

ANNUAL FINANCIAL REPORT

of the

**CITY OF
LIBERTY HILL, TEXAS**

For the Year Ended
September 30, 2013

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CITY OF LIBERTY HILL, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Liberty Hill, Texas:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
July 22, 2014

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

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

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

1. Governmental Activities – Most of the City's basic services are reported here, which include general government, public safety, and public works. Interest payments on the City's governmental debt are also reported here. Sales taxes, property taxes, franchise taxes, and other revenue finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's water, wastewater, and sewer operations. Interest payments on the City's business-type debt are also reported here.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains three governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and Liberty Hill Economic Development Corporation fund, which are considered to major funds.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, wastewater, and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$6,459,371 as of September 30, 2013. A portion of the City's net position (15 percent) reflects its investment in capital assets (e.g., land and City hall, as well as the public works facilities). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

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

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	September 30, 2013			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 1,487,129	\$ 4,208,295	\$ -	\$ 5,695,424
Capital assets, net	695,903	12,351,495	-	13,047,398
Total Assets	2,183,032	16,559,790	-	18,742,822
Long-term liabilities	6,317,283	5,745,000	-	12,062,283
Other liabilities	60,761	160,407	-	221,168
Total Liabilities	6,378,044	5,905,407	-	12,283,451
Net Position:				
Net investment in capital assets	673,057	6,606,495	(6,285,000)	994,552
Restricted	1,311,046	3,489,206	-	4,800,252
Unrestricted	(6,179,115)	558,682	6,285,000	664,567
Total Net Position	\$ (4,195,012)	\$ 10,654,383	\$ -	\$ 6,459,371
September 30, 2012				
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 1,216,136	\$ 4,327,855	\$ -	\$ 5,543,991
Capital assets, net	623,925	11,423,370	-	12,047,295
Total Assets	1,840,061	15,751,225	-	17,591,286
Long-term liabilities	6,686,830	5,915,000	-	12,601,830
Other liabilities	85,234	170,792	-	256,026
Total Liabilities	6,772,064	6,085,792	-	12,857,856
Net Position:				
Net investment in capital assets	623,925	5,508,370	(6,620,000)	(487,705)
Restricted	1,063,746	3,545,435	-	4,609,181
Unrestricted	(6,619,674)	611,628	6,620,000	611,954
Total Net Position	\$ (4,932,003)	\$ 9,665,433	\$ -	\$ 4,733,430

A portion of the City's net position, \$4,800,252 represents resources restricted to a specific purpose. The balance of unrestricted net position, \$664,567, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by \$1,725,941 during the current fiscal year, an increase of 36 percent over prior year. The overall condition of the City improved during the year primarily due to increases in revenue from charges of services and operating grants and contributions in the business-type activities.

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the statement of net position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities, in the amount of \$6,285,000, is being used to finance capital assets reported in business-

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

type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

Statement of Activities

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

	For the Year Ended September 30, 2013			For the Year Ended September 30, 2012		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 272,599	\$ 1,832,304	\$ 2,104,903	\$ 241,154	\$ 1,111,563	\$ 1,352,717
Operating grants and contributions	98,085	828,093	926,178	121	714,899	715,020
General revenues:						
Property taxes	625,291	-	625,291	511,444	-	511,444
Sales taxes	677,514	-	677,514	627,051	-	627,051
Franchise and local taxes	101,931	-	101,931	100,132	-	100,132
Other	8,518	38,023	46,541	9,431	29,751	39,182
Total Revenues	<u>1,783,938</u>	<u>2,698,420</u>	<u>4,482,358</u>	<u>1,489,333</u>	<u>1,856,213</u>	<u>3,345,546</u>
Expenses						
General government	593,368	-	593,368	498,967	-	498,967
Public safety	348,719	-	348,719	312,066	-	312,066
Public works	99,135	-	99,135	90,574	-	90,574
Water, sewer, and wastewater collections	-	1,280,771	1,280,771	-	1,131,740	1,131,740
Interest and fiscal agent fees on long-term debt	169,406	265,018	434,424	177,050	71,705	248,755
Total Expenses	<u>1,210,628</u>	<u>1,545,789</u>	<u>2,756,417</u>	<u>1,078,657</u>	<u>1,203,445</u>	<u>2,282,102</u>
Transfers in (out)	163,681	(163,681)	-	-	-	-
Change in Net Position	736,991	988,950	1,725,941	410,676	652,768	1,063,444
Beginning net position	(4,932,003)	9,665,433	4,733,430	(5,342,679)	9,012,665	3,669,986
Ending Net Position	<u>\$ (4,195,012)</u>	<u>\$ 10,654,383</u>	<u>\$ 6,459,371</u>	<u>\$ (4,932,003)</u>	<u>\$ 9,665,433</u>	<u>\$ 4,733,430</u>

Overall, governmental activities revenue increased. Property tax revenue increased by \$113,847 or 22 percent due to an increase in property tax rates. Sales tax also increased over the prior year by \$50,463 or 8 percent due to a rising economy. Operating grants and contributions increased by \$97,964 due to grants for parks and recreation. Governmental expenses increased by \$131,971 or 12 percent. This increase is primarily due to increases in payroll and street and maintenance expenses.

Revenues for business-type activities increased by \$842,207 or 45 percent from prior year mainly due to a higher volume of customers using the City's wastewater treatment facility to provide wastewater collection services. Similarly, business-type expenses increased by \$342,344 or 28 percent as a result of the increase in depreciation expense due to more assets being depreciated and increase in interest and fiscal agent fees on long-term debt that was issued at the end of the prior year.

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

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$1,432,244. At the end of the current year, \$121,198 was unassigned. Total restricted fund balance for various purposes is \$1,311,046.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$121,198, while total fund balance reached \$690,258. \$535,010 of the total fund balance is restricted for street and maintenance and \$34,050 is restricted for municipal court security and technology. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11 percent of total general fund expenditures, while total fund balance represents 64 percent of the same amount. The general fund in total demonstrated an overall increase of \$89,347 due to a transfer in from the enterprise fund.

The debt service fund balance of \$67,313 is restricted for future debt payments of principal and interest. The debt service fund experienced an increase in fund balance of \$64,251. This increase is primarily due to a transfer in from the general fund.

The economic development corporation fund balance increased \$134,125 as a result of a reduction in expenditures for economic development. The ending fund balance of \$674,673 is restricted for economic development.

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail. The City's enterprise fund had a total net position of \$10,654,383, which is an increase of \$988,950 from the prior year. This increase can be attributed to revenue from the wastewater collection system. Of the City's enterprise fund's total net position, \$183,429 is restricted for future debt service and \$3,305,777 is restricted for capital projects as a result of third party contracts and bond covenants. The City's unrestricted enterprise fund net position totaled \$558,682.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgeted general fund revenues exceeded actual revenues by \$22,454 during the year. This net negative variance includes the positive variance of \$71,419 for sales tax revenues due to a better economy than expected. The net negative variance is primarily due to less intergovernmental revenue for park and recreational grants and property tax revenue than expected. General fund expenditures were under the final budget by \$24,541 mainly due to a positive variance of \$116,352 in public works expenditures. This positive variance comes from less spending in the parks and recreation department than expected. The net positive variance for budgeted expenditures also includes a negative variance in general government expenditures of \$110,109 due to more payroll expenditures being allocated toward administration than in parks and recreation.

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

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds had invested \$695,903 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$71,978 from the prior year.

Major capital asset events during the year included the following:

- Pavilion and picnic area of \$131,420

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

LONG-TERM DEBT

At the end of the current year, the City's governmental funds had total certificates of obligation outstanding of \$6,285,000. Business-type activities had total revenue bonds outstanding of \$5,745,000 at year end. More detailed information about the City's long-term liabilities is presented in note III.D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved a \$1.1 million budget for the 2013/2014 year. The total property tax rate for 2014 remains the same at \$0.536426. The maintenance and operation rate will decrease to \$0.078731 and debt service rate will increase to \$0.457695.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Barbara Zwernemann, City Secretary, City Hall, 1120 Loop 332, Liberty Hill, Texas, 78642; telephone (512) 778-5449.

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BASIC FINANCIAL STATEMENTS

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 1,339,577	\$ 4,045,054	\$ -	\$ 5,384,631
Receivables, net	147,552	163,241	-	310,793
	1,487,129	4,208,295	-	5,695,424
Capital assets:				
Nondepreciable capital assets	209,987	1,044,670	-	1,254,657
Net depreciable capital assets	485,916	11,306,825	-	11,792,741
	695,903	12,351,495	-	13,047,398
Total Assets	2,183,032	16,559,790	-	18,742,822
<u>Liabilities</u>				
Accounts payable and accrued liabilities	47,736	62,136	-	109,872
Customer deposits	-	81,300	-	81,300
Accrued interest	13,025	16,971	-	29,996
	60,761	160,407	-	221,168
Noncurrent liabilities:				
Long-term liabilities due within one year	376,639	225,000	-	601,639
Long-term liabilities due in more than one year	5,940,644	5,520,000	-	11,460,644
	6,317,283	5,745,000	-	12,062,283
Total Liabilities	6,378,044	5,905,407	-	12,283,451
<u>Net Position</u>				
Net investment in capital assets	673,057	6,606,495	(6,285,000)	994,552
Restricted	1,311,046	3,489,206	-	4,800,252
Unrestricted	(6,179,115)	558,682	6,285,000	664,567
	-	-	-	-
Total Net Position	\$ (4,195,012)	\$ 10,654,383	\$ -	\$ 6,459,371

See Notes to Financial Statements.

CITY OF LIBERTY HILL, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 593,368	\$ 80,993	\$ -
Public safety	348,719	191,606	-
Public works	99,135	-	98,085
Interest and fiscal agent fees on long-term debt	169,406	-	-
Total Governmental Activities	1,210,628	272,599	98,085
Business-Type Activities			
Water, sewer, and wastewater collections	1,280,771	1,832,304	828,093
Interest and fiscal agent fees on long-term debt	265,018	-	-
Total Business-Type Activities	1,545,789	1,832,304	828,093
Total Primary Government	\$ 2,756,417	\$ 2,104,903	\$ 926,178

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and local taxes

Other

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (512,375)	\$ -	\$ (512,375)
(157,113)	-	(157,113)
(1,050)	-	(1,050)
(169,406)	-	(169,406)
<u>(839,944)</u>	<u>-</u>	<u>(839,944)</u>
-	1,379,626	1,379,626
-	<u>(265,018)</u>	<u>(265,018)</u>
-	<u>1,114,608</u>	<u>1,114,608</u>
<u>(839,944)</u>	<u>1,114,608</u>	<u>274,664</u>
625,291	-	625,291
677,514	-	677,514
101,931	-	101,931
8,518	38,023	46,541
163,681	<u>(163,681)</u>	<u>-</u>
<u>1,576,935</u>	<u>(125,658)</u>	<u>1,451,277</u>
736,991	988,950	1,725,941
<u>(4,932,003)</u>	<u>\$ 9,665,433</u>	<u>\$ 4,733,430</u>
<u>\$ (4,195,012)</u>	<u>\$ 10,654,383</u>	<u>\$ 6,459,371</u>

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CITY OF LIBERTY HILL, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2013

	General	Debt Service	Liberty Hill Economic Development Corporation	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 666,731	\$ 67,313	\$ 605,533	\$ 1,339,577
Receivables, net	108,053	5,747	33,752	147,552
Due from other funds	-	-	35,463	35,463
Total Assets	\$ 774,784	\$ 73,060	\$ 674,748	\$ 1,522,592
Liabilities				
Accounts payable and accrued liabilities	\$ 47,661	\$ -	\$ 75	\$ 47,736
Due to other funds	35,463	-	-	35,463
Total Liabilities	83,124	-	75	83,199
Deferred Inflows of Resources				
Unavailable revenue - property taxes	1,402	5,747	-	7,149
Fund Balances				
Restricted:				
Municipal court	34,050	-	-	34,050
Street maintenance	535,010	-	-	535,010
Debt service	-	67,313	-	67,313
LHEDC	-	-	674,673	674,673
Unassigned	121,198	-	-	121,198
Total Fund Balances	690,258	67,313	674,673	1,432,244
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 774,784	\$ 73,060	\$ 674,748	
Adjustments for the Statement of Net Position:				
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.				
Nondepreciable capital assets				209,987
Net depreciable capital assets				485,916
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.				
Unavailable revenue related to property taxes				7,149
Some liabilities, including bonds payable and accrued interest payable, are not reported as liabilities in the governmental funds.				
Accrued interest				(13,025)
Long-term liabilities due within one year				(376,639)
Long-term liabilities due in more than one year				(5,940,644)
Net Position of Governmental Activities				\$ (4,195,012)

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2013

<u>Revenues</u>	General	Debt Service	Liberty Hill Economic Development Corporation	Total Governmental Funds
Property taxes	\$ 110,570	\$ 507,572	\$ -	\$ 618,142
Sales taxes	485,419	-	192,095	677,514
Franchise and local taxes	101,931	-	-	101,931
Fines and forfeitures	191,606	-	-	191,606
Licenses and permits	56,610	-	-	56,610
Charges for services	24,383	-	-	24,383
Intergovernmental	98,085	-	-	98,085
Other	3,200	-	5,318	8,518
Total Revenues	1,071,804	507,572	197,413	1,776,789
<u>Expenditures</u>				
Current:				
General government	513,380	-	63,288	576,668
Public safety	345,307	-	-	345,307
Public works	225,772	-	-	225,772
Debt service:				
Principal	-	335,000	-	335,000
Interest expense	-	170,000	-	170,000
Total Expenditures	1,084,459	505,000	63,288	1,652,747
Excess (Deficiency) of Revenues Over (Under) Expenditures	(12,655)	2,572	134,125	124,042
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	(61,679)	-	-	(61,679)
Transfers in	163,681	61,679	-	225,360
Total Other Financing Sources	102,002	61,679	-	163,681
Net Change in Fund Balances	89,347	64,251	134,125	287,723
Beginning fund balances	600,911	3,062	540,548	1,144,521
Ending Fund Balances	\$ 690,258	\$ 67,313	\$ 674,673	\$ 1,432,244

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2013

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

Net change in fund balances - total governmental funds	\$	287,723
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital asset acquisitions and retirements		131,420
Depreciation expense		(59,442)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Net change in unavailable revenue - property taxes		7,149
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Principal paid on long-term debt		373,871
Accrued interest expense		594
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences		(4,324)
Change in Net Position of Governmental Activities	\$	<u>736,991</u>

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2013

	<u>Business-Type Activities Enterprise</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 4,045,054
Receivables, net	163,241
Total Current Assets	<u>4,208,295</u>
Noncurrent Assets	
Capital assets:	
Land	1,044,670
Wastewater treatment facility	4,081,916
Water system	1,694,907
Sewer system	6,284,046
Less accumulated depreciation	(754,044)
Total Net Depreciable Assets	<u>11,306,825</u>
Total Noncurrent Assets	<u>12,351,495</u>
Total Assets	<u>16,559,790</u>
Liabilities	
Current Liabilities	
Accounts payable	62,136
Customer deposits	81,300
Accrued interest	16,971
Total Current Liabilities	<u>160,407</u>
Noncurrent Liabilities	
Long-term liabilities due within one year	225,000
Long-term liabilities due in more than one year	5,520,000
Total Noncurrent Liabilities	<u>5,745,000</u>
Total Liabilities	<u>5,905,407</u>
Net Position	
Net investment in capital assets	6,606,495
Restricted for:	
Debt service	183,429
TWDB capital projects	1,464,484
WWTF capital projects	659,978
Water and sewer capital projects	376,931
Regional wastewater plant	804,384
Unrestricted	558,682
Total Net Position	<u>\$ 10,654,383</u>

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

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

For the Year Ended September 30, 2013

	<u>Business-Type Activities Enterprise</u>
<u>Operating Revenues</u>	
Water charges	\$ 650,835
Sewer revenue	120,341
Wastewater collection charges	1,061,128
Regional wastewater contributions	828,093
Other	36,954
Total Operating Revenues	<u>2,697,351</u>
<u>Operating Expenses</u>	
Water operations	374,276
Sewer operations	104,924
Wastewater collection operations	481,584
Regional wastewater charges	18,465
Depreciation	301,522
Total Operating Expenses	<u>1,280,771</u>
Operating Income	<u>1,416,580</u>
<u>Nonoperating Revenues (Expenses)</u>	
Interest expense and fiscal agent fees	(265,018)
Investment income	1,069
Total Nonoperating (Expenses)	<u>(263,949)</u>
Income Before Transfers	1,152,631
Transfers (out)	<u>(163,681)</u>
Change in Net Position	988,950
Beginning net position	<u>9,665,433</u>
Ending Net Position	<u>\$ 10,654,383</u>

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2013

	<u>Business-Type Activities</u> <u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,723,042
Payments for costs of services	(926,606)
Net Cash Provided by Operating Activities	<u>1,796,436</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers (out) to other funds	(163,681)
Net Cash (Used) by Noncapital Financing Activities	<u>(163,681)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(1,229,648)
Principal paid on capital debt	(170,000)
Interest and fiscal agent fees paid	(265,018)
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,664,666)</u>
<u>Cash Flows from Investing Activities</u>	
Interest received	1,069
Net (Decrease) in Cash and Cash Equivalents	(30,842)
Beginning cash and cash equivalents	4,075,896
Ending Cash and Cash Equivalents	<u>\$ 4,045,054</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 1,416,580
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	301,522
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	21,491
Due from other funds	67,228
Increase (Decrease) in:	
Accounts payable	(6,234)
Accrued interest	(8,351)
Customer deposits	4,200
Net Cash Provided by Operating Activities	<u>\$ 1,796,436</u>

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Liberty Hill, Texas (the "City") was incorporated under the laws of the State of Texas in January, 1999. The City operates as a "General Law" City, which provides for a "Mayor-Council" form of government.

The City provides the following services: public safety, highways and streets, sanitation, water and sewer services, and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. They present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operation. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

Blended Component Unit

Liberty Hill Economic Development Corporation

The Liberty Hill Economic Development Corporation (the "LHEDC") is a non profit corporation organized under the Development Corporation Act of 1979 and covered by Section 4B of the Act. The LHEDC was organized exclusively for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City, for the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The LHEDC is governed by a board of directors appointed by the City Council. The LHEDC is responsible for managing a one-half percent sales tax for its economic development activities on behalf of the City. The LHEDC's budget requires approval from City Council.

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

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component unit. Governmental activities, which are normally 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.

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following major governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works.

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

The *Liberty Hill Economic Development Corporation* fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The sources of revenue are from sales taxes and expenditures are restricted to items that will enhance economic development in the City. While this fund did not meet the technical criteria to be presented as a major fund, the City has elected to present it as major due to its significance.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for the operations that provide water, sewer operations, and wastewater treatment. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including

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

depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the

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

availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

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

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

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit
- Mutual funds of a specific type
- Statewide investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) and are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and fixtures	4-8 years
Infrastructure	40 years
Machinery and equipment	4-8 years
Water and sewer system	20-40 years
Buildings and improvements	10-40 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

The City maintains formal programs for vacation and sick leave. Vacation pay is calculated one year from the date of employment and is cumulative up to 80 hours to 120 hours depending on the length of time the employees worked with the City. According to policy, 40 to 80 hours may carry over at year end depending on the length of time the employees worked with the City. Sick leave is accumulated up to 240 hours but does not vest.

7. Long-Term Obligations

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

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

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, including any premium or discount, and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

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

8. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation

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

imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

The City will strive to achieve and maintain an unassigned fund balance in the general fund equal to at least 90 days of budgeted operating expenditures. If the unassigned fund balance falls below the target or has a deficiency, the City will seek to reduce expenditures prior to increasing revenues in order to replenish the fund balance within a reasonable timeframe not to exceed three years.

11. Estimates

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. Penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost

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

of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined in the approved budget is at the department level in the general fund.

A. Expenditures in Excess of Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General Fund	
General Government:	
City Hall	<u>\$ 120,641</u>

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Investment Type	Fair Value	Weighted Average Maturity (Years)
State Pool (TexPool)	\$ 798,433	0.00
Government Money Market Fund	1,090,289	0.00
Total Investments	\$ 1,888,722	
Portfolio Weighted Average Maturity		0.00

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity not to exceed five years, structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act, and investing operating funds primarily in short-term securities or similar government investment pools.

Credit risk. The City’s investment policy limits investments in no-load money market mutual funds rated as to investment quality not less than “AAA” by a nationally recognized investment rating firm. As of September 30, 2013, the City’s investments in TexPool were rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency. More specifically, the investments in U.S. agencies held by the City as of September 30, 2013 consist of a variety of bonds and discount notes issued by corporate trust services.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on

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

deposit at the depository bank to be collateralized by securities. At year end, market values of the City's pledged securities and FDIC insurance exceeded bank balances.

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

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

B. Receivables

The following comprises receivable balances at year end:

	General	Debt Service	LHEDC	Enterprise
Property taxes	\$ 2,205	\$ 7,590	\$ -	\$ -
Other taxes	106,651	-	33,752	-
Accounts	-	-	-	201,793
Less allowance	(803)	(1,843)	-	(38,552)
Total	\$ 108,053	\$ 5,747	\$ 33,752	\$ 163,241

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

C. Capital Assets

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 209,987	\$ -	\$ -	\$ 209,987
	209,987	-	-	209,987
Other capital assets:				
Building and improvements	426,285	131,420	-	557,705
Machinery and equipment	461,882	-	-	461,882
	888,167	131,420	-	1,019,587
Less accumulated depreciation for:				
Building and improvements	(80,538)	(15,782)	-	(96,320)
Machinery and equipment	(393,691)	(43,660)	-	(437,351)
	(474,229)	(59,442)	-	(533,671)
Other capital assets, net	413,938	71,978	-	485,916
Governmental Activities Capital Assets, Net	\$ 623,925	\$ 71,978	\$ -	\$ 695,903
			Less associated debt	(22,846)
			Net investment in capital assets	\$ 673,057

Depreciation was charged to governmental functions as follows:

General government	\$ 12,376
Public safety	42,283
Public works	4,783
Total Governmental Activities Depreciation Expense	\$ 59,442

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

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

	*Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 1,044,670	\$ -	\$ -	\$ 1,044,670
	<u>1,044,670</u>	<u>-</u>	<u>-</u>	<u>1,044,670</u>
Other capital assets:				
Wastewater treatment facility	4,081,916	-	-	4,081,916
Water system	1,342,491	352,416	-	1,694,907
Sewer system	5,406,814	877,232	-	6,284,046
	<u>10,831,221</u>	<u>1,229,648</u>	<u>-</u>	<u>12,060,869</u>
Less accumulated depreciation for:				
Wastewater treatment facility	-	(102,048)	-	(102,048)
Water system	(36,799)	(42,373)	-	(79,172)
Sewer system	(415,723)	(157,101)	-	(572,824)
	<u>(452,522)</u>	<u>(301,522)</u>	<u>-</u>	<u>(754,044)</u>
Other capital assets, net	<u>10,378,699</u>	<u>928,126</u>	<u>-</u>	<u>11,306,825</u>
Business-Type Activities Capital Assets, Net	<u>\$ 11,423,369</u>	<u>\$ 928,126</u>	<u>\$ -</u>	<u>\$ 12,351,495</u>
			Less associated debt	<u>(5,745,000)</u>
			Net Investment in Capital Assets	<u>\$ 6,606,495</u>

* Beginning balance has been restated.

Depreciation was charged to business-type functions as follows:

Water operations	\$ 42,373
Sewer operations	157,101
Wastewater collection operations	102,048
Total Business-Type Activities Depreciation Expense	<u>\$ 301,522</u>

D. Long-Term Debt

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

	(1)Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
2006A Certificates of Obligation	\$ 1,095,000	\$ -	\$ (55,000)	\$ 1,040,000	* \$ 60,000
2006B Certificates of Obligation	5,525,000	-	(280,000)	5,245,000	* 290,000
Capital leases	61,717	-	(38,871)	22,846	** 18,146
Compensated absences	5,113	16,154	(11,830)	9,437	8,493
Total Governmental Activities	<u>\$ 6,686,830</u>	<u>\$ 16,154</u>	<u>\$ (385,701)</u>	<u>\$ 6,317,283</u>	<u>\$ 376,639</u>
			Long-term liabilities due in more than one year	<u>\$ 5,940,644</u>	
			*Debt associated with business-type capital assets	<u>\$ 6,285,000</u>	
			**Debt associated with the governmental capital assets	<u>\$ 22,846</u>	

(1) Beginning balance has been restated.

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

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

The following is a summary of changes in the City's total business-type long-term liabilities for the year. The City uses the water and wastewater service revenues to liquidate business-type long-term liabilities.

	(1)Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
2012 Water Revenue Bond	\$ 2,165,000	\$ -	\$ (90,000)	\$ 2,075,000 *	\$ 90,000
2012 Wastewater Treatment Facility Revenue Bond	3,750,000	-	(80,000)	3,670,000 *	135,000
Total Business-Type Activities	<u>\$ 5,915,000</u>	<u>\$ -</u>	<u>\$ (170,000)</u>	<u>\$ 5,745,000</u>	<u>\$ 225,000</u>
				<u>Long-term liabilities due in more than one year</u>	<u>\$ 5,520,000</u>
				<u>*Debt associated with business-type capital assets</u>	<u>\$ 5,745,000</u>

(1) Beginning balance has been restated.

Governmental activities long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Certificates of Obligation		
Series 2006A	3.00-3.65%	\$ 1,040,000
Series 2006B	2.00-2.65%	5,245,000
Total Certificates of Obligation		<u>6,285,000</u>
Capital Leases		
Dodge charger	5.80%	22,846
Total Capital Leases		<u>22,846</u>
Total Governmental Activities Long-Term Debt		<u>\$ 6,307,846</u>

Business-type activities long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Revenue Bonds		
2012 Water Revenue Bond	1.00-4.85%	\$ 2,075,000
Wastewater Treatment Facility Series 2012	3.85%	3,670,000
Total Revenue Bonds		<u>5,745,000</u>
Total Business-Type Activities Long-Term Debt		<u>\$ 5,745,000</u>

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

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

Year Ending Sep. 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 350,000	\$ 162,583	\$ 225,000	\$ 211,845
2015	365,000	154,632	235,000	205,523
2016	375,000	146,186	240,000	198,707
2017	390,000	137,335	245,000	191,463
2018	405,000	127,910	255,000	183,787
2019-2023	2,265,000	465,260	1,410,000	782,080
2024-2028	2,135,000	138,583	1,685,000	502,368
2029-2033	-	-	1,450,000	141,320
Total	\$ 6,285,000	\$ 1,332,489	\$ 5,745,000	\$ 2,417,093

Capital Leases

The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending Sep. 30	Governmental Activities	
	Principal	Interest
2014	\$ 18,146	\$ 927
2015	4,700	68
Total	\$ 22,846	\$ 995

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Machinery and equipment	\$ 81,796
Less: Accumulated depreciation	(66,800)
Total	\$ 14,996

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or not performed correctly could result in a substantial liability to the City. As of September 30, 2013, the City had unspent bond proceeds from both the certificates of obligation and revenue bonds. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations.

The City borrowed \$8,130,000 in 2007 from the Texas Water Development Board (TWDB) Clean Water Service Revolving Fund Program for the purpose of constructing wastewater collection facilities and purchasing treatment capacity to serve all residents and businesses within the City's limits. The project was to be constructed in four phases. The first three phases of the collection

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

system were designed by another engineer that is no longer contracted with the City. The first two phases were constructed. In 2009, the City hired a new engineer to redesign the remaining unconstructed phases as a gravity sewer system. The City and Steger Bizzell spent the next twelve months working with the TWDB on the superiority and lower cost associated with the gravity system. After that time, the City was approved to redesign the final two phases as gravity sewer. The final phase has been designed and publicly bid, and will be awarded in July, 2014 for construction. Construction should be complete by July, 2015 and all TWDB loan proceeds will have been expended.

E. Interfund Transactions

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

Transfer In	Transfer Out	Amount
General Fund	Enterprise Fund	\$ 163,681
Debt Service Fund	General Fund	61,679
	Total	\$ 225,360

Amounts transferred between funds were related to operating activities.

The composition of interfund balances was as follows:

Receivable Fund	Payable Fund	Amount
LHEDC Fund	General Fund	\$ 35,463
	Total	\$ 35,463

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

F. Fund Equity

Funds restricted by enabling legislation are \$34,050, which are related to municipal court security and technology fees.

The enterprise fund has the following net position restrictions:

- \$183,429 is restricted for a sinking reserved fund for the Water Revenue Bonds Series 2012 and Wastewater Treatment Facility Revenue Bonds Series 2012.
- \$1,464,484 is unspent bond proceeds from the Texas Water Development Board (TWDB) that are restricted for capital projects.
- \$659,978 is unspent bond proceeds from the Wastewater Treatment Facility Revenue Bonds Series 2012 that are restricted for capital projects.
- \$376,931 is unspent bond proceeds from the Water Revenue Bonds Series 2012 that are restricted for capital projects.
- \$804,384 is unspent proceeds from various contributors for future wastewater plant construction projects.

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

G. Restatement of Net Position/Fund Balance

Beginning net position and fund balance has been restated for various adjustments identified in the audit process. The restatements are as follows.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>General Fund</u>	<u>Debt Service</u>	<u>LHEDC</u>
Beginning net position/ fund balance as reported	\$ 1,107,899	\$ 3,337,991	\$ 557,014	\$ -	\$ 524,302
Establishment of debt service fund	3,062	(3,062)	-	3,062	-
Accrual of measurable and available sales and franchise taxes	33,045	-	16,799	-	16,246
Accrual of unbilled changes for services	-	89,817	-	-	-
Reduction in accrual of payables	27,098	65,332	27,098	-	-
Record customer deposits	-	(77,100)	-	-	-
Reduce capital assets for costs that did not meet criteria	-	(74,085)	-	-	-
Remove bond issuance costs in accordance with GASB 65	-	(375,148)	-	-	-
Adjustment for accrued interest	(13,619)	81,688	-	-	-
Adjustment for capital leases	11,323	-	-	-	-
Additional compensated absences	(5,113)	-	-	-	-
Reclassification of long-term debt	(6,620,000)	6,620,000	-	-	-
Reclassification of LHEDC	524,302	-	-	-	-
Beginning net position	<u>\$ (4,932,003)</u>	<u>\$ 9,665,433</u>	<u>\$ 600,911</u>	<u>\$ 3,062</u>	<u>\$ 540,548</u>

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

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

C. Pension Plan

Texas Municipal Retirement System

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at www.TMRS.com.

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

	<u>2013</u>	<u>2012</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Benefits

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

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

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

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 16-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits such as Updated Service Credits and Annuity Increases.

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

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 10,380	\$ 10,380	100.00%	\$ -
2012	\$ 10,077	\$ 10,077	100.00%	\$ -
2013	\$ 8,360	\$ 8,360	100.00%	\$ -

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	29.2 Years - Closed period	21.1 Years - Closed period	22.4 Years - Closed period
Amortization Period for New Gains and Losses	16 years	18 Years	17 Years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost of Living Adjustments	0.00%	0.00%	0.00%

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

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

	2013
Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 190,274
Actuarial Accrued Liability	\$ 191,023
Percentage Funded	99.6%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 749
Annual Covered Payroll	\$ 417,732
UAAL as a Percentage of Covered Payroll	0.2%

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 continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

D. Other Post Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2013, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The

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

funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal years ended 2013, 2012, and 2011 were \$118, \$124, and \$120, respectively. The City's contribution rates for the past three years are shown below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Req. Contrib. (Rate)	0.00%	0.00%	0.00%
Actual Contribution Made	0.00%	0.00%	0.00%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LIBERTY HILL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2013

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 165,000	\$ 165,000	\$ 110,570	\$ (54,430)
Sales taxes	414,000	414,000	485,419	71,419
Franchise and local taxes	90,500	90,500	101,931	11,431
Fines and forfeitures	187,500	186,500	191,606	5,106
Licenses and permits	36,800	36,800	56,610	19,810
Charges for services	-	24,383	24,383	-
Intergovernmental	177,000	177,000	98,085	(78,915)
Other	525	75	3,200	3,125
Total Revenues	<u>1,071,325</u>	<u>1,094,258</u>	<u>1,071,804</u>	<u>(22,454)</u>
Expenditures				
General Government				
City hall	260,008	184,550	305,191	(120,641) *
Municipal court	160,408	218,721	208,189	10,532
Total General Government	<u>420,416</u>	<u>403,271</u>	<u>513,380</u>	<u>(110,109)</u>
Public Safety				
Public safety	362,170	363,605	345,307	18,298
Total Public Safety	<u>362,170</u>	<u>363,605</u>	<u>345,307</u>	<u>18,298</u>
Public Works				
Parks and recreation	178,000	219,124	106,405	112,719
Street maintenance	59,000	123,000	119,368	3,632
Total Public Works	<u>237,000</u>	<u>342,124</u>	<u>225,772</u>	<u>116,352</u>
Total Expenditures	<u>1,019,586</u>	<u>1,109,000</u>	<u>1,084,459</u>	<u>24,541</u>
Other Financing Sources (Uses)				
Transfers	-	-	102,002	102,002
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>102,002</u>	<u>102,002</u>
Net Change in Fund Balance	<u>\$ 51,739</u>	<u>\$ (14,742)</u>	<u>89,347</u>	<u>\$ 104,089</u>
Beginning fund balance			<u>600,911</u>	
		Ending Fund Balance	<u>\$ 690,258</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded the legal level of control.

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CITY OF LIBERTY HILL, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2013

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

Fiscal Year	2013	2012	2011
Actuarial Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 190,274	\$ 161,746	\$ 128,655
Actuarial Accrued Liability	\$ 191,023	\$ 168,937	\$ 140,887
Percentage Funded	99.6%	95.7%	91.3%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 749	\$ 7,191	\$ 12,232
Annual Covered Payroll	\$ 417,732	\$ 414,660	\$ 402,315
UAAL % of Covered Payroll	0.2%	1.7%	3.0%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost (APC)	8,360	10,077	10,380
Contributions Made	8,360	10,077	10,380
NPO at the End of Period	\$ -	\$ -	\$ -

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