increases fund balance and net position in the financial statements.

A decrease in accounts payable of the component unit resulted in a prior period adjustment of \$3,359. The government-wide financials reflects an increase in net position of the component unit by \$3,359.

NOTE N – DISCLOSURES OF DE KALB INDUSTRIAL FOUNDATION

The De Kalb Industrial Foundation Fund is a component unit of the City of De Kalb, Texas.

Cash and Deposits

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.

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

Capital Assets

In accordance with its charter, the component unit has obtained several tracts of land and buildings to promote industry in the City of De Kalb, Texas. Changes in land and other fixed assets during the year 2013 are as follows:

	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013
Component Unit				
Capital assets not being depreciated				
Land	\$ 87,567	\$ -	\$ -	\$ 87,567
Capital assets, being depreciated				
Infrastructure	301,087	-	-	301,087
Buildings	316,210	-	-	316,210
Equipment, Furniture & Vehicles	45,776	11,200	-	56,976
Total capital assets, being depreciated	663,073	11,200	-	674,273
Less accumulated depreciation for:				
Infrastructure	49,892	13,732	-	63,624
Buildings	58,330	8,359	-	66,689
Equipment, Furniture & Vehicles	45,776	498	-	46,274
Total accumulated depreciation	153,998	22,589	-	176,587
Net capital assets, being depreciated	509,075	(11,389)	-	497,686
Component unit capital assets, net	\$ 596,642	\$ (11,389)	\$ -	\$ 585,253

Depreciation expense of \$22,589 was charged to the De Kalb Industrial Foundation expenses in the statement of activities.

NOTE O – APPLICABLE SUBSEQUENT PRONOUNCEMENTS BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

The Governmental Accounting Standards Board recently issued the following statements not yet implemented by the City.

Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, issued June 2012 will be effective for the year ending September 30, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

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

NOTE P – DEFERRED INFLOW OF RESOURCES

Unavailable revenue reported in the governmental funds represents property taxes and warrants owed from prior years that are expected to be collected in the future.

NOTE Q – CONTINGENT LIABILITIES AND PURCHASE COMMITMENTS

Grants

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

Litigation

From time to time, the City is involved in certain litigation in the ordinary course of business. Management and the City attorney estimate that any liability that could arise as a result of litigation would not be material to the City's financial statements.

WSF Assessed Penalty

Texas Commission on Environmental Quality (TCEQ) assessed a penalty of \$35,890 regarding the waste water treatment plant. The penalty is deferred and contingent upon the City's compliance with TCEQ. The City is working on compliance with TCEQ to allow the penalty to be forgiven by TCEQ.

NOTE R – SUBSEQUENT EVENTS

In March of 2014, DIF purchased real estate at a cost of \$287,000. DIF financed this purchase by obtaining financing from the owner of the property in the principal amount of \$235,000. This debt is payable in monthly installments of \$1,858 at an initial interest rate of 5%. On April 10, 2019 the interest will adjust to one per cent over the national prime rate as published in the Wall Street Journal. The loan is secured by a deed of trust on the property purchased.

NOTE S – RELATED PARTY TRANSACTIONS

During FY 2013, the City purchased goods and services from a business that is controlled by a Council member. Total amounts purchased from this business were approximately \$16,000 during the year.

NOTE T – REFUNDED DEBT

During 2013, the City issued general obligation refunding bonds of \$345,000 (par value) with an interest rate of 2.42% as a current refunding of term bonds with an interest rate of 4% and a par value of \$315,000 recorded in the proprietary fund and business-type activities. The refunding bonds mature on August 15, 2024. The general obligation refunding bonds were issued at par. As a result of this current refunding, the City reduced its total debt service requirements by approximately \$25,000. The economic gain (difference between the present value of the debt service requirements on the old and new debt) was not considered material to the proprietary fund financial statements or to business-type activities.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		GAAP Basis Actual Amount	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Property taxes	\$ 297,115	\$ 297,115	\$ 297,361	\$ 246
General sales and use taxes	115,000	115,000	144,808	29,808
Franchise taxes	45,000	45,000	34,617	(10,383)
Penalties and interest	3,500	3,500	11,238	7,738
Fines	75,300	75,300	47,421	(27,879)
Licenses and permits	7,000	7,000	4,657	(2,343)
Grant - police department	-	-	30,500	30,500
Charges for services	8,175	8,175	6,008	(2,167)
Bowie County fire rescue support	6,000	6,000	6,000	-
Investment earnings	60	60	73	13
Other revenue	21,125	21,125	45,683	24,558
Total revenues	578,275	578,275	628,366	50,091
Expenditures				
Current				
General Government:				
Administrative	204,454	204,454	209,963	(5,509)
Public Safety:				
Police	290,633	290,633	281,742	8,891
Fire and emergency services	42,312	42,312	89,726	(47,414)
Code enforcement	47,667	47,667	51,962	(4,295)
Street	40,000	40,000	29,554	10,446
Capital outlay	-	-	32,302	(32,302)
Debt Service	5,201	5,201	21,814	(16,613)
Total expenditures	630,267	630,267	717,063	(86,796)
Excess (deficiency) of revenues over expenditures	(51,992)	(51,992)	(88,697)	(36,705)
Other financing sources (uses)				
Operating transfer (out)	37,703	37,703	(18,200)	(55,903)
Other financing (uses)	-	-	(18,486)	(18,486)
Total other financing sources (uses)	37,703	37,703	(36,686)	(74,389)
Net change in fund balance	(14,289)	(14,289)	(125,383)	(111,094)
Fund balance at beginning of year	148,893	148,893	153,793	4,900
Prior period adjustment	71,927	71,927	81,582	9,655
Fund balance at end of year	\$ 206,531	\$ 206,531	\$ 109,992	\$ (96,539)

Notes to the budgetary comparison schedule:

The general fund budget is prepared on a basis consistent with GAAP for a governmental fund.
Actual expenditures in the General Fund exceeded budgeted amounts by \$86,796 for the year.

CITY OF DE KALB, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3) (1) / (2)	(4) (2) - (1)	(5)	(6) (4) / (5)
12/31/2010	507,464	413,121	122.8%	(94,343)	435,060	-21.7%
12/31/2011	558,335	462,175	120.8%	(96,160)	410,844	-23.4%
12/31/2012	587,206	455,800	128.8%	(131,406)	407,763	-32.2%

WATER RATES EFFECTIVE FEBRUARY 2012

\$20.00 for the first 1000 gallons and \$3.60 for each additional 1000 gallons and
 \$.36 for each 100 gallons over a full 1000 gallons.

FULL 1000 GALLON INCREMENTS

0 - 1000	20.00
2000	23.60
3000	27.20
4000	30.80
5000	34.40
6000	38.00
7000	41.60
8000	45.20
9000	48.80
10000	52.40
11000	56.00
12000	59.60
13000	63.20
14000	66.80
15000	70.40
16000	74.00
17000	77.60
18000	81.20
19000	84.80
20000	88.40

100 GALLONS INCREMENTS

0 - 100	.36
200	.72
300	1.08
400	1.44
500	1.80
600	2.16
700	2.52
800	2.88
900	3.24
1000	3.60

OUTSIDE WATER RATES

\$20.00 for the first 1000 gallons
 also.

Attachment 11

Utilities within 2 miles of DeKalb

Central Bowie County Water Supply Corporation (CCN#10525)

Oak Grove Water Supply Corporation (CCN#10482)