

**CITY OF TOLAR**

---

FINANCIAL STATEMENTS  
and  
INDEPENDENT AUDITORS' REPORT

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YEAR ENDED SEPTEMBER 30, 2013

**CITY OF TOLAR**  
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## **FINANCIAL SECTION**

# Merritt, McLane & Hamby

401 Cypress Street, Suite 303  
Abilene, TX 79601

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Tolar, Texas

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement.

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

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

### **Opinions**


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

**Other Matters*****Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and pages 33 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, on our consideration of the City of Tolar, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Tolar, Texas' internal control over financial reporting and compliance.



**MERRITT, MCLANE & HAMBY**

Abilene, Texas  
March 5, 2014

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Tolar's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The City's total Net Position decreased \$53,638 from prior year. Net Position of our business-type activities decreased \$62,813 (5.3%). Net Position of our governmental activities increased \$9,175 (or 0.9%).
- During the year, the City's expenses were \$9,175 less than the \$438,711 generated in taxes and other revenues for governmental programs.
- In the City's business-type activities, revenues were \$287,857, including transfers of \$25,229, while expenses were \$350,670.
- The total cost of the City's programs was \$754,977.
- The general fund reported fund balance of \$183,019.
- 

### OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

#### *Government-wide Financial Statements*

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as *Net Position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, and public service. Business-type activities include water and sewer activities.

The City's financial reporting entity includes the funds of the City (primary government).

### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has two kinds of funds:

*Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison schedules for general fund and enterprise funds can be found in required supplementary information. These statements and schedules demonstrate compliance with the City's adopted and final revised budget.

*Proprietary funds* are required in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water and sewer. Internal service funds provide services and charge fees to customers within the city organization such as equipment services (repair and maintenance of City vehicles) and the print shop (mail and printing services for City departments). The City has no internal service funds.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements, both with more detail for major enterprise funds.

### ***Notes to the Financial Statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

### ***Other Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.



## Financial Analysis of the City as a Whole

**Net Position.** As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is \$2,133,794. This is a \$53,638 decrease over last year's net position of \$2,187,432. The following Table A-1 provides a summary of the City's net position at September 30, 2013 and 2012.

**Table A-1**  
**City of Tolar's Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	241,544	521,434	80,717	136,445	322,261	657,879
Capital and Non-Current Assets	969,065	679,039	1,332,875	1,365,336	2,301,940	2,044,375
<b>Total Assets</b>	<u>1,210,609</u>	<u>1,200,473</u>	<u>1,413,592</u>	<u>1,501,781</u>	<u>2,624,201</u>	<u>2,702,254</u>
Current Liabilities	70,269	80,154	66,083	65,655	136,352	145,809
Long Term Liabilities	138,778	127,932	215,277	241,081	354,055	369,013
<b>Total Liabilities</b>	<u>209,047</u>	<u>208,086</u>	<u>281,360</u>	<u>306,736</u>	<u>490,407</u>	<u>514,822</u>
Net Position						
Net investment in capital assets	783,944	531,046	1,076,866	1,081,496	1,860,810	1,612,542
Restricted	155,248	353,848			155,248	353,848
Unrestricted	62,370	107,493	55,366	113,549	117,736	221,042
<b>Total Net Position</b>	<u>1,001,562</u>	<u>992,387</u>	<u>1,132,232</u>	<u>1,195,045</u>	<u>2,133,794</u>	<u>2,187,432</u>

Net Position in the City's governmental activities increased 0.9% to \$1,001,562. Net Position decreased 5.3% to \$1,132,232 in business-type activities of the government. \$1,076,866 of the net position is invested in capital assets (distribution and collection system, equipment, etc). Consequently, unrestricted net position showed a \$55,366 balance at the end of this year.

**Changes in Net Position.** The City's total revenues were \$701,339. Almost two-thirds (64%) of the City's revenue comes from fees charged for services, and 33 cents of every dollar raised comes from some type of tax. (See Figure A-1)

The total cost of all programs and services was \$754,977. The City's expenses cover a range of services, with approximately forty-six percent related to business-type activities. (See Figure A-2).

Figure A-1  
City Sources of Revenue for Fiscal Year 2013

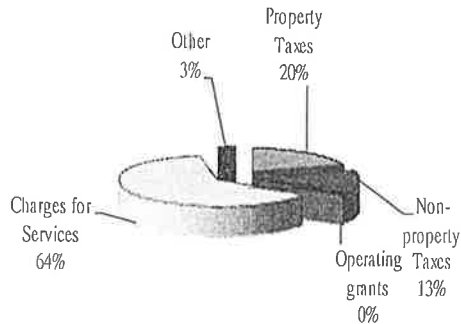
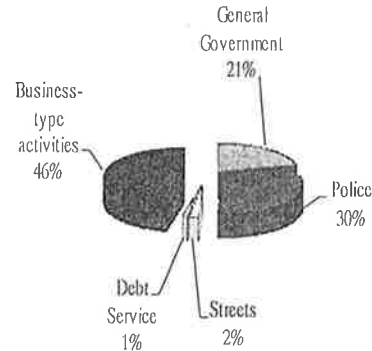


Figure A-2  
City Functional Expenses for Fiscal Year 2013



### Governmental Activities

Revenues for the City's governmental activities were \$438,711, while total expenses were \$429,536, including transfers of \$25,229. The City is increasing its tax base by bringing in new businesses and homes, although the property tax rate decreased, property values increased which caused property tax revenue to increase from the previous year. The increase of new business adds revenue through two avenues; 1) property tax, and 2) sales tax.

Table A-2  
Changes in City of Tolar, Texas' Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
<u>Program Revenues</u>						
Charges for Services	\$ 184,711	\$ 230,318	\$ 262,110	\$ 259,217	\$ 446,821	\$ 489,535
Operating Grants and Contributions	500				500	
<u>General Revenues</u>						
Sales tax	76,444	73,637			76,444	73,637
Property tax	138,425	127,988			138,425	127,988
Franchise tax	18,454	30,416			18,454	30,416
Investment Earnings	2,736	2,825	518	953	3,254	3,778
Other income	17,441	6,955			17,441	6,955
<b>Total Revenues</b>	<u>438,711</u>	<u>472,139</u>	<u>262,628</u>	<u>260,170</u>	<u>701,339</u>	<u>732,309</u>
<b>Expenses</b>						
General government	157,912	144,735			157,912	144,735
Police	224,737	262,037			224,737	262,037
Streets	14,281	3,140			14,281	3,140
Debt service	7,377	32,522			7,377	32,522
Water utilities			350,670	343,157	350,670	343,157
<b>Total Expenses</b>	<u>404,307</u>	<u>442,434</u>	<u>350,670</u>	<u>343,157</u>	<u>754,977</u>	<u>785,591</u>
Excess (deficiency) before transfers	34,404	29,705	(88,042)	(82,987)	(53,638)	(53,282)
Transfers	(25,229)	32,643	25,229	(32,643)		
<b>Increase (decrease) in net position</b>	<u>\$ 9,175</u>	<u>\$ 62,348</u>	<u>\$ (62,813)</u>	<u>\$ (115,630)</u>	<u>\$ (53,638)</u>	<u>\$ (53,282)</u>

## **Governmental Funds**

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. Governmental funds reported ending fund balances of \$209,703.

The total ending fund balances of governmental funds show a decrease of \$253,586 over the prior year. This decrease is primarily the result of capital outlay for the new city hall.

### **Major Governmental Funds**

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund decreased \$255,566.

### **Proprietary Funds**

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

### **Major Proprietary Funds**

The City's major proprietary fund is the Water Fund. Total net position at the end of the year was \$1,132,232. The Water Fund had a decrease in net position of \$62,813.

### **General Fund Budgetary Highlights**

The General Fund Budget for fiscal year 2013 was approximately \$446,000. This was an increase of approximately \$7,000 from the previous year's actual expenditures.

The City amended the budget several times during the fiscal year. There were no significant changes to the final amended budget. Actual expenditures were \$38,207 under budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2013, was \$969,065 and \$1,332,875, respectively. The total change in net capital assets was an increase of 42.7% in the governmental and a decrease of 7.1% for business-type activities. The overall increase was 8.9% for the City as a whole. Major capital asset additions during the current fiscal year included construction on the new city hall and a backhoe. See Table A-3 for additional information about changes in capital assets during the fiscal year.

The City Hall was 95% completed as of September 30, 2013.

**City of Tolar  
City's Capital Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2013	2012	2013	2012	2013	2012
Land	58,837	39,000	41,605	41,605	100,442	80,605
Buildings and improvements	305,924	305,924			305,924	305,924
Distribution and collection system			2,375,126	2,367,547	2,375,126	2,367,547
Furniture and equipment	158,312	113,385	190,781	141,548	349,093	254,933
Infrastructure	478,498	478,498			478,498	478,498
Construction in progress	269,636	9,669			269,636	9,669
Total at historical cost	1,271,207	946,476	2,607,512	2,550,700	3,878,719	3,497,176
Total accumulated depreciation	302,142	267,437	1,274,637	1,116,548	1,576,779	1,383,985
Net capital assets	969,065	679,039	1,332,875	1,434,152	2,301,940	2,113,191

**Long-term Debt**

At year-end, the City had \$330,000 in bonds payable and \$111,130 in notes payable. See Table A-4.

**Table A-4  
City's Outstanding Debt**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2013	2012	2013	2012	2013	2012
Note payable	\$ 62,561	\$ 10,695	\$ 48,569	\$ 18,345	\$ 111,130	\$ 29,040
Bonds payable	122,560	144,505	207,440	265,495	330,000	410,000
	<u>\$ 185,121</u>	<u>\$ 155,200</u>	<u>\$ 256,009</u>	<u>\$ 283,840</u>	<u>\$ 441,130</u>	<u>\$ 439,040</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The City is working on bringing residents into the City of Tolar by adding residential areas. By bringing in new residents, revenue of the City is increased through sales tax revenues and property tax revenues.

- Appraised property value used for the 2013-2014 budget preparation increased approximately \$430,000 or 1.4% from the previous year.
- Water rates are expected to remain the same for the fiscal year 2014. Water sales are expected to increase with the increase of new residents and water usage. Sewer rates will remain the same with the exception of installing a \$20 minimum fee for the first 2,000 gallons and \$5 for each 1,000 thereafter. This increase is expected to add \$51,000 to the City's budget for fiscal year 2014.

These indicators were taken into account when adopting the general fund and water fund budgets for 2014. Property taxes will remain consistent for the fiscal year 2014.

The General Funds expenditures are budgeted at \$386,011, which is a decrease of approximately \$330,000 from prior year expenditures. The City Hall is 95% complete, therefore the City is not expecting to provide

funds for capital outlay. The City has added no major new programs or initiative to the 2014 budget. If these estimates are realized, the City's budgetary general fund fund balance is expected to remain the same.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Tolar's Mayor, 105 Pine Lane, Tolar, Texas 76476.

## **BASIC FINANCIAL STATEMENTS**

## CITY OF TOLAR, TEXAS

STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 67,699	\$ 37,508	\$ 105,207
Receivables:			
Property tax	10,144		10,144
Allowance for uncollectible tax	(2,230)		(2,230)
Accounts receivables		32,829	32,829
Franchise tax	4,493		4,493
Sales tax	6,190		6,190
Inventory		10,380	10,380
Restricted investments	155,248		155,248
Total current assets	<u>241,544</u>	<u>80,717</u>	<u>322,261</u>
Non-current Assets			
Capital assets:			
Land	58,837	41,605	100,442
Construction in progress	269,636		269,636
Buildings and improvements	259,156		259,156
Distribution and collection system		1,228,710	1,228,710
Furniture and equipment	54,259	62,560	116,819
Infrastructure	327,177		327,177
Total non-current assets	<u>969,065</u>	<u>1,332,875</u>	<u>2,301,940</u>
Total Assets	<u>1,210,609</u>	<u>1,413,592</u>	<u>2,624,201</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	17,541	2,791	20,332
Sales tax payable	1,180		1,180
Accrued wages payable	5,205	2,999	8,204
Note payable - current	24,283	2,353	26,636
Bonds payable - current	22,060	57,940	80,000
Total current liabilities	<u>70,269</u>	<u>66,083</u>	<u>136,352</u>
Non-current Liabilities			
Utility deposits		19,561	19,561
Note payable - non current	38,278	46,216	84,494
Bonds payable - non current	100,500	149,500	250,000
Total non-current liabilities	<u>138,778</u>	<u>215,277</u>	<u>354,055</u>
Total Liabilities	<u>209,047</u>	<u>281,360</u>	<u>490,407</u>
<b>NET POSITION</b>			
Net investment in capital assets	783,944	1,076,866	1,860,810
Restricted	155,248		155,248
Unrestricted	62,370	55,366	117,736
Total Net Position	<u>\$ 1,001,562</u>	<u>\$ 1,132,232</u>	<u>\$ 2,133,794</u>

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (96,047)	\$	(96,047)
(101,391)		(101,391)
(14,281)		(14,281)
(7,377)		(7,377)
<u>(219,096)</u>		<u>(219,096)</u>
	<u>(88,560)</u>	<u>(88,560)</u>
	<u>(88,560)</u>	<u>(88,560)</u>
<u>(219,096)</u>	<u>(88,560)</u>	<u>(307,656)</u>
76,444		76,444
138,425		138,425
18,454		18,454
2,736	518	3,254
17,441		17,441
<u>(25,229)</u>	<u>25,229</u>	
<u>228,271</u>	<u>25,747</u>	<u>254,018</u>
<u>9,175</u>	<u>(62,813)</u>	<u>(53,638)</u>
<u>1,038,724</u>	<u>1,209,255</u>	<u>2,247,979</u>
<u>(46,337)</u>	<u>(14,210)</u>	<u>(60,547)</u>
<u>992,387</u>	<u>1,195,045</u>	<u>2,187,432</u>
<u>\$ 1,001,562</u>	<u>\$ 1,132,232</u>	<u>\$ 2,133,794</u>



## **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**CITY OF TOLAR, TEXAS**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Economic Development Corp</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Current:			
Cash and cash equivalents	\$ 41,015	\$ 26,684	\$ 67,699
Receivables:			
Property tax	10,144		10,144
Allowance for uncollectible tax	(2,230)		(2,230)
Franchise tax	4,493		4,493
Sales tax	6,190		6,190
Restricted investments	155,248		155,248
Total Assets	\$ <u>214,860</u>	\$ <u>26,684</u>	\$ <u>241,544</u>
<b>LIABILITIES:</b>			
Current Liabilities			
Accounts payable	\$ 17,541	\$	\$ 17,541
Sales tax payable	1,180		1,180
Accrued liabilities	5,205		5,205
Total Liabilities	<u>23,926</u>		<u>23,926</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Unavailable revenue - property tax	<u>7,915</u>		<u>7,915</u>
Total Deferred Inflows of Resources	<u>7,915</u>		<u>7,915</u>
<b>FUND BALANCE:</b>			
Restricted			
Capital projects	155,248		155,248
Unassigned	<u>27,771</u>	<u>26,684</u>	<u>54,455</u>
Total Fund Balance	<u>183,019</u>	<u>26,684</u>	<u>209,703</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ <u>214,860</u>	\$ <u>26,684</u>	\$ <u>241,544</u>

*The accompanying notes are an integral part of this statement.*

CITY OF TOLAR, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013

Total fund balances - governmental funds balance sheet	\$ 209,703
Amounts reported for governmental activities in the statement of net position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$946,476 and the accumulated depreciation was \$267,437.	679,039
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in the statement of net position.	324,731
Long-term liabilities at the beginning of the year of \$155,200, including bonds of \$144,505 are not due and payable in the current period, and therefore are not reported as liabilities in the funds.	(155,200)
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.	40,006
Loan proceeds are shown as other sourced in the fund financial statements but in the government wide statements they increase long term liability.	(69,927)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	7,915
Depreciation expense decreases net position in SNP	<u>(34,705)</u>
Net position of governmental activities - statement of net position	\$ <u><u>1,001,562</u></u>

*The accompanying notes are an integral part of this statement.*

**CITY OF TOLAR, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2013**

	<u>General Fund</u>	<u>Economic Development Corp</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Sales tax	\$ 54,800	\$ 21,644	\$ 76,444
Property tax	135,769		135,769
Franchise tax	18,454		18,454
License and permits	22,800		22,800
Garbage collection income	38,565		38,565
Fines and forfeitures	123,346		123,346
Investment income	2,563	173	2,736
Contributions	500		500
Miscellaneous income	17,441		17,441
Total Revenues	<u>414,238</u>	<u>21,817</u>	<u>436,055</u>
<b>EXPENDITURES</b>			
Current:			
General government	404,968		404,968
Public safety			
Police	259,521		259,521
Public service			
Economic development		19,837	19,837
Streets	2,630		2,630
Debt service	47,383		47,383
Total Expenditures	<u>714,502</u>	<u>19,837</u>	<u>734,339</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>(300,264)</u>	<u>1,980</u>	<u>(298,284)</u>
Other Financing Sources and (Uses):			
Loan proceeds	69,927		69,927
Operating transfers out	(25,229)		(25,229)
Total Other Financing Sources and (Uses)	<u>44,698</u>		<u>44,698</u>
Net Change in Fund Balances	<u>(255,566)</u>	<u>1,980</u>	<u>(253,586)</u>
Fund Balance - Beginning	477,720	24,704	502,424
Prior period adjustment	(39,135)		(39,135)
Fund Balance - Beginning as Restated	<u>438,585</u>	<u>24,704</u>	<u>463,289</u>
Fund Balance - Ending	\$ <u>183,019</u>	\$ <u>26,684</u>	\$ <u>209,703</u>

*The accompanying notes are an integral part of this statement.*

CITY OF TOLAR, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2013

Total change in fund balances - total governmental funds	\$ (253,586)
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
Depreciation expense decreases net position in SNP.	(34,705)
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in the statement of net position.	324,731
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.	40,006
Loan proceeds are shown as other sourced in the fund financial statements but in the government wide statements they increase long term liability.	(69,927)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	<u>2,656</u>
Total change in net position of governmental activities - statement of activities	\$ <u><u>9,175</u></u>

*The accompanying notes are an integral part of this statement.*

**CITY OF TOLAR, TEXAS**

**STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2013**

	<u>Water</u>	<u>Total Proprietary Funds</u>
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 37,508	\$ 37,508
Receivables, net	32,829	32,829
Inventory	10,380	10,380
Total current	<u>80,717</u>	<u>80,717</u>
Non current:		
Land	41,605	41,605
Distribution and collection system, net of depreciation	1,228,710	1,228,710
Equipment, net of depreciation	62,560	62,560
Total non current	<u>1,332,875</u>	<u>1,332,875</u>
<b>TOTAL ASSETS</b>	<u>1,413,592</u>	<u>1,413,592</u>
<b>LIABILITIES</b>		
Current		
Accounts payable	2,791	2,791
Accrued expenses	2,999	2,999
Current portion - notes payable	2,353	2,353
Current portion - bonds payable	57,940	57,940
Total current	<u>66,083</u>	<u>66,083</u>
Non current:		
Utility deposits	19,561	19,561
Notes payable	46,216	46,216
Bonds payable	149,500	149,500
Total non current	<u>215,277</u>	<u>215,277</u>
<b>TOTAL LIABILITIES</b>	<u>281,360</u>	<u>281,360</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,076,866	1,076,866
Unrestricted	55,366	55,366
<b>TOTAL NET POSITION</b>	<u>\$ 1,132,232</u>	<u>\$ 1,132,232</u>

*The accompanying notes are an integral part of this statement.*

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION - PROPRIETARY FUNDS  
 YEAR ENDED SEPTEMBER 30, 2013

	<u>Water</u>	<u>Total Proprietary Funds</u>
Operating Revenues:		
Charges for services		
Water sales and fees	\$ 262,110	\$ 262,110
Total operating revenues	<u>262,110</u>	<u>262,110</u>
Operating Expenses:		
Water department	<u>333,012</u>	<u>333,012</u>
Total operating expenses	<u>333,012</u>	<u>333,012</u>
Net operating income (loss)	<u>(70,902)</u>	<u>(70,902)</u>
Nonoperating revenues (expenses):		
Interest income	518	518
Interest expense	(17,658)	(17,658)
Transfers in	<u>25,229</u>	<u>25,229</u>
Total nonoperating revenues (expenses)	<u>8,089</u>	<u>8,089</u>
Change in Net Position	<u>(62,813)</u>	<u>(62,813)</u>
Net Position - Beginning of Year	1,209,255	1,209,255
Prior period adjustment	<u>(14,210)</u>	<u>(14,210)</u>
Net Position - Beginning of Year, As Restated	<u>1,195,045</u>	<u>1,195,045</u>
Net Position - End of Year	<u>\$ 1,132,232</u>	<u>\$ 1,132,232</u>

*The accompanying notes are an integral part of this statement.*

CITY OF TOLAR, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2013

	Water	Total Enterprise Funds
<u>Cash flows from operating activities:</u>		
Cash received from customers	\$ 263,417	\$ 263,417
Cash payments for salary and related expenses	(128,716)	(128,716)
Cash payments to suppliers for goods and services	(97,333)	(97,333)
Net cash provided by operating activities	<u>37,368</u>	<u>37,368</u>
<u>Cash flows from noncapital financing activities:</u>		
Transfers from/to other funds	<u>25,229</u>	<u>25,229</u>
Net cash provided by noncapital financing activities	<u>25,229</u>	<u>25,229</u>
<u>Cash flows from capital and related financing activities:</u>		
Acquisition of property and equipment	(72,047)	(72,047)
Proceeds from long term debt	65,021	65,021
Interest paid on long term debt	(17,658)	(17,658)
Principal paid on capital leases	(34,797)	(34,797)
Principal paid on bonds and notes payable	(58,055)	(58,055)
Net cash used by capital and related financing activities	<u>(117,536)</u>	<u>(117,536)</u>
<u>Cash flows from investing activities</u>		
Interest income	<u>518</u>	<u>518</u>
Net cash provided from investing activities	<u>518</u>	<u>518</u>
Net Decrease in Cash	(54,421)	(54,421)
Cash at Beginning of Year	91,929	91,929
Cash at End of Year:	<u>\$ 37,508</u>	<u>\$ 37,508</u>
Supplementary Information		
Interest paid	<u>\$ 17,658</u>	<u>\$ 17,658</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (70,902)	\$ (70,902)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	104,508	104,508
(Increase) decrease in operating assets		
Receivables	1,307	1,307
Increase (decrease) in operating liabilities		
Accounts payable	(2)	(2)
Utility deposits	2,015	2,015
Accrued expenses	442	442
Net cash provided by operating activities	<u>\$ 37,368</u>	<u>\$ 37,368</u>

*The accompanying notes are an integral part of this statement.*



## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting framework and the more significant accounting principles and practices of City of Tolar, Texas (City) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2013.

#### Financial Reporting Entity – Basis of Presentation

The City is a "general law" city and operates under a Mayor-Council form of government. The City provides the following services as authorized by its charter: public safety, public works, waterworks, and general government.

#### Government-wide and Fund Financial Statements

##### *Government-wide financial statements*

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government is presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues includes: (1) charges for services which report fees, fines and forfeitures, and other charges to uses of the City's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

##### *Fund financial statements*

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

#### Fund Types and Major Funds

##### *Governmental funds*

The City reports the following major governmental fund:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

##### *Proprietary funds*

The City reports the following major enterprise fund:

Water Fund – reports for revenues and expenses associated with water services for the citizens of the City.

## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

##### Assets, Liabilities, and Net Position or Equity

###### *Cash and cash investments*

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have an original maturity of three months or less when purchased.

Long-term investments are reported at fair value and short-term investments are reported at cost, if any, which approximates fair value.

###### *Inventory*

Inventory is valued at cost which approximates market, using the first-in-first-out (FIFO) method. The cost of inventory is recorded as expenditures when used (consumption method).

###### *Capital assets, depreciation, and amortization*

The City's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund's financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with costs of \$5,000 or more, as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Water and sewer lines	40 years
Buildings	30 years
Equipment	10 years
Vehicles	5 years

###### *Long-term debt*

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds for debt as other financing sources of the current period. Issuance costs and debt payments are reported as expenditures.

###### *Fund balance classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

*Nonspendable* – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) are legally or contractually required to be maintained intact.

*Restricted* – This classification includes amounts for which constraints have been placed on the use of the resources either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation. The City had restricted funds of \$155,248 for construction at September 30, 2013.

*Committed* – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City had no committed funds.

*Assigned* – This classification includes amounts that are constrained by the Council's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the Council delegating this responsibility to the City Secretary through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has no funds classified as assigned at September 30, 2013.

*Unassigned* – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed fund balances, and then Assigned fund balances, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balances first to defer the use of these other classified funds.

#### **NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

##### Budgetary Information

##### *Budget policy and practice*

The City Secretary submits an annual budget to the City Council in accordance with the City Charter. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In September, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - continued**

##### *Basis of budgeting*

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: general governmental services, public safety – court administration and police, personnel and capital outlay. Budget revisions at this level are subject to final review by the City Council.

Budgets for the governmental funds are budgeted on the modified accrual basis of accounting. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the expenditure is incurred. The budget and actual financial statements are reported on this basis. Budgets for the proprietary fund are prepared on the accrual basis of accounting with the exception of depreciation expense and capital outlay. The budget and actual financial statements are reported on this basis.

#### **NOTE 3: DEPOSITS AND INVESTMENTS**

The City's funds are required to be deposited and invested under the terms of a deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

*Custodial Credit Risk for Deposits* – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial credit risk for deposits.

##### Compliance with the Public Funds Investment Act

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform tests procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 3: DEPOSITS AND INVESTMENTS - continued**

As of September 30, 2013, the City of Tolar, Texas, has the following investments restricted for the use of capital projects:

Money Market	\$ <u>155,248</u>
	\$ <u>155,248</u>

Additional policies and contractual provisions governing deposits and investments for the District are as follows:

*Credit Risk* – To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City only has certificates of deposits.

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

*Concentration of Credit Risk* – The City has investments in certificate of deposits at the City's depository bank and is fully collateralized at the time of deposit. Therefore, the City's credit risk due to concentration is not considered a material risk.

*Interest Rate Risk* – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City monitors the interest rate of the certificate of deposits.

#### **NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE**

##### Enterprise Receivables

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The City estimates an allowance for uncollectible accounts which represent the City's estimate of the amount of accounts receivable that are uncollectible based on collection history and individual specific circumstances. As of September 30, 2013, the City had recorded an allowance for uncollectible accounts of \$2,700. Receivables at September 30, 2013 are shown as follows:

Primary government:	
Water fund	\$ <u>32,829</u>
Total primary government	\$ <u>32,829</u>

##### Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

# CITY OF TOLAR

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE - continued

Allowance for uncollectible taxes receivable within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority for the Texas Legislature.

In the governmental fund financial statements, property taxes receivables are recorded in the General Fund and Debt Service Fund. At fiscal year-end, the receivables represent delinquent taxes receivables. If the receivables are not paid within 60 days of year-end, they are recorded as unavailable revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

### NOTE 5: CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 39,000	\$ 19,837	\$	\$ 58,837
Construction in progress	9,669	259,967		269,636
Total capital assets not being depreciated	48,669	279,804		328,473
Capital assets being depreciated				
Buildings	305,924			305,924
Equipment	113,385	44,927		158,312
Infrastructure	478,498			478,498
Total capital assets being depreciated	897,807	44,927		942,734
Less accumulated depreciation for:				
Buildings	(36,885)	(9,883)		(46,768)
Equipment	(90,882)	(13,171)		(104,053)
Infrastructure	(139,670)	(11,651)		(151,321)
Total accumulated depreciation	(267,437)	(34,705)		(302,142)
Total capital assets being depreciated, net	630,370	10,222		640,592
Governmental activities capital assets, net	679,039	290,026		969,065

Depreciation was charged to functions as follows:

<i>Governmental activities:</i>	
General government	\$ 12,911
Police	10,143
Streets	11,651
Total depreciation expense - governmental activities	\$ 34,705

# CITY OF TOLAR

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5: CAPITAL ASSETS - continued

#### Business-type activities:

Capital assets not being depreciated:

Land	41,605			41,605
Total capital assets not being depreciated	41,605			41,605

Capital assets being depreciated

Distribution and collection system	2,367,547	7,579		2,375,126
Equipment	141,548	64,468	15,235	190,781
Total capital assets being depreciated	2,509,095	72,047	15,235	2,565,907

Less accumulated depreciation for:

Distribution and collection system	(1,056,968)	(89,448)		(1,146,416)
Equipment	(128,396)	(15,060)	(15,235)	(128,221)
Total accumulated depreciation	(1,185,364)	(104,508)	(15,235)	(1,274,637)

Total capital assets being depreciated, net	1,323,731	(32,461)		1,291,270
Business-type activities, net	1,365,336	(32,461)		1,332,875

Total Primary Government	\$ 2,044,375	\$ 257,565	\$	\$ 2,301,940
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### NOTE 6: LONG-TERM DEBT

#### *Combination Tax and Revenue Certificate of Obligation, Series 2005*

A series of bonds dated January 13, 2005, for \$425,000, was issued for the construction of public works and the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way for authorized needs and purposes and for the payment of contractual obligations for professional services. The bonds were issued with interest rates ranging from 3.00% to 5.15% and mature annually through September 15, 2019, with interest due semiannually. The balance of these bonds at September 30, 2013 is as follows:

Governmental activities	\$ 43,050
Business-type activities	161,950
	<u>\$ 205,000</u>

#### *General Obligation Refunding Bonds, Series 2005*

A series of bonds dated January 13, 2005, for \$415,000, was issued for the purpose of refunding the Series 2001 bonds in the amounts of \$285,000 and \$215,000, for a total of \$500,000. The bonds were issued with interest rates ranging from 3.00% to 5.15% and mature annually through September 15, 2019, with interest due semiannually. The balance of these bonds at September 30, 2013 is as follows:

Governmental activities	\$ 79,510
Business-type activities	45,490
	<u>\$ 125,000</u>



## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 6: LONG-TERM DEBT - continued**

##### *Note Payable to Heritage National Bank*

On August 14, 1999, the City took out a note payable to purchase the City Hall Building. The principal amount of the note was \$36,000 with an interest rate of 6%, secured by the property. Payments are due monthly with the final payment being August 10, 2014. Payments are \$304 per month. The balance of this note payable is \$3,246 at September 30, 2013.

##### *Note Payable to Heritage National Bank*

On September 8, 2004, the City took out a note payable to purchase the property at 409 Tolar Cemetery Road, Tolar, Texas. The principal amount of the note was \$33,000 with an interest rate of 4.5%, secured by the property. Payments are due monthly with the final payment being October 1, 2019. Payments are \$252 per month. The balance of this note payable is \$16,095 at September 30, 2013.

##### *Note Payable to Canon Financial Services*

On October 12, 2009, the City entered into a note agreement with Canon Financial Services for the purchase of a copier. The principal amount of the note was \$10,800, with an interest rate of 0.0%, secured by the copier. Payments are due monthly with the final payment on July 2014. Payments are \$180 monthly. The balance on this note payable on September 30, 2013, is \$1,962.

##### *Note Payable to Government Capital*

On October 1, 2012, the City entered into a note agreement with Government Capital for the purchase of a copysync system. The principal amount of the note was \$44,927, with an interest rate of 4.1%, secured by hardware and software. Annual payments of \$12,394 are due with the final payment on April 1, 2016. The balance on this note payable on September 30, 2013 is \$34,326.

##### *Note Payable to First National Bank*

On June 3, 2013, the city entered into a note agreement with First National Bank for the costs of furnishing the city hall. The principal amount of the note was \$25,000, with an interest rate of 4.0%. This note is unsecured. Quarterly payments of \$2,223 are due with the final payment on June 1, 2016. The balance on this note payable on September 30, 2013 is \$23,027.

##### *Note Payable to John Deere Financial*

On October 8, 2012, the City entered into a note agreement with John Deere Financial for the purchase of a wheel loader backhoe. The principal amount of the note was \$65,021, with an interest rate of 4.8%. This note is secured by the equipment. Annual payments of \$17,441 are due with the final payment on October 8, 2015.

The following provides a summary of changes in long-term debt:

# CITY OF TOLAR

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6: LONG-TERM DEBT - continued

	Balance at 9/30/2012	Additions	Retirements	Balance at 9/30/2013	Due Within One Year
<i>Governmental Activities</i>					
Combination Tax & Revenue					
Cert of Obl, Series 2005	\$ 49,350	\$	\$ 6,300	\$ 43,050	\$ 6,300
General Obligation Refunding					
Bonds Series 2005	95,155		15,645	79,510	15,760
Heritage National Bank	6,592		3,346	3,246	3,246
Copsync		44,927	10,601	34,326	10,985
First National Bank		25,000	1,973	23,027	8,090
Canon Financial Services	4,103		2,141	1,962	1,962
	<u>\$ 155,200</u>	<u>\$ 69,927</u>	<u>\$ 40,006</u>	<u>\$ 185,121</u>	<u>\$ 46,343</u>
<i>Business-type Activities</i>					
Combination Tax & Revenue					
Cert of Obl, Series 2005	\$ 185,650	\$	\$ 23,700	\$ 161,950	\$ 23,700
General Obligation Refunding					
Bonds Series 2005	79,845		34,355	45,490	34,240
John Deere Financial		65,021	32,547	32,474	
Heritage National Bank	18,345		2,250	16,095	2,353
	<u>\$ 283,840</u>	<u>\$ 65,021</u>	<u>\$ 92,852</u>	<u>\$ 256,009</u>	<u>\$ 60,293</u>

Annual requirements to amortize debt outstanding as of September 30, 2013 are as follows:

<i>Governmental Activities</i>			
	Interest	Principal	Total
2014 \$	6,351	\$ 46,343	\$ 52,694
2015	6,458	38,904	45,362
2016	4,714	38,523	43,237
2017	3,109	20,100	23,209
2018	2,104	20,100	22,204
2019	1,090	21,151	22,241
	<u>\$ 23,826</u>	<u>\$ 185,121</u>	<u>\$ 208,947</u>
<i>Business-type Activities</i>			
2014 \$	14,489	\$ 60,293	\$ 74,782
2015	8,935	44,970	53,905
2016	6,737	49,847	56,584
2017	5,085	32,593	37,678
2018	3,467	32,716	36,183
2019-2020	2,581	35,590	38,171
	<u>\$ 41,294</u>	<u>\$ 256,009</u>	<u>\$ 297,303</u>

### NOTE 7: DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported in the governmental funds of unavailable revenues are as follows:

Net tax revenue \$ 7,915

## CITY OF TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 8: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and through the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of 2,175 individual governmental units located within the state. TML Intergovernmental Risk Pool (Pool) is considered a self-sustaining risk pool that provides coverage for its members. The City's contributions to the Pool are limited to the amount of premiums as calculated at the beginning of each fund year. The Pool's liability is limited to the coverage that the City elects as stated in the Pool's Declaration of Coverage for that fund year. Settled claims have not exceeded insurance coverage limits for the past three years.

#### **NOTE 9: TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

##### Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions.

The following schedule reports transfers and payments within the reporting entity:

Transfers	Transfers	
<u>Out</u>	<u>In</u>	
General fund	Water fund	\$ <u>25,229</u>
Total		\$ <u>25,229</u>

#### **NOTE 10: DEFINED BENEFIT PLAN**

##### Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the 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 (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://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:

# CITY OF TOLAR

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10: DEFINED BENEFIT PLAN – continued

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service).	60/5, 0/25	60/5, 0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

#### Contributions:

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

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

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

Annual Required Contribution (ARC)	12,050
Interest on Net Pension Obligation	
Adjustment to the ARC	
Annual Pension Cost (APC)	12,050
Contributions Made	12,050
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beg of yr	
Net Pension Obligation/(Asset), end of yr	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

# CITY OF TOLAR

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 10: DEFINED BENEFIT PLAN - continued**

Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level of Percent of Payroll	Level of Percent of Payroll	Level of Percent of Payroll
GASB 25 Equivalent Single Gains/Losses	18.7 years; closed period	21.9 years; closed period	23 years; closed period
Amortization Period for new Gains/Losses	10 years	10 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.5%
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	0.0%	0.0%	0.0%

#### Funded Status and Funding Progress:

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011, meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2011 TMRS Comprehensive Annual Financial Report (CAFR).

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 Required Supplementary Information following the notes to the financial statements, present 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 TOLAR

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 11: HEALTH CARE COVERAGE**

The City pays the employee's portion of health coverage. The city's annual cost was \$40,272. Employees are responsible for the cost of dependent coverage and any additional coverage over the basic amount. The City does not self-fund any of the risk.

#### **NOTE 12: GARBAGE COLLECTION SERVICE CONTRACT**

The City has a sanitation contract with Duncan Disposal wherein Duncan Disposal picks up all garbage of the City and disposes of it. The rates charged flow through to the residents and are included in the water billings they receive. Revenue collected for garbage service is recorded in the General Fund. Total collected during the year ended September 30, 2013 was \$39,401.

#### **NOTE 13: UNFAVORABLE BUDGET VARIANCES**

During the year ended September 30, 2013, the City had the following unfavorable budget variances:

Genral Fund	
General services	\$ 11,399
Water Fund	68,123

The following are explanations to material unfavorable budget variances:

The City did not budget for depreciation expense, however the City is not required to budget for depreciation expense.

#### **NOTE 14: GASB STATEMENT NO 63**

In June, 2011, the GASB approved Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changes how governments will organize their statements of financial position (such as the current government-wide statements of Net Position and the governmental funds balance sheet). Under these new standards, financial statements will include deferred outflows of resources and deferred inflows of resources ("deferrals"), in addition to assets and liabilities, and will report *net position* instead of net assets. GASB Statement No. 63 is effective for financial statements for periods beginning after December 15, 2012.

#### **NOTE 15: PRIOR PERIOD ADJUSTMENT**

The City implemented GASB No. 65, *Items Previously Recorded as Assets and Liabilities*, which requires the City to record as expenditures/expenses, bond issuance costs. The City decreased beginning net position by \$7,207 in Governmental Activities and \$14,210 in Business-type Activities / Proprietary Funds.

During the year it was noted that prior year accounts payable was not accurately accounted. The net effect of properly accounting for the prior year accounts payable was a decrease in net position of governmental activities and fund balance in general fund of \$39,130.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF TOLAR, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales tax	\$ 60,000	\$ 60,000	\$ 54,800	\$ (5,200)
Property tax	137,451	137,451	135,769	(1,682)
Total taxes	197,451	197,451	190,569	(6,882)
License & permits				
Franchise tax	22,000	22,000	18,454	(3,546)
License and permits	6,140	10,940	22,800	11,860
Total license & permits	28,140	32,940	41,254	8,314
Fines and forfeitures	134,875	110,000	123,346	13,346
Investment income	1,200	1,930	2,563	633
Garbage collection income	31,000	31,000	38,565	7,565
Contributions		500	500	
Miscellaneous income	5,016	6,050	17,441	11,391
Total Revenues	397,682	379,871	414,238	34,367
<b>EXPENDITURES</b>				
General government				
General services:				
Insurance	3,423	3,423	3,139	284
Contract labor	3,320	2,420		2,420
Contract sanitation	28,287	31,000	38,417	(7,417)
Miscellaneous	3,700	3,732	782	2,950
Payroll	61,713	56,085	59,093	(3,008)
Payroll Tax	4,104	4,104	4,104	
Retirement			2,892	(2,892)
Printing & copies	1,000	700	1,030	(330)
Professional services	17,123	13,623	17,542	(3,919)
Repair & maintenance	2,500	250	629	(379)
Postage and delivery	600	450	447	3
Reference books	150	495	493	2
Software	2,000	1,700	1,636	64
Technical support	600	720	894	(174)
Telephone	4,205	3,900	4,019	(119)
Travel	3,000			
Utilities	11,700	11,000	9,884	1,116
Capital outlay		259,967	259,967	
Total general government	147,425	393,569	404,968	(11,399)



**CITY OF TOLAR, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND - CONTINUED**  
**YEAR ENDED SEPTEMBER 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Public safety:				
Police:				
Contract labor	1,500	1,000	1,172	(172)
Insurance	8,305	7,246	6,503	743
K-9 expenses	3,462	400	351	49
Miscellaneous	650	500	195	305
Payroll expense	127,377	114,385	96,599	17,786
Payroll tax	6,146	6,146	6,146	
Postage	400	450	484	(34)
Retirement	4,150	4,150	4,150	
Professional services	6,300	6,610	7,023	(413)
Repairs			2,184	(2,184)
State court costs	60,000	89,000	60,500	28,500
Supplies	22,231	23,101	19,995	3,106
Telephone	2,400	2,400	2,629	(229)
Travel	1,260	500	477	23
Uniforms	600			
Utilities	1,500	1,500	1,282	218
Vehicle expense	2,000	1,000	4,904	(3,904)
Capital outlay		46,368	44,927	1,441
Total public safety	248,281	304,756	259,521	45,235
Public service:				
Streets				
Repair	5,000	5,000	2,630	2,370
	5,000	5,000	2,630	2,370
Debt service:				
Bond principal payments	21,945	21,945	21,945	
Note principal payments	15,639	20,062	18,061	2,001
Interest payments	7,377	7,377	7,377	
Total debt service	44,961	49,384	47,383	2,001
Total expenditures	445,667	752,709	714,502	38,207
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(47,985)	(372,838)	(300,264)	72,574
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds			69,927	69,927
Transfers out			(25,229)	(25,229)
Total Other Financing Sources (Uses)			44,698	44,698
Net change in fund balance	(47,985)	(372,838)	(255,566)	117,272
Fund Balance - Beginning	477,720	477,720	477,720	
Prior period adjustment	(39,135)	(39,135)	(39,135)	
Fund Balance - Beginning as Restated	438,585	438,585	438,585	
Fund Balance - Ending	\$ 390,600	\$ 65,747	\$ 183,019	\$ 117,272

**CITY OF TOLAR, TEXAS**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
BUDGET AND ACTUAL - WATER FUND  
 YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
<b>OPERATING REVENUES:</b>				
Water sales	\$ 253,750	\$ 253,750	\$ 262,110	\$ 8,360
Total Operating Revenues	<u>253,750</u>	<u>253,750</u>	<u>262,110</u>	<u>8,360</u>
<b>OPERATING EXPENSES:</b>				
Contract labor	1,050	1,200	1,235	(35)
Depreciation expense			104,508	(104,508)
Insurance	9,432	8,882	6,822	2,060
Lab tests	7,200	7,200	7,782	(582)
Office expense	3,150	3,150	4,394	(1,244)
Payroll expenses	115,161	115,161	114,984	177
Payroll taxes	7,997	7,997	7,997	
Retirement	6,177	6,177	6,177	
Permit fees	2,600	3,000	7,714	(4,714)
Professional services	8,478	8,878	7,872	1,006
Repairs and maintenance	6,000	9,510	8,243	1,267
Supplies	10,000	10,000	8,486	1,514
Telephone	3,000	3,000	2,924	76
Travel	800	800	627	173
Utilities	43,000	39,090	37,200	1,890
Vehicle expense	6,000	6,000	6,047	(47)
Capital outlay	33,600	33,600		33,600
Total Operating Expenses	<u>263,645</u>	<u>263,645</u>	<u>333,012</u>	<u>(69,367)</u>
Net operating income (loss)	<u>(9,895)</u>	<u>(9,895)</u>	<u>(70,902)</u>	<u>(61,007)</u>
Nonoperating revenues (expenses)				
Interest income	1,000	1,000	518	(482)
Interest expense	(14,800)	(14,800)	(17,658)	(2,858)
Transfers in			25,229	25,229
Total nonoperating revenues (expenses)	<u>(13,800)</u>	<u>(13,800)</u>	<u>8,089</u>	<u>21,889</u>
Net income (loss)	<u>(23,695)</u>	<u>(23,695)</u>	<u>(62,813)</u>	<u>(39,118)</u>
Net Position - Beginning of Year	1,209,255	1,209,255	1,209,255	
Prior period adjustment	(14,210)	(14,210)	(14,210)	
Net Position - Beginning of Year, as Restated	<u>1,195,045</u>	<u>1,195,045</u>	<u>1,195,045</u>	
Net Position - End of Year	\$ <u>1,171,350</u>	\$ <u>1,171,350</u>	\$ <u>1,132,232</u>	\$ <u>(39,118)</u>

# Merritt, McLane & Hamby

401 Cypress Street, Suite 303  
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the City Council  
City of Tolar, Texas

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Tolar, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Tolar, Texas' basic financial statements and have issued our report thereon dated March 5, 2014.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Tolar, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tolar, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tolar, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

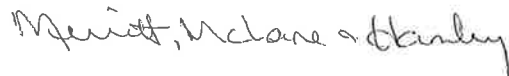
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tolar, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standard*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



MERRITT, MCLANE & HAMBY

Abilene, Texas  
March 5, 2013

CITY OF TOLAR, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2013

CURRENT YEAR

Findings/Noncompliance

None

**CITY OF TOLAR, TEXAS**  
**SCHEDULE OF PRIOR YEAR FINDINGS**  
**YEAR ENDED SEPTEMBER 30, 2013**

**PRIOR YEAR**

**Findings/Noncompliance**

None